

OROMIA COFFEE FARMERS COOPERATIVE UNION

**STATUS OF OROMIA COFFEE FARMERS
COOPERATIVE UNION (OCFCU)**

APRIL, 2011

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1. INTRODUCTION

1.1. COOPERATIVE DEVELOPMENT IN ETHIOPIA

The first cooperative organizations in Ethiopia were formed at the beginning of the 1950's with the objective of improving the living conditions, providing social services and offering all the citizens on equal opportunity of contributing to the economic and social progress of the country (Daniel, 2006). Unfortunately, as cooperatives were subjected to state control, they did not register significant performance in terms of democratic management and autonomous power. In 1960s, during imperial regime, two cooperatives acts were adopted. These are the decree No. 44 of the 1960, called the "farm workers cooperative" and the 1966's cooperative society proclamation No. 241/66. However, they could not enhance the democratic and autonomous development capabilities within the cooperatives, while the latter has contributed to the today's proclamation No. 147/1998.

Different types of cooperatives were created during the socialist government regime, i.e., from 1974 to 1991, as a result of proclamation No. 138/1978, which greatly contributed to the creation of different types of cooperative societies throughout the country. However, those cooperatives were managed in accordance with the socialist style. The majority of the multipurpose agricultural co-operatives, especially producers' cooperatives survived without being profitable as their existence were maintained to government subsidiaries. In general, as several studies indicated, the factors contributed to the failure of the socialist economy oriented cooperative development include: (1) Involuntary membership, (2) The cooperative leadership was appointed, (3) Unfair regulated output price offer and quota basis, and (4) Service provision was not directed from individual members of the cooperatives.

However, currently, the enhancement of agricultural cooperatives society proclamation of the 1994 and 1998 created a fertile ground for restructuring and strengthening all types of cooperative. The introduction of these proclamations has raised self-interest of cooperative members. Indeed, they improve the participation of society to operate efficiently in forming viable organization.

Agricultural cooperatives played an important role in value creation by paving the way for products of small-scale producers to terminal market. Cooperative unions are dealing with export trade in coffee, oil seeds, fruits and vegetables. Agricultural credit services are also the most important activities undertaken by cooperatives, which are geared to the well-defined needs of their members.

1.2. POSITION OF THE ORGANIZATION (OCFCU)

Proclamation 147/1998 of the government of Ethiopia permitted the formation of higher level cooperatives (unions and eventually federations and a cooperative league). Using this opportunity for the first time, primary cooperatives societies were allowed to group together to increase their market power on both the input and product sales.

As a result, Oromia Coffee Farmers cooperative union (OCFCU) had been established in 1999 by 34 coffee producer primary cooperatives in Oromia Region. Following the government policy that allowed coffee producers to export directly by passing central auction markets, OCFCU seized the opportunity and managed to penetrate the international coffee market and become owner of Fairtrade and Organic certifications and ongoing certification of Utz kapen and Forest Alliance. Its member primary cooperative grew from the initial 34 to 197 to date total beneficiary as well increases.

The central philosophies of OCFCU are: partnership, transparency, dialogue, accountability, respect, gender equality and sustainability in all its operations. The overall goal of the organization is to contribute to sustained rural poverty reduction in Oromia by applying cooperative principles. The objective of the organization is memorandum of association to bring together the properties and knowledge of its members and solve problems jointly that is difficult to solve alone. It has also the aim of enhancing the self reliance of members by increasing production and productivity of farm enterprises. Also the members are benefited from the union; by credit service for coffee purchase, supply of technologies related to coffee, trainings, extension services, maintaining different certifications, dividends from profit generated, construction of different social infrastructures like school, health centre, bridges, etc... Moreover, the bargaining power of coffee farmers through union is maintained.

2. OROMIA COFFEE FARMERS COOPERATIVES UNION PROFILE

2.1. Establishment

Needless to say, in an age of globalization where there is stiff market competition and insatiable demand for growth, community involvement and partnerships are increasingly being recognized as indispensable. There is clearly a growing potential for collaborative development to cope with challenges and tap the opportunities in the globalized world for the common welfare. In this regard, co-operative unions provide organizational means whereby a significant proportion of humanity is able to take into its own hands the tasks of creating productive employment, overcoming poverty and achieving social integration.

OCFCU was established in June 1999 primarily to make lives of the poor coffee-growing community incrementally better, competitive and exponentially better through cooperative acts.

The establishment of OCFCU was necessitated to support farmers produce in small-scale on small patches of land, with no access to agricultural equipment. These small scale farmers typically do not have access to transportation facilities to get their coffee processed or auctioned. The Union was, therefore, established as a means to provide protection, to serve as resources and expertise to the small cooperatives, so that they could overcome exportation problems and receive increased coffee revenue.

One of the overriding reasons to establish Oromia Coffee Farmers Cooperatives Union was to save coffee farmers from mischief of local merchants through null cheque frauds and improve farmer's income from coffee exporting.

Coffee being the largest export crop of Ethiopia and means to link rural farmers to consumers of worldwide that smallholder farmers have traditionally been undeserved; even exploited and marginalized. The smallholder coffee farmers in Oromia region is no exception. To help coffee farmers get price information, capital and transportation as well as necessary skills in production, processing and supply of coffee, there was no other alternative than establishing OCFCU. In fact, it was a groundbreaking initiative in the history of coffee farmers of the country. The Union was first founded by 34 primary coffee farmers cooperatives representing 23,691 members. The Union is the largest and ground breaker coffee for coffee Fair Trade producer in Ethiopia.

The establishment of the Union is based on the founding principles of the International Co-

operative Alliance (ICA). Founded on the principles, the Union is self- initiative, entrepreneurship and self-employment, underpinned by the values of democracy, equality and solidarity. Through putting the values into practice, OCFCU has been paving the way for a just and inclusive economic order of coffee farmers.

The venturing of OCFCU was first conceptualized by the then Oromia Cooperative Promotion Bureau members who are also founders and at the senior management levels of the Union to date. In fact, there were also other agricultural cooperative experts both from the Oromia Regional State Agriculture and Rural Development Bureau and the Federal Ministry of Agriculture and Rural Development who supported the realization of the Union.

The particular point in time for the establishment of the Union was when Mr. Tadesse Meskela got a chance of studying agricultural cooperatives in Japan as a Senior Expert of the then Cooperative Promotion department for Oromia Agricultural Bureau. Mr. Tadesse came back with a 24 minutes video that showcased Japanese agricultural promotion and how they supported their farmers in transforming agriculture from traditional to a modern venture through cooperatives. Mr. Tadesse showed the video to the management of Oromia Agricultural Bureau which was convinced to establish cooperatives unions.

Finally, coffee farmers' cooperatives in Oromia Regional State democratically federated to form the Union.

2.2. Objectives

The major objectives of OCFCU are to organize, promote and develop coffee farmers producing, processing and storage and marketing capacity and thereby to enable them obtain optimal yield from their produces. It strives to bring more money to the pocket of Oromia Coffee Farmers who are the growers, processors and suppliers of high quality, organic Arabica coffee to the Union for a direct export.

Broadly, the objectives of OCFCU are to:

- ◆ improve the farmer's income by exporting their coffee directly to the international markets
- ◆ provide member farmers and clients with reliable service
- ◆ improve the social condition of farmers

- ◆ improve the quality and productivity of Ethiopian coffee
- ◆ improve and maintain the sustainability of coffee industry
- ◆ enhance the development of smallholder cooperatives through linking to markets
- ◆ bring about a significant positive change on small-scale coffee producers and the coffee value chain as a whole thereby producers have improved the quality of their coffees, gain access to higher-value markets and earn substantially more income from their production.

2.3. Organizational structure and Membership

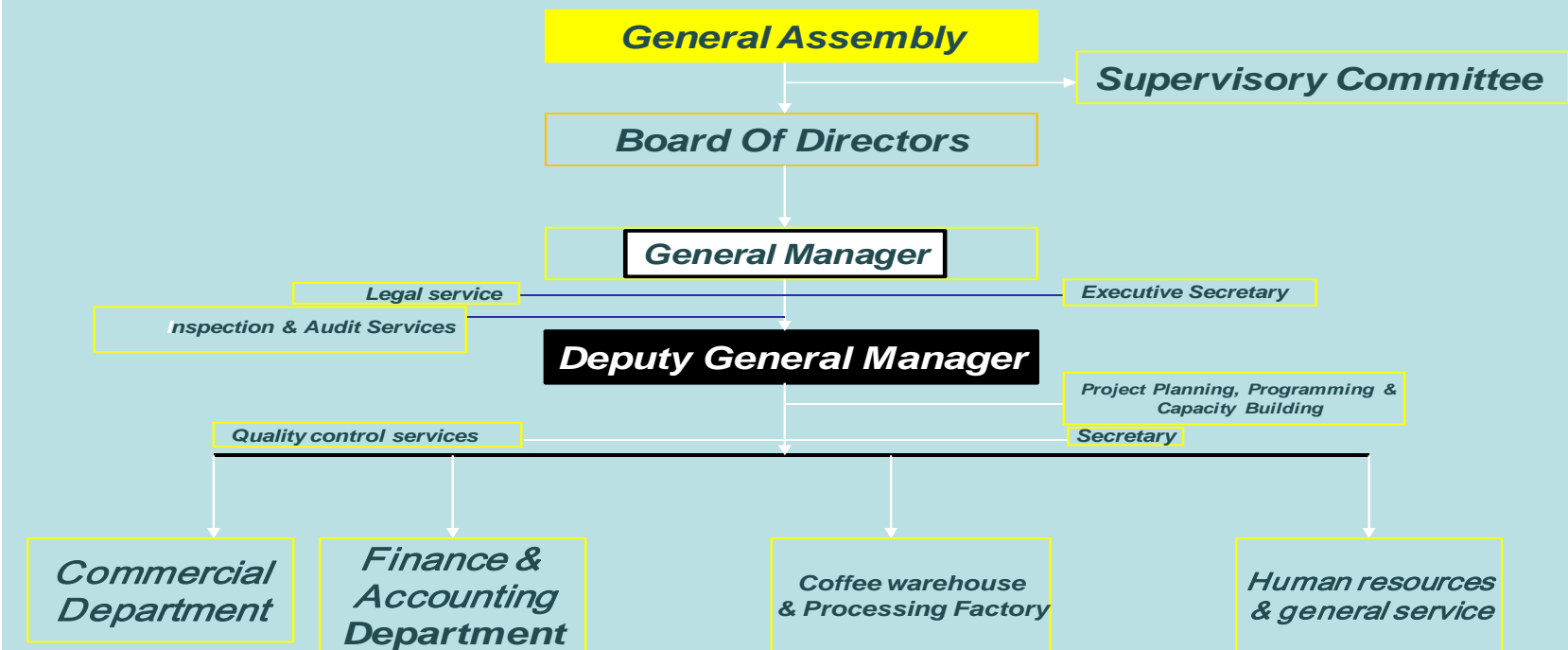
As an autonomous body, the Oromia Coffee Farmers Cooperative Union is organized in such a way that it can meet members' common economic, social, and cultural needs and aspirations through democratically controlled enterprises. Members often have a direct stake in the Union's overall activities through plausible structural representations.

The structure is very inclusive and participatory that members are decision makers in all the activities of the Union. The linkage among all actors: The Union, cooperatives, producers, exporters and expertise is very strong.

Accordingly, the Union comprises:

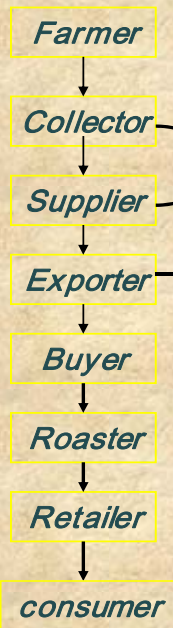
- ◆ 197 members of representatives of General Assembly: The apex being the ultimate decision making body composed of representatives from member cooperatives.
- ◆ 9 members Board of Directors
- ◆ 3 members of Controlling committee and
- ◆ 84 permanent employees well in charge of rendering services entrusted to them for the well-being of the members.

Organizational Structure of Oromia Coffee Farmers Cooperative Union/OCFCU/

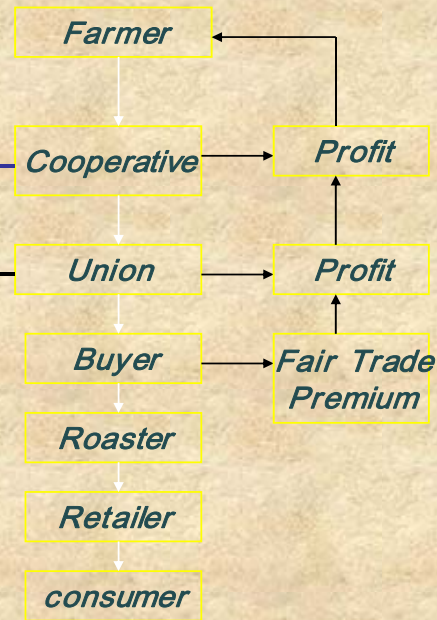


THE COFFEE TRADE CHAIN

Free Market



Cooperative



3. ACHIEVEMENTS OF OCFCU AND CURRENT STATUS

The virtual organizational structure of Oromia Coffee Farmers Cooperatives Union (OCFCU) coupled with its efficient management has resulted in improved coffee quality and overall operational efficiency. Dead on target, coffee growers have been benefiting more from their produce since the inception of the Union.

The Union buys, accumulates, processes and internationally sales coffee supplied by smallholders through their cooperatives. The managing, coffee processing, marketing and its commercialization has become modernized and standardized. Hence, the Union has been able to achieve in a short year since establishment incredible level of growth which further has inspired the cooperatives members to increase their capacity through helpful services they receive.

With cooperative experience in international markets, the Union focused on the importance of

quality production traced to origin with substantial buyer monitoring and involvement with coffee growers. The Union has also understood the need for change in growing export coffee. Hence, it has succeeded in quality coffee exporting over the last decade. The growth in production size and profitability of members are together creating a momentum for further production, marketing and employment among member cooperatives.

No doubt, the starting and leveraging points for nation's coffee sector development is the market. A comprehensive value-chain approach to global marketing is an excellent framework to direct business development and market linkages. Linking coffee producers to international markets requires institutional vibrancy and capacity building of cooperatives to support value chain expansion.

With regard to building capacity of members' cooperatives, the establishment of OCFCU has been an overwhelmingly positive force. The Union has been improving year after year in building institutional capacity of member cooperatives. It has regularly been equipping members with necessary agricultural inputs, different coffee processing machineries, warehouses and material assets. Indeed, it has come a long way since it began this support initiative.

The Union has experienced astonishing growth, shooting from 34 farmer cooperatives representing 22,503 families in 1999, to the current membership of over 197 primary farmer cooperatives representing more than 194 thousand members. Similarly, its sales volume has shown impressive growth year after year. For instance, the sales volume of the Union has shown steep growth since 2001.

The Union is now exporting: Organic certified coffee, Fair Trade certified coffee, Double certified (organic and fair trade) coffee and Conventional coffee

These products are of unique quality since due caution is given to the whole processes from tree to cup. In this regard, the Union controls overall activities associated with coffee producing, harvesting, processing, storing and direct exporting.

The other achievement made by the Union is the market direct link. As mentioned earlier, it has obtained the privilege of by-passing the auction market and sells coffee directly to the clients. Moreover, it has been aggressively working to create new market links while maintaining its reputation with its customers in the global market.

Well aware of the paramount importance of quality coffee to remain competitive in the world's stiff market, the Union has been devotedly working to ensure quality of coffee on sustainable bases. Towards this end, it offers training to members on quality production methods and post harvest handling. The Union has also been making every effort to build capacities of its members through motivating them, creating market linkage and providing market information. All the relentless effort of the Union is to improve efficiency at all levels of production, harvest, processing and supplying of coffee to make the most out of export trade for the well-being of the farmers.

Volume and Value Of Out Put Sold By the Union in Years

Year	Unit Of Measurement	Sales Volume	Sales Value (Birr)	Net Surplus (Birr)
2001	Ton	126	2,271,157	289,184.86
2002	Ton	375	7,679,344	2,181,624.92
2003	Ton	967.2	18,796,130	5,819,096.00
2004	Ton	2,431.5	45,309,011	7,020,447.00
2005	Ton	2,690.5	67,207,845	5,468,002.66
2006	Ton	3,182.3	86,644,278	6,865,844.00
2007	Ton	3248.2	102,725,628	13,933,097.29
2008	Ton	3598.8	136,392,056	23,423,228.08
2009	Ton	5329.3	270,496,542	44,758,339.00
2010	Ton	4,889	295,733,293	61,168,915.00

Above all, members' bargaining position has been strengthened in the international market paying back a higher share of market price to producers and allowing farmers to achieve growth of scale thereby enabling them take control of their economic future. By any standard, results to date have been impressive. The cooperative members' annual production and export sale increased in many-folds. Equally impressive is the fact that the cooperatives are returning substantial dividends over the initial market prices to farmers.