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**From Economic Vulnerability to Sustainable Livelihoods: The Case of Oromia *Coffee*
Farmers Cooperative Union in Ethiopia***

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Abstract: We present the case study of a fast growing agribusiness cooperative in Ethiopia, Oromia Coffee Farmers Cooperative Union (OCFCU). OCFCU was established in 1999 by 34 cooperatives and a capital of US\$90,000. Nowadays, OCFCU has 240 cooperatives and a capital exceeding \$12,000,000 USD. Well known in the specialty coffee market, OCFCU works with growers across Ethiopia influencing communities economically and socially. Using the GLIMPSE perspective, we investigate the raw-bean procurement, transportation, quality control, economies realized through coordination, on-going initiatives to capture value added in processing, and associated challenges in the East African context of small-holder farmers, credit and infrastructure constraints.

JEL Codes: Q01, Q13, Q17, O13

Key Words: Ethiopia, coffee farmers, co-operatives, specialty coffee market, exports

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From Economic Vulnerability to Sustainable Livelihoods: The Case of the Oromia Coffee Farmers Cooperatives Union (OCFCU) in Ethiopia

Introduction

Oromia Coffee Farmers Cooperative Union (OCFCU) was founded in 1999. OCFCU has been one of the fastest growing green-coffee exporters in Ethiopia. OCFCU started with 34 cooperatives and a US\$90,000 capital and its first exports amounted to 72 metric tons and \$130,000. Today, its exports have grown to 7,000 metric tons and sales exceeding \$40 million. OCFCU represents 240 cooperatives with 250,000 members. OCFCU is a member-owned democratically structured business, which operates under the principles of the International Cooperative Alliance and Fair Trade. It is the largest exporter of organic coffee and the second largest in fair trade coffee exports in the world. The majority of its members are indigenous small landholders located in the Oromia region of southern and southwest Ethiopia.

OCFCU directly links Ethiopia's smallholder farmers to specialty export markets, a remarkable feature, adding value and improving farmers' incomes. The promotion of specialty coffee – fair trade and organic certified combined with scale economies has been an attractive concept for growers. Farmers secure better prices while indigenous farming practices promote environmental sustainability with intercropping coffee growing and food crops (OCFCU). Further, OCFCU has been improving community infrastructure and services in these remote farming villages, building roads, storage facilities, bridges, clinics, and schools. OCFCU has also started offering banking and credit services to its members. Seventy percent of the union's net profits are disbursed to the cooperatives and their members. To date, OCFCU has paid more than \$3 million in dividends to its farmers. OCFCU employs 1500 seasonal and permanent employees.

This case study uses the GLIMPSE framework of Connelly and Connelly (2012) to analyze the challenges and opportunities OCFCU has been facing in its growth and transformation process.

Company Background and Early Challenges

Ethiopia is the birthplace of coffee; and coffee is vital to the economic, social and traditional life of the people. While millions are dependent on the coffee sector, (farming, picking, transportation, etc.), coffee is the principal export commodity for Ethiopia. However the coffee industry has gone through paramount changes since the socialist regime of the 1970s and 80s. OCFCU was founded in 1999 after the new cooperatives proclamation act in post-socialist Ethiopia. Prior to that, cooperatives arrangement was based on the structure of central marketing, a legacy of the former socialist military regime of 1974-91. Subsequently, the opening of the *Cooperatives Bureau* in Ethiopia was instrumental in the conception of OCFCU. In its early days, the union has benefited from USAID in training and capacity building through Self-help International Ethiopia Program.

Since the socialist administration imposed collective ownership and forced membership, farmers had little control on what they wanted to plant and were impoverished (Dessaegn, 1990; Kodama, 2007). Consequently, the initial step for OCFCU was centered on training. Breaking away from the socialist legacy, OCFCU started training farmers, agricultural staff, cooperative promoters, and government officials into genuine cooperative principles under a market-oriented approach and such for about 8 months. Subsequently, OCFCU came into being and started exporting in 1999.

In the early years, building knowledge about coffee consumption in the West was another pivotal breakthrough to expand its export market. In 2000, with support from USAID/ACDI, a

member of the management staff attended a conference of the Specialty Coffee Association of America in San Francisco. This experience was a breakthrough to understand how coffee was appreciated and consumed in the West and to understand the strategic value of the high qualities of Oromia coffee to develop niche markets. Samples of coffee varieties brought to that conference were rated as among the best in the world by roasting houses.

OCFCU also realized early the importance of uniform quality while sourcing from numerous smallholders. While building its export markets, OCFCU offered training to farmers on best practices to maintain and improve the quality of coffee beans to deliver attributes sought by foreign buyers. That strategy paid off. In the *2012 Coffee of the Year Competition*, coffee from Oromia was ranked first out of 250 different coffees. This achievement came about by integrating interaction with buyers worldwide to elicit valuable coffee characteristics, feedback received from coffee houses, and the assistance to coffee farmers to consistently produce desirable quality coffee. Other improvements included creating an identity preservation system to trace and guarantee coffee quality from farm to cup. OCFCU collects six high-quality, organic Arabica coffee beans, characterized by outstanding and valuable flavor characteristics. If anything, scalability is not an issue with OCFCU; rather it is a virtue. Because, the number of members had increased, economy of scale and scope occurred more easily.

Current Management Structure

The current CEO (the senior author) of the organization is a member of the original team, which set up the union. In the mid-1990s, the current CEO spent two months in Japan as a trainee in cooperative initiatives; and, he returned to Ethiopia with DVDs on Japanese cooperatives. Subsequently, the DVDs were shown to the Oromia agricultural bureau management. The idea

was accepted and a market-oriented democratic organization was established in post-socialist Ethiopia. The immediate priority was the training of farmers and agricultural staff, a task, which took 8 months. During this period, the organization has benefited greatly from ACDI/VOCA, a USAID funded American NGO which has played a big role on training and awareness creation of farmers. Similarly, the FAO has also supported the union in capacity building. Further, the government of Ethiopia has also played a big role by facilitating cooperative by laws and with International Cooperative Alliance.

The organization structure includes the general assembly with 240 members, which corresponds to one chairperson from each cooperative. The Annual General Assembly Meetings are the biggest decision making bodies including evaluating and deciding strategies. Policies approved at the annual meetings of the assembly are given to the board for execution; and, the board delegates to the management to undertake the day-to-day activities. While the management is answerable to the board of directors, membership in the general assembly, the board, as well as in the controlling committee is restricted to farmers.

Key Success Factors

There are two fundamental success factors. First OCFCU Realized early the importance of the export market and started building a direct connection between small landholders growing coffee and international coffee markets. The second factor has been to focus on establishing and improving the quality of coffee varieties while sourcing the beans from numerous small growers. After fifteen years of export expansion, export destinations now include the USA, Japan, Netherland, UK, France, Germany, Australia, Hong Kong, Scandinavia and more. Today, OCFCU is the largest coffee producer and exporter in Ethiopia. It has a capital of \$15 million, with two major coffee cleaning facilities and annual sales of \$40 million.

Another important aspect is that the number of intermediaries between coffee growers and the export market has been reduced dramatically. OCFCU has captured a significant share of the value added chain and reaped economies of scale by becoming large, and economies of scope by offering different coffee varieties catering to different taste. The high willingness to pay by consumers for specialty organic and fair trade coffee (Jena et al., 2012; Wissel et al., 2012) rewards growers for the costly quality improvements that they had to make to consistently supply high quality.

Finally, in early stages, the assistance from USAID/ACDI has been instrumental to attending the annual coffee specialty conferences mentioned above for several years. Since 2006, OCFCU has done so independently.

Beyond farm income opportunities, OCFCU has also brought social development to its members. OCFCU has been involved in fully financing finance social and economic development projects throughout member communities. These include building of all-weather roads, standardized and all-weather storage facility, water services, schools, access to credit and banking, quality control and traceability training, youth education in coffee production; flour mills, and community clinics.

Strategic Issues and Challenges for OCFCU

Grower vulnerability. The growth in the number of cooperatives from 34 to 240 has given us an opportunity to work with a large number of rural families in the Oromia region. The size of land holding by these families is heterogeneous and some communities are more vulnerable than others. This is more evident when coffee prices are low and the farmers become cash-strapped. When they face such situations, the farmers used to borrow at high interest rates from private

lenders. Nonetheless, in 2005, OCFCU opened its own bank, the *Cooperative Bank of Oromia* and has been offering financial services. Accordingly, the organization has been providing pre-finance and loan advances to 70% of its members. In the future however, the goal is to increase credit access to 100% of its members; so that, they can break away from the cycle of economic hardship which has been perpetuated in part, by high interest loans from private lenders.

Value added capture. The specialization in Fair Trade and Organic labels has been vital in the expansion of market opportunities. However, OCFCU is well aware that there are further value-added opportunities to capture by delivering the coffee directly to retail stores in importing countries. To that end, OCFCU is currently collaborating with a US company. The goal is to build direct access to the consumer by further removing intermediaries. Given the demand for high quality coffee, OCFCU is confident that the return to members will expand significantly.

Agronomy. Another critical concern is the aging of coffee trees. Throughout the community, coffee plantations are getting old; hence, there should be strong support for better agronomic practices. Farmers need to get the financial and educational support they need in order to invest in new coffee plants. Back in the 1980s, with a support from the European Union, Ethiopia had a coffee-improvement scheme for several years. The initiative supported the coffee industry by expanding nurseries and stamping of old coffee trees. The project also offered training for farmers; and it improved all aspect of the coffee industry. However, since that initiative was completed over 20 years ago, these agronomic issues have been neglected.

Sustainability. OCFCU members have been supportive of environmentally sustainable farming, which has existed for generations. Much of the coffee is grown under a shade and it is bird-friendly. However, to further promote environmental stewardship, the managers of OCFCU have been looking for ways to minimize the reliance on firewood in growers' communities. To

address this concern, they are in the process of building partnership with a roasting house in the Netherlands. This partnership is special because its goal is in producing carbon-neutral coffee from the farm to the cup. It is the first of its kind and the arrangement is geared to saving energy. According to the plan, farmers are incentivized to participate in the scheme with some bonus payment of \$500 Birr (1 USD= 19 ETB) and cooking stoves are being distributed to families so that, they will stop using wood for their cooking needs. Subsequently, the goal is to minimize if not eliminate the reliance on wood for household use such as cooking.

Looking Ahead

The characterization of coffee quality (geographical indication and varieties) is an important issue to address. Third-party labeling and characterization of coffee are vital quality features in the coffee export business. The attention given to food quality and safety concerns motivates these important features. They are also consistent with product differentiation leading to higher value-added opportunities and greater willingness to pay with increasing consumer sophistication in the appreciation of coffee varieties and growing regions. This important step will require government's involvement to establish and implement geographical indication labelling and recognize coffee varieties. As OCFCU looks forward to the future, assisting farmers in diversifying their income sources and reduce their exposure to the volatility of coffee prices is an area which the organization hopes to expand further.

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