



**PERFORMANCE OF COFFEE FARMERS MARKETING COOPERATIVES IN
YIRGACHEFFE AND WONAGO WOREDAS, SNNPRS, ETHIOPIA**



M.Sc. Thesis

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**Performance of Coffee Farmers' Marketing Cooperatives in Yiragcheffe and
Wonago Woredas, SNNPRS, Ethiopia**

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Declaration

This is to certify that this thesis entitled “performance of coffee farmers’ marketing cooperatives in Yirgacheffe and Wonago woredas, SNNPRS, Ethiopia.” Submitted in partial fulfillment of the requirements for the award of the degree of M.Sc, in cooperative marketing to the school of graduate studies, Mekelle University, through the department of cooperatives done by Mr. Ahmedin Sherefa, Id. No. FDANR/PR-0012/99 is an authentic work carried out by him under my guidance. The matter embodied in this project work has not been submitted earlier for award of any degree or diploma to the best of my knowledge and belief.

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STATEMENT OF THE AUTHOR

First of all, I declare that this thesis is my work and that all sources of the materials used for this thesis have been duly acknowledged. This thesis has been submitted to in partial fulfillment of the requirements for M.Sc. degree at Mekelle University and is deposited at the university library to be made available to borrowers under the rules of the library. I solemnly declare that this thesis is not submitted to any other institution any where for the award of any academic degree, diploma or certificate.

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ABSTRACT

People form cooperatives to do something better than they could do individually or through a Cooperative form of business. Forming a cooperative will not automatically solve business problems faced by individual households. This is because cooperatives are subject to the same economic forces, legal restrictions and international relations that other business face. Cooperative members' expectations about the types and quality of services that should be offered and their criteria for performance of these services have a major impact on the level of satisfaction or dissatisfaction felt. Members' satisfaction on the benefits obtained by establishing cooperatives should be evaluated by the level of the deviation of service expectation from perceived service performance. Thus, cooperatives' performance should be continuously checked against the level of members' satisfaction. This study therefore, aims at assessing the performance of primary coffee marketing cooperatives and there by to identify factors that impede members' satisfaction, and to evaluate the performance of coffee marketing cooperatives in the study area, Financial ratios were computed based on annual audit reports of the cooperatives. Here, efficiency ratios, income ratios and creditworthiness ratios were calculated as performance indicators. The result reveals that, almost all the coffee marketing cooperatives in the study areas were performing their business inefficiently. Probit regression model was also employed to identify factors influencing the members' satisfaction, the adequacy and context of services rendered by the cooperatives, and the major services as function and of socio-economic and institutional explanatory variables. The model analysis revealed that, age, family size, terms of payment for red cherry and dry cherry were found to be statistically significant at significance level of 5%, 5% 1% and 5% respectively which influenced negatively except the terms of payment for dry cherry which influenced positively. The satisfaction of members' of the coffee marketing cooperatives in the study areas was found to be poor with reference to the over all performance of the cooperatives.

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ACRONYMS AND ABBREVIATIONS

ACCOSCA	African Confederation of Credit Unions
AESE	Agricultural Economics Society of Ethiopia
CADU	Chilalo Agricultural Development Unit
CBD	Coffee Berry Disease
CLU	Coffee Liquoring Unit
CSA	Central Statistics Authority
ENTACCS	Ethiopian Thrift and Credit Cooperatives Societies
FAO	Food and Agriculture Organization
FCC	Federal Co-operative Agency
GDP	Gross Domestic Production
GNI	Gross National Income
GZARDD	Gedeo Zone Agriculture and Rural Development Department.
ICA	International Co-operative Alliance
ICO	International Coffee Organization
ILO	International Labor Organization
ILRI	International Live stock Research Institute
IPMS	Improving productivity and Market Success of Ethiopian Farmers
JICA	Japan International Co-operation Agency
MoA	Ministry of Agriculture
NGO	Non Governmental Organizations
UN	United Nation
SGS	School of Graduate studies
SNNPRS	Southern Nations Nationalities Peoples Regional State
UNIDO	United Nations Industrial Development Organization.
YCFCU	Yirgacheffe Coffee Farmers Cooperative Union

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CHAPTER I: INTRODUCTION

1.1 Background

Agriculture remains the backbone of the economy of most developing countries. Typically, it is the largest source of employment; often two-thirds or more of the population are dependent for its livelihood on farming.

World trade in agricultural products has been growing especially in the 1990s. In 2001, the total nominal value of world agricultural trade was US\$412 Billion, as compared with US\$326 billion in 1990 and US\$234 billion in 1980. In addition, there is a breakdown between developed and developing countries. Developed countries account for approximately 70% of the agricultural trade although the share has been falling over the past decade (JICA, 2005).

Ethiopia is a mountainous agricultural country with a population of 76,511,887 (CSA 2007) which makes the country as the second most populous country in Africa. It is also one of the poorest countries in the World and suffers from food deficiency on account of recurrent droughts, environmental deteriorations, population pressure, wars, and backward agricultural systems and policies.

The Government has recognized the combined effects of these challenges and has introduced a series of measures to address them. Ethiopia is one of the least developed countries in the world with an estimated GDP Per capita of US\$ 110 and about 85% of her population living in the rural areas. The manifestations of poverty throughout the country are deep and widespread. Poverty is more severe in rural 45% than in urban areas 37%.

According to a recent survey, 31 million people live below a poverty line which is equivalent to 45 US cents per day; and between six and 13 million people are at risk of starvation (MoFED 2005). On the average, some four million people face food shortages in anyone year needing relief assistance in spite of good harvests in the past three years (2003 to 2005). The persistence of poverty is linked to natural, social, economic and political factors. Women share the burden of the responsibilities under these circumstances; especially in the rural areas. The estimated average annual population growth rate is about

2.8%. However, The economy has recorded an annual growth rate of 4.4% for the period 1997 to 2001 (UNIDO, 2004) and 10.5 percent in the year 2004/05 and 11.9 percent in the year 2003/04 which is the reflection of the sound economic policy and favorable weather condition. This remarkable performance puts Ethiopia along with the fast growing economies in SSA countries. Agricultural and allied activities continued to contribute their line's share to the 9.6 percent real GDP growth followed by service and industry (NBE, 2007).

The agriculture continues to be the back bone of the economy contributing 47.3% of the country's GDP followed by service and industry each accounting for 40.4 and 13.5 percentage share respectively by the year 2005/06 (NBE, 2007). 80 percents of total employment and 90 percent of the export earnings come from agricultural products, mainly coffee, chat, leather and leather products, pulses, floriculture products, etc.

Despite changes in the international coffee price, coffee still remains the country's dominant export commodity and its contribution has declined in recent years reaching 54% of export proceeds in 1999/2000. Khat's share has surged to about 16% during the same year. Leather and leather products stood third in the country's total export earnings as their share slightly rose to 7.2% in the year 1999/2000 (NBE, 2001).

According to villager (2006), the major export products from Ethiopia in 2004/05 were coffee (41%), oil seeds (13%), Khat (12%), leather and leather products (8%) , Gold (6%) and pulses (4%).

Recently (2007), Coffee is Ethiopia's largest export and generates 35% of all its export earnings. The coffee business employs about one out of every four people in the country. Coffee farmer's cooperatives are also playing a significant role in the sector of coffee production and marketing. (NBE, 2006) .According to the annual report of Ministry of Trade and Industry 2007, Ethiopia exported 177,000 tons of coffee to the world market and earned a total sum of 421, 000,000 USD, which in fact indicates a significant improvement in the coffee business.

Ethiopia's coffee is almost exclusively of the Arabica type, which grows best at altitudes between 1,000 and 2000 meters. Coffee grows wild in many parts of the country, although most Ethiopian coffee is produced in the southern and western regions of Kefa, Sidamo, Illubabor, Gamo Gofa, Welega, and Harerge.

Coffee is the most important cash crop in Ethiopia. Domestically, coffee contributed about 20 percent of the government's revenue. Approximately 25 percent of Ethiopia's population depended directly or indirectly on coffee for its livelihood. According to legend an Arabian goatherd named Khalid found his goats dancing joyously around a dark green leafed shrub with bright red cherries in the southern tip of the country. He soon determined that it was the bright red cherries on the shrub that were causing the peculiar euphoria and after trying the cherries himself, he learned of their powerful effect. The stimulating effect was then exploited by monks at a local monastery to stay awake during extended hours of prayer and distributed to other monasteries around the world. Coffee was born (MoA, 1998).

Some observers indicated that Ethiopia's annual production of coffee is between 140,000 and 180,000 tons annually. About 44% of the coffee produced in Ethiopia is exported to other countries (Italy, United Kingdom, Netherlands, Djibouti, Germany, Japan, Saudi Arabia, France, and the United States), etc.

The potential for coffee production in Ethiopia is very high as there is suitable altitude, ample rainfall, optimum temperatures, appropriate planting materials and fertile soil. The total area covered by coffee is about 400,000 hectares, with a total production of 200,000 tones of clean coffee per annum. On average 5.67 quintals of clean coffee can be produced in one hectare and in a single hectare of land 1800 mother coffee tree can be cultivated (MOA, 2003).

Coffee is one of the highest valued commodities in international trade, with annual export revenues worth around \$10 billion on average, and annual retail sales of approximately \$50 billion. It is a highly labor-intensive industry employing an estimated 100 million people in

over 60 developing countries, where it is often a vital source of export revenues and income to producers, many of whom are smallholder. The dependence in coffee is greatest in Africa, where there are some 25 coffee exporting countries. There are two major varieties of coffee, namely Arabica coffee (*Coffea Arabica* L.) and Robusta coffee, Ethiopia produces only Arabica coffee, which is believed to have originated in the rain forests of southwestern Ethiopia- hence Ethiopia is known as “ the home of coffee”. Annual coffee production fluctuates between 6 to 7 million tones, with production in the 2004/05 crop year totaling 113 million bags (of 60 kg). Three countries, Brazil, Colombia and Vietnam, account for almost 60% of world coffee production.

Global production of coffee has shown a fluctuating trend in the last few years. Latin American producers, especially Brazil and Colombia, account for over 60% of global output; Asia (where Indonesia and Vietnam dominate) accounts for around a quarter of total production, while Africa, whose share has been falling, produces between 15% and 18%. Ethiopia is now Africa’s largest producer but still only accounts for about 2% of global output. There are significant annual variations in production, which is due to various factors including climatic factors, the biennial Arabica yield cycle, price changes and the impact of pests and disease. Many other factors affect the production environment including input distribution, credit and crop finance, infrastructure and the provision of research and extension services. Coffee suffers from long periods of oversupply and low prices, followed by brief periods of short supply and high prices, often associated with Brazilian production changes; thus, during the past years there has been an increase in coffee prices following several years of very low prices. Price volatility is a major feature of the market and a major influence on smallholder farmers’ income. Not only do coffee prices show wide intra-and inter-seasonal fluctuations, but also since 1950 coffee prices have fallen in real (inflation adjusted) terms by about 2% per annum.

Despite the recent price recovery, projections by the World Bank, the ICO and the FAO all point to oversupply and downward price pressure, as on balance production continues to expand faster than consumption, partly because of increased planting in the mid -1990s and market maturity in the major industrialized markets, Climatic and disease factors will,

however, continue to lead to sizeable annual variations in both output and prices (JICA, 2005).

There are four types of coffee production system in Ethiopia: forest coffee, semi-forest coffee, garden coffee and plantation coffee.

Forest coffee production system is found in south and southwestern Ethiopia. These are the centers of origin of coffee Arabica and best suitable area for coffee production. Forest coffee is self-sown and grown under the full coverage of natural forest trees, and has a wide diversity for selection and breeding for disease resistance. It offers high yields and top quality aroma and flavor. It accounts for about 10 per cent of total coffee production.

Semi-forest coffee production system is also found in the south and south-western parts of the country. Farmers acquire forest land for coffee farms, and then thin and select the forest trees to ensure both adequate sunlight and proper shade for the coffee trees. They slash the weeds once a year to facilitate the coffee bean harvest. This system contributes about 35 per cent of Ethiopia's total coffee production.

Garden coffee is grown in the vicinity of farmer's residences, mainly in the southern and eastern parts of the country. The coffee is planted at low densities, ranging from 1,000 to 1,800 trees per hectare, is mostly fertilized with organic waste and is intercropped with other crops. Currently, garden coffee accounts for about 35 per cent of Ethiopia's total coffee production.

Plantation coffee includes that grown on plantations owned by the former state and some well-managed smallholder coffee farms. In this production system, recommended seedlings are used, and proper spacing, mulching, manuring, weeding, shade-regulation and pruning are practiced. Only state-owned plantations use chemical fertilizers and herbicides and this accounts for only about five per cent of total production. Coffee is processed by two widely-known methods - dry and wet. Ethiopia exports 80 to 85 per cent natural or sun-dried coffee and 15 to 20 per cent wet-processed coffee.

Ethiopia is the oldest coffee exporter in the world, though external invasions and internal conflicts have at times had a negative impact on the country's coffee export history. Coffee export in Harar goes back to earlier than 1810. In 1838, Rupell recorded the export of 100 quintals of Enarea-coffee (now Liumu-Seka, Jimma) via Massawa. In the 19th century, two coffee types, "specialty coffee", was exported as first and second grade Harari coffee and Abyssinia coffee to London, Marseilles, and New York.

Although agriculture is the chief economic activity, most Ethiopian farm households struggle to produce just enough food for the subsistence of their families. The main crops produced include wheat, corn, sorghum and other grains. Many farmers in the southwest grow coffee plants. Oilseeds and sugarcane are other crops grown for sale. Improvements in farming equipment and methods, marketing, and transportation are needed to increase agricultural output (The World Book Encyclopedia, 2002).

Smallholder farmers in particular face uncertain production environment and enormous constraints and higher cost in accessing markets. The farmers also exchange with actors who have more resources, information, and options and more economically powerful organizations, including markets. Moreover, there is a high level of uncertainty surrounding the activities of peasants in developing countries (Embden, et al., 1997). This uncertainty is the reflection of climatic factors, which are more extreme in the tropics, unstable markets, the paucity of information, low social and economic status, etc., and all the main problems of agricultural marketing and cooperative marketing.

In rural areas, stallholders are often geographically dispersed; roads and communications are poor, and the volume of business is insufficient to encourage private service provision. In other words, there are high probabilities of market failure (Mulat and Tadele, 2001). Inefficient and underdeveloped markets results in low and variable prices thereby reducing the profitability of new technologies for farmers, discouraging business people from investing in processing activities, retailers and transporters from investing in improved market and transport services (Mulat and Tadele, 2001).

Kaddar (1975) cited in Barker (1989) claims that only a few farmers understand the necessity of producing to meet the market and of finding a market for their produce. His solution to this dilemma is to encourage the growth of cooperatives to undertake the marketing responsibilities. This suggests that most farmers are basically, production oriented, and may experience very little application of marketing principles in their business management.

Viaene (1977) cited in Barker (1989) identifies three new trends in the marketing of agricultural products by farmers; these are: (1) direct marketing to the consumer, bypassing the middlemen and reducing cost, (2) contract production, which benefits both producers and buyers; the farmer receives guarantees on finance and prices, thus reducing risks, and the buyer is assured of quality, quantity, and time of delivery and (3) Marketing through cooperatives, by farmers tending to improve their bargaining power.

Intervention to reduce uncertainty and other marketing problems and to bring the peasant households into profit maximizing category may be realized through establishment of rural institutions, such as cooperatives. The concept of human cooperation is not new. Cooperative is a worldwide movement. It prevails both in developed and developing nations, and in all branches of economic activity (Krishinaswami and Kulandaiswamy, 2000). Cooperatives are viewed as change agents. The change supposed to be brought about by the cooperatives is not simple. Improved performance of agricultural cooperatives is assumed to have a role in fostering agricultural production through the promotion of efficiency and better resource allocation.

In Ethiopia, the formation of modern cooperative societies was started soon after the Italian invasion. However, it was only in 1960s that cooperatives were legally enacted. During the regime of Haileselesie, the cooperative legislation No 241/1966 was proclaimed and about 154 different types of cooperatives were organized. During the Derg regime, cooperatives organized earlier were considered unnecessary and discarded. The newly organized cooperatives under the regime have purposefully made instruments of political power. Their organizational procedures were not based on internationally accepted

cooperative principles. New era in cooperative development was then started in 1998 when new cooperative legislation No 147/1998 was enacted. Since then, cooperatives have been playing significant role in the economy of the country, especially in the areas of input supply, saving and credit, coffee and grain marketing (FCC, 2004). The establishment of cooperative unions in coffee and grain growing areas is a new experience for the country.

At present (2006), about 19147 different types of primary and 124 secondary cooperatives (unions) with the total individual members of 4,617,800 and capital of Ethiopian Birr 1,475,257,047 have been organized and made operational. Among these, 208 primary and 6 secondary cooperatives are coffee farmers' marketing cooperatives. Furthermore, one farmers' cooperative federation is established in SNNPRS Feb2008.

Among the six coffee farmers' cooperative unions, five of them are found in SNNPRS, and their total member primary coffee farmers' marketing cooperatives are 107 with the individual members of 142,017 out of 851,457 of the region. The region has 1453 different types of primary cooperatives and 19 unions participating in the development process of the region in particular and the nation in general.

These cooperatives are playing great role in the local and export marketing of members' produce as well as those of the surrounding farmers. Although such signs of success are there, greater efforts should still be made to organize, promote and develop cooperatives in the country through increasing members' commitments (FCC, 2006).

Yirgacheffe coffee farmer's cooperative union YCFCU Ltd. was established in June 2002, representing 44,189 member farmers and whose family members are more than 300,000. Its 23 member cooperatives are located in Gedeo Zone in Southern Ethiopia one of the most famous coffee growing region in the country and 62,004 hectares dedicated to garden coffee produce on average 9,000 tons of Yirgacheffe and 3,000 tons of Sidamo washed coffee each year. The area also produces approximately 24,000 tons of sun-dried coffee.

Yirgacheffe coffee which grows at 1,770 to 2,300 meters above sea level in fertile loamy soil is the world's finest highland grown Ethiopian Arabica coffee. Most members cultivate 0.25 to 1.5 hectares of coffee trees in a garden production system inter-planted with false banana (Enset) and other nitrogen fixing crops.

Yirgacheffe is an intensely bright coffee, therefore, it is fun to drink and fairly satisfying. It is also known for its citrus, floral flavor. Consequently, it may be most treasured by the females among us. But, most important for chocolate lovers, this is a coffee which embodies the sweetness of chocolate in its most delicate form. With a cup of Yirgacheffe, one can get just a hint of citrus, a fair sample of chocolate roast, and an aromatic finish.

Traditional Ethiopian coffee cultivation practices are still dominant among Yirgacheffe farmers. Coffee trees are managed by hand and fertilized with organic matter .pests are controlled in biological, natural method. By this time the union has 12 organic certified coffee cooperatives producing 6,946 tons of washed and 13,892 sundry coffees annually available for the European, Japanese and American markets and five are registered for fair trade coffee sales.

Fair Trade coffee helps to provide living wages to the farmers, and up to three times as much income as the average coffee producer. This income will help farmers provide for their families, increase their quality of life and allow them to continue working on their farms. By helping the Ethiopian coffee farmers economically, Fair Trade also provides the farmers with access to greater political power. Furthermore, the farmers learn about the democratic process through the democratically run cooperatives. Decisions connected to development are not dictated from above; instead, Fair Trade represents a bottom-up approach, respecting the rights of people to make their own decisions and thus respecting their dignity and cultural traditions. (YCFCU, 2006)

1.2 Statement of the Problem

It is believed that the characteristics of modern cooperative businesses have mostly been developed in the past 160 years. People form cooperatives to do something better than they could do individually or through a non-cooperative form of business. Acting together, say, in bringing agricultural produce (e.g. coffee) collectively, members can develop bargaining power, enjoy the benefits of a larger business and can access information, which has important impact in the process of marketing. Sometimes people believe that forming a cooperative automatically will solve business problems faced by individual farm households. In reality, cooperatives are subject to the same economic forces, legal restrictions and international relations that other businesses face (Krishinaswami and Kulandaiswamy, 2000).

With respect to coffee marketing activities, various forms and extent of problems could be identified, and prioritized, to decide upon them by the decision makers. In addition, the cooperatives' decision-making procedures, purchase capacity, sales volume, profitability, and other marketing performance parameter need to be assessed. This may also be true for cooperatives. To bring maximum profits to all institutions concerned, a channel of distribution should be treated as a unit-a total system of action (Mamoria, et al., 2003). But some members of cooperatives have an experience of selling their produce to other marketing channels. In addition, there may be various problems in collecting coffee from members. This might be caused by the dissatisfaction of members with services rendered to them by and poor performance of coffee marketing cooperatives. There may be various problems in collecting and exporting coffee through cooperatives.

Based on the principles of cooperatives, coffee farmers' marketing cooperatives are expected to genuinely perform their marketing activities and provide adequate services to their members.

From time to time, it is essential to check whether they are on the right track or not. It will then contribute to the understanding of factors hindering improvement and modernization of the coffee farmers' marketing cooperatives. This would enable the cooperatives to check whether they are on the right track and measures are to be taken to correct any

undesirable courses of development. To create good performing primary cooperatives and secondary cooperatives, it is essential to assess the performance of the already existing ones and draw practical lessons on the critical operational problems and constrains. To accomplish such an important task, empirical investigations have paramount importance in areas of coffee marketing cooperatives performance and level of members' satisfaction. This study, therefore, aims at assessing the performance of primary coffee marketing cooperatives, identifying their problems and opportunities as well as evaluate the level of members' satisfaction. Performance evaluation must combine various types of analysis that would provide the basis to analyze the functioning of the system, explain efficiencies, and assess the potential for and means of improving economic efficiency or other objectives. For achieving economic efficiency, a cooperative must plan, organize, motivate and control its operation (Knapp, 2000). As any other enterprises do, cooperatives need to also periodically control and evaluate their marketing activities. There are basically four types marketing controls, namely annual plan control, profitability control, efficiency control, and strategic control. However, in spite of a serious need to monitor and control marketing activities, many companies including cooperatives have inadequate control procedures (Kotler, 2003). There is no in-depth empirical study in Ethiopia supported with scientific research that shows the performance of primary coffee farmers marketing cooperative societies and/or their unions and the degree of satisfaction that members get from their cooperative societies. This research will, therefore, attempt to empirically investigate the above issues and bridge information gaps.

1.3 Objectives of the study

The purpose of this research is to assess the overall marketing activities and performance of Yirgacheffe Coffee Farmers' Cooperative Union (YCFCU) and primary coffee farmers' marketing cooperatives and the extent of members' satisfaction in terms of service they obtain.

The specific objectives are:

1. To assess the performance of primary coffee farmers' marketing cooperatives in Yirgacheffe and wonago woredas

2. To study the extent of satisfaction of the members with the services rendered by their cooperatives and the factors influencing them.
3. To identify key coffee marketing channels in Yirgacheffe and Wonago woredas
4. To identify major constraints and suggest suitable strategies for improving the functioning of primary cooperatives and the union under consideration.

1.4 Research questions

Attempt will be made in this study to find answers for the following key questions.

- 1) What are the different marketing services provided by primary coffee marketing cooperatives and their union to their members?
- 2) What has been the performance of primary coffee farmers' marketing cooperatives?
- 3) What are the factors which influence the satisfaction of coffee farmers' marketing cooperatives?
- 4) To what extent the primary coffee farmers' cooperatives and the union have satisfied their members? and
- 5) What are the challenges and opportunities of their performance?

1.5 Scope of the Study

This study will contribute to the understating of coffee marketing system and major problems and constraints on the smooth performance of coffee marketing cooperatives and other coffee marketing intermediaries. The study will focus on coffee farmers' marketing cooperatives, assessment of their performance, identification of problems encountered in their operations and the extent of members' satisfaction with the service given by the cooperatives in Yirgacheffe and Wonago weredas. Service given by secondary cooperative organization (union) to the affiliated primary cooperatives will also be given attention. While the affiliated primary cooperatives are those in and around Gedeo Zone in SNNPRS, the secondary cooperative (union) is located in Addis Ababa.

The present study will cover secondary data of at least seven years from 1999 to 2006 for primary cooperatives and 5 years for the union from June 2002 to mid 2007, and the entire woredas of Yirgacheffe and Wonago in Gedeo Zone of SNNPRS.

1.6 Significance of the study

Findings (empirical information) to be generated by this study would be of paramount importance. It would be useful for the management bodies of the primary coffee farmers' marketing cooperatives under consideration and YCFCU as well as other cooperatives operating under similar conditions in improving their performance through appropriate and relevant measures. The information would also provide a good lesson for new cooperatives to be established and minimize or avoid problems at the very beginning of operation. Furthermore, the same information could be used by the Federal Cooperative Agency and other institutions interested in the establishment, and management of performing cooperatives in Ethiopia by making them efficient and effective in serving the interests of member and enable them contribute towards national development goals of the country. This study could be a good stepping-ground for other studies on marketing cooperatives. In brief, this research would be useful to cooperatives, researchers, governmental and non-governmental organizations for policy formulation, planning and development of agricultural cooperatives in the country.

1.7 Hypothesis

- 1) The proximity of the cooperatives has an impact on performance.
- 2) The members' satisfaction is positively associated with the services provided by their cooperatives.
- 3) The performance of coffee farmers' marketing cooperatives has a significant effect on the satisfaction of the members of the cooperatives.

1.8 Limitations of the study

There will be a problem of Language barrier as SNNPRS has more than 56 languages and nationalities within and among the Zones of the region. In addition to the above problem, adequate secondary data may not be found. Furthermore, as the study is to be conducted in two woredas only, it can not be generalized to other woredas of Ethiopia.

1.9 Organization of the thesis

This thesis consists of five major chapters. Chapter one presents the background, statement of the problem, objective of the study, significance of the study, scope and limitations of the study. Chapter two discusses the theoretical and empirical literatures related to the research. This is followed by the discussion of the methodology used in the research in chapter three.

Chapter four presents the results and discussion part of the study. Finally, the conclusion and recommendation of the study are presented in chapter five.

CHAPTER II: LITERATURE REVIEW

The main objectives of the review is to analyze the gaps (if any), in previous studies and lay a base for the undergoing research work. For this reason the review of Literature is indicated as follows.

2.1 Basic Concepts

2.1.1 Market

Market may be defined as “a particular group of people, an institution, a mechanism for facilitating exchange, (Solomon, 2002). The market concept has also been linked to the degree of communication among buyers and sellers and the degree of substitutability among goods. The concept of perfect market, for example, is an abstraction used by economists as a benchmark for evaluating the performance of market situations that deviate from its specifications (John and Sathan, 1988; cited in Solomon, 2002).

2.1.2 Marketing

The definitions of marketing can be grouped into two major categories: classical (narrow) definitions and modern (broad) definitions. In classical terms, marketing is defined as “the performance of business activities that direct the flow of goods and services from producer to consumer or user or the process in a society by which the demand structure for economic goods and services is anticipated (enlarged) and satisfied through the conception, promotion, and physical distribution of such goods and services”. These classical definitions of marketing are oriented toward the physical movement of economic goods and services.

The breadth of marketing was officially recognized by the American Marketing Association (AMA) in 1985 when it replaced the classical definition it had approved in 1960 with the following: “Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives” (Joel R. Evans and Barry Berman, 1990).

There is no universally accepted definition of marketing, indicating the variety of options, which exist concerning the subject (Barker, 1989). Terpstra (1972) cited in Barker (1989)

offers a very broad definition of marketing as “the collection of activities under taken by the firm to relate profitability to market”.

Marketing is a societal process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services and value with others (Kotler, 2003). Rodger (1971) cited in Barker (1989) offers a definition of marketing which is applicable to most agricultural systems: “marketing is the primary management function, which organizes and directs the aggregate business activities involved in converting consumer purchasing into effective demand for a specific product or service and in moving the specific product or service to the final customer or user so as to achieve company-set profit or other objectives” (Rodeger, 1971). The American Marketing Association (AMA) offers the following definitions: Marketing is the process of planning production, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals (AMA (1995), cited in Kolter, 2003).

2.1.3 Evolution of modern marketing

The modern marketing concept has evolved over a period of more than a century. The role and significance of marketing is primarily a function of the stages of economic development in a country. In a primitive society based on agriculture and handcrafts, exchange is very limited and marketing is more or less non-existent. In early stages of industrialization also, marketing does not pose a serious problem because of the excess of demand over supply. The main function of marketing in this stage is the movement of goods from the points of production to the points of consumption. In the third stage when production takes place on a mass scale, production exceeds demand and mass production needs mass distribution, marketing starts assuming an important role in the enterprise. In this stage, main focus of marketing is on selling and distribution. It is in an affluent economy where customer is highly sophisticated and his wants take a specific shape, marketing-orientation takes place (R.D Agarwal, 2004).

According to Agarwal (2004) the evolution of Modern Marketing stages is summarized as follows:

1. Production – orientation: In a pre-industrial society as well as industrializing society, demand of most goods exceeds supply. Firms are mostly production-oriented, and the main function of marketing is the movement of goods from the production to the points of consumption.
2. Sales-orientation: the excess of production over demand characterized the great depression of the thirties.
3. Marketing-orientation: more and more companies are now putting increasingly greater emphasis on marketing. It is characterized by the integration of all marketing activities in the marketing division, and close coordination between marketing and other functions, particularly manufacturing, industrial engineering and credit management.
4. Marketing Company Stage: At this stage, companies plan from market backward to the factory. Manufacturing and all other activities are guided by the market place.
5. Social Responsibility- Future Orientation: Business enterprises will in future be more concerned with social responsibility in performing their marketing activities, in response to growing consumerism and threat of government intervention (Agarwal, 2004).

Marketing can be studied from distinct standpoints. The two simplest, and probably most important, aspects identified are, on the one hand, marketing policy, which is concerned with macro-aggregate issues such as market structure, the nature and level of competition, the forms of, and reasons for, government intervention, and so on, and on the other hand, marketing management, which is related largely to issues confronting individual businesses (Barker, 1989).

2.1.4 Agricultural marketing

Agricultural marketing is the performance of all business activities involved in the flow of goods and services from the point of initial agricultural production until they are in the hands of the ultimate consumer (Kohls and Uhi, 1985).

The way in which farmers view their businesses depends very much on their personal aspirations and opinions. Two extreme positions, which can be identified, are those of 'production-oriented' and the 'marketing-oriented' farmer. The production-oriented farmer regards the major part of his business as being concerned with the goods, which he wishes to produce. In contrast, the marketing-oriented farmer will endeavor to produce goods which can profitably be sold, giving due consideration to the likelihood of profit before production is undertaken. It has been stated previously that production orientation is likely to be most successful in conditions where a seller's market exists and the control problem to be faced by farmers is to find ways of increasing output. Unfortunately, in agriculture this situation very rarely arises, apart from quirks arising for climatic reasons. The marketing orientation concept can be applied to agriculture to a large extent; to date however, there has been only a limited amount of work undertaken to define the orientations of farmers. (Mitchell (1975), cited in Barker, 1989) studied the extent to which, and the manner in which, farmers are influenced in their livestock marketing decisions by publicly available sources of market information. He reached two general conclusions about the marketing behavior of farmers.

For the most part, farmers' actions with regard to marketing are the result of long-term policy decisions and as such will not be subject to review each time the farmer has occasion to sell. When marketing decisions are of a short-term nature, they will be influenced by many things, which do not come within the preview of conventional market intelligence. Typical factors quoted as affecting sales decisions were prices, price expectation, and selling policy. (Bateman (1972), cited in Barker, 1989) gives a good illustration of the advantages accruing to farmers who utilize marketing oriented management: 'Farmers essentially produce goods, which satisfy consumers' demands for food. In the long term an alternative source for satisfying this demand could come from the development of synthetics. The production oriented farmer would do little about this situation other than sit back and hope that the potential competition will not come about. The marketing oriented farmer, in contrast, would be prepared to respond to such developments. The obvious response would be for the farmer himself to investigate how far it would be possible for him to take some direct part in the development of synthetics.'

Although this is unlikely to be feasible there are other, more realistic, alternatives. It is possible that the development of synthetics might strengthen the demand for “fresh food” unpolluted by artificial fertilizers, etc. the farmer who foresaw this and built up a reputation and a market for such produce would not suffer, but would actually benefit, from the development of synthetics.

The recent increase in the popularity of food grown using ‘organic farming’ methods is evidence of the potential for concentrating on a particular sector of the market (Barker, 1989).

2.1.5. Marketing management

Kotler (1972) a broader definition as “Marketing management is the analysis, planning, implementation and control of programs designed to bring about personal or mutual gain. First, it relies heavily on adaptation and coordination of product, price, promotion, and place for achieving effective response”.

Marketing management is the art and science of choosing target markets, getting, keeping, and increasing customers through creating, delivering, and communicating superior customer value (Kotler, 2003.).

It is coordinated planning, implementation, and control of marketing efforts. (Evans and Berman, 1990).

The marketing manager performs all those functions, which are performed by all other managers. Major aspects of these functions are: (1) setting marketing objectives, including sales targets (2) planning the marketing mix comprising the product, pricing, promotion, and distribution, (3) organizing, (4) staffing, (5) coordinating, (6) directing and (7) controlling.

2.1.6. Marketing performance

Marketing performance is defined as the way in which markets and marketing contribute to various aspects of economic performance. Performance criteria could be divided into two categories, namely those related to economic efficiency and other performance objectives.

The former group includes technical efficiency, operational efficiency and exchange efficiency, while the latter group includes innovation, inter-sectional resource transfer, equity, employment, and co-ordination efficiency (Scarborough and Kydd, 1992).

Performance expectations are based on a company's strategic goals, the standards that met or exceeded by leading marketers. Standards may be established on the basis of the company's vision for the future, historical company data and forecasts for future performance, or by benchmarking against key success factors in the industry. A firm established performance criteria consistent with its mission and objectives. Typically marketing managers are concerned with overall performance in five key areas as they apply to design and implementation of the marketing mix: profitability, productivity, liquidity, and leverage (Anderson and Vaincze, 2000).

2.1.6.1. Performance measures of marketing

Performance generally is controlled by measuring factors such as profitability, sales, market share, shareholder value, employee productivity, and customer satisfaction. Although variables are analyzed, managers usually consider a number of standards simultaneously that combine to provide an overall measure of performance. Even though the most common variables that are used to represent an organization's performance are quantitative (e.g., net profit, return on equity), many qualitative measures (e.g., customer satisfaction, attitude change toward the company or its products) are also considered in an overall assessment of performance. For example, a firm might consider the efficiency of its operation based on cost containment and contribution margins and the productivity of its personnel who make goods in the factory, sales people who call on the company's customers, or the rate of new product introduction in to the market. Qualitative factors that are more elusive, and hence more subjective, help management gain a better understanding of overall performance. For example, customer satisfaction, product quality (as it is perceived by the customer), and return on investment in advertising can be combined with quantitative factors in measuring performance (Anderson and Vincze, 2000).

2.1.6.2. Efficiency of marketing

Economic efficiency objectives is mainly concerned with the cost of performing several marketing functions, such as purchasing, transportation, storage, processing, exchange, etc. marketing efficiency is usually measured in the following ways: (a) technical efficiency (b) operational efficiency (c) allocative (exchange) efficiency (Solomon, 2002).

If a marketing system is allocatively efficient, consumer preferences are transferred without distortion to producers who will use such price information to make production decisions, which are allocatively efficient in turn. But the evaluation of the efficiency of an agricultural marketing system is seriously theoretically compromised in two aspects: the state of perfect competition does not actually exist, and there is thus no deinstitutionalized means whereby supply is supplied and demand demanded and in relation to which actually existing marketing systems can be evaluated; and the degree of pareto optimality of a market cannot be determined from analysis of single market alone (Scott, 1995)

Technical efficiency referees to the efficiency with which resources are used in marketing, in terms of physical input and out put ratios. A technically efficient firm, or market, produces the maximum possible out put from the input used, given location and environmental constraints, and it minimized resource inputs for any given level of output (Scarborough and Kydd (1992), cited in Solomon, (2002).

Operational efficiency is usually defined as the provision of goods, or services at least-cost and at a high level of output, or combination of inputs, which ensures that the value of marginal product equals marginal factor costs. Operational efficiency is also some times referred to as firm level allocative or pricing efficiency (Scarborough and Kydd, 1992).

Exchange efficiency refers to market-level allocative, pricing or economic efficiency and is both dependent on, and influential in, the above two efficiency criteria (Scarborough and kydd, 1992).

Economic efficiency implies that a firm and an industry are operating on the lowest cost basis feasible with the techniques, skills and knowledge available, and that the benefits of

all possible economies are reflected in the prices and margins prevailing in the market. Thus, all enterprises concerned with the marketing sequence must be continually on the lookout for new and better ways of performing their functions and providing services, and must adopt them as soon as they promise savings in cost (Abbott, 1958).

2.1.7 Marketing channels

Marketing channels are sets of interdependent organizations involved in the process of making a product or services available for use or consumption. Marketing channel decisions are among the most critical decisions facing management (Kotler, 2003). The sequence of intermediaries and markets through which goods pass from producer to consumer is known as marketing channel (Kohl and Uhl, 1985). The complex pattern of marketing channels and the part played by each in the total market movement can be shown best in flow charts (Abbott, 1958). The importance of the distribution function in marketing is apparent when one considers the magnitude of goods and services that are transported and sold at millions of locations though out the world. Many experts believe that the distribution decision is the most important marketing decision a company can make. The design of an organization's distribution system is a key factor in creating customer value and in differentiating one company's offering from that of another (Anderson and Vincze, 2000). As Anderson and Vincze (2000) noted, the field of distribution is made up to two distinct branches: channels of distribution and physical distribution. Channels of distribution consist of a network of intermediaries that manage a flow of goods and service from the producer to the final consumer. The success of this network depends on relationships among manufactures (producers), wholesalers, retailers, sales representatives, and others. As products move from one intermediary to the next, exchange takes place—exchange of physical goods, intangible services, and value added dimensions. Physical distribution activities include the actual movement of goods and services (i.e., logistics), with a focus on transporting and warehousing them.

A number of well tried and tested channels have been used throughout generations by farmers, and the most important of these will be considered from the point of view of their use for particular commodities, and their individual advantages and disadvantages (Barker,

1989). There are two particular marketing channels through which farmers dispose of their output. They are marketing channels used by farmers acting independently and in unison.

2.1.7.1. Farmers choice of marketing channels

All farmers must utilize marketing channels of whether they are production-oriented or market-oriented, if they produce goods, which are in excess of their domestic consumption. For some, this is simply a matter of routine, selling through the same outlets year in and year out. However, farmers are required to choose between various marketing channels in order to dispose of their produce. Possibilities certainly exist for the market-oriented farmer to improve his profit potential, if he is prepared to spend time deliberating over which marketing channel to use, and then makes his decision on the basis of sound economic motives (Barker, 1989).

2.1.7.2. Channels used by farmers acting individually

When a farmer operates as an individual in the market, his ability to influence that market is negligible. Despite this disadvantage, the bulk of agricultural produce is marketed by farmers acting independently through various outlets (Barker, 1989).

2.1.7.3. Marketing channels used by farmers acting in unison

One of marketing channels used by farmers acting in unison is cooperative. One of the main aims of cooperation is to reduce the inherent weaknesses of farmer who operates as an individual in the market, since the influence of the individual on the market is severely limited by the relative smallness of his scale of operations compared to the people with whom he is trading. This has long been held that if farmers act in the market, not as individuals, but cooperate in some way to market their produce in unison, and then there will be synergistic returns available because of the increased scale of operation. When farmers cooperate, there is a pooling of a variety of resources, including management and marketing competence and know how (Barker), 1989).

The rationale behind the legislation establishing farmers' rights to form cooperatives is that farmers generally market their crops to large, highly organized, commodity merchant firms or to large processing firms. Since these firms combine expertise and capital, farmers should be allowed to develop their own marketing firms in order to deal (complete) with them on equal footing (Douglass and Norvell, 1983).

2.1.8 Legal Organization of Business

From the standpoint of legal organization, there are three basic types of private business organizations in the free enterprise system: individually owned businesses; partnerships of two or more persons; and corporations. Corporations may be either profit-type (standard investor-oriented) or non-profit type (patron-oriented or Cooperatives). It may be just as well to classify the forms of business organizations as:

1. Individually owned businesses or sole proprietorships
2. partnerships
3. standard or regular corporations
4. Cooperatives

2.1.8.1 Cooperatives

2.1.8.1.1 Concepts of cooperatives

The international Cooperatives Alliance (ICA, 1995) defines cooperative, as “an autonomous association of persons, united voluntarily to meet their common economic and social needs through jointly-owned and democratically-controlled organization/enterprise”. In its own definition, the international Labor Organization (ILO) also points out that members accept a fair share of the risks and benefits of their cooperative undertakings (ICA-UN, 1995). A cooperative has been defined by the Central Council for Agricultural and Horticultural Cooperation as an “association of

producers/consumers who together can achieve some commercial objective more successfully than they can as individuals” (Barker, 1989).

A cooperative is a business voluntarily owned and controlled by its member patrons, and operated for them and by them on a nonprofit or cost basis. A cooperative enterprise belongs to the people who use its services, i.e., members control it, and its gains are distributed to the members in proportion to the use they make of its services.

It is organized and incorporated to engage in economic activities with certain ideas of democracy, social consciousness, and human relations included. A cooperative provides services and benefits for its members in proportion to the use they make of their organization rather than earning profits for the shareholders as investors. A cooperative is part of free enterprise, competitive, capitalistic system rather than a welfare agency or charitable and benevolent society. The primary goal of a cooperative is to meet members’ needs in an economical, efficient manner, whereas the goal in the investor-oriented corporation, the partnership, and the sole proprietorship is to maximize profits for the owners of the business (Marvin A., 1980).

The basic principles of cooperative societies as a form of self help and mutual help are the membership shall be open and not determined by religion, sex, race, political stand, or other considerations irrelevant to the objectives of the society, that the affairs of the society be controlled in a democratic manner on the basis of one man one vote, not in proportion to capital, that interest on capital be fixed, and the members benefit from the activity of the society in proportion to the business they do with it. In essence, membership is voluntary, based on mutual interest in removing disadvantage or achieving the desirable objective, and requiring a willingness and ability to conform the conditions agreed upon (Belshaw, 1959; cited in Zemen, 2005).

A true cooperative is defined as “a business voluntarily organized, operating at cost, which is owned, capitalized and controlled by a member patrons, sharing risks and benefits proportionally on their participation”. Cooperative may render at least four valuable

services at capitalistic system of which they are a part: (1) enhance private property, 2) preserve market competition, 3) retain profit motive and 4) maintain and strengthen the individual consumer and entrepreneur. The main purpose of the cooperatives is to make a profit for its patrons or users of the cooperative, not for its investors. The member of cooperative serves them selves. They are both the owners and users of the service. A contractual arrangement between the cooperative and the member patrons required that all margin above the cost of production be returned to the member patrons in proportion to their business with the cooperative (Roy, 1965).

2.1.8.1.2 Agricultural cooperatives

Being in the framework of the general cooperative concept, an agricultural cooperative represents an attempt by farmers, each of who has a different set of resources and perhaps goals, to integrate vertically in to the food and fiber system. The cooperative involves farmers, qua farmers, however; an elected board of directors, hired management, organized labor, government officials, bankers, and others may be involved in decision by cooperatives (Staath, 1965).

2.1.8.1.3 Agricultural marketing cooperatives

In agricultural marketing cooperative, farmers join together to market part, or all, of the produce of their holdings. The theoretical basis for such cooperation is related to three major factors.

1. Bargaining power: increasing farmers' bargaining strength, which is weak and disorganized in relation to buyers.
2. Marketing economies: reducing the cost of marketing by improving the efficiency of existing services, or achieving scale of economies in certain operations.
3. Market investment: providing an additional investment opportunity in marketing of a commodity or commodities covered by the cooperative is considered as an additional enterprise to those already carried out by the farmer (Barker, 1989).

2.1.8.1.4 Basic principles of cooperatives

Cooperatives in general have their own guiding principles and value concepts, such as self-help, self-responsibility, democracy, equality, equity, solidarity, honest, openness, social

responsibility, and caring for others. The guiding principles of cooperatives have been developed since 1937, (e.g., the first Rockdale cooperative principle). The latest version of the guiding principle is that of 1995 (ICA). The changes that have taken place in cooperative principles are summarized as follows:

Table 1 Cooperative Principles at various stages in different years

1934	1937	1967	1995
1. open membership	1. Open membership	1. voluntary and open membership	1. voluntary and open membership
2. Democratic control	2. Democratic control	2. Democratic control	2. Democratic member control
3. Patronage on purchase	3. Patronage on purchase	3. Patronage on purchase	3. members economic participation
4. Limited % on capital (if any)	4. Limited % on capital (if any)	4. Limited % on capital	4. Autonomy and independence
5. Political and religious neutrality	5. Political and religious neutrality	5. cooperative education	5. Education, training and information
6. Cash trading	6. Cash trading	6. cooperation among cooperatives	6. cooperation among cooperatives
7. Promotion of education	7. Promotion of education	-----	7. concern for community

As indicated, cooperatives have features and fundamental concepts, which distinguish them from ordinary corporations. In addition, the following distinctive principles identify business type cooperatives:

1. Control by member users-also called democratic control.
2. Operations on a cost-of –doing business basis that is, non-profit operations
3. Limited returns or dividends upon ownership capital.

Based on these principles and national cooperative proclamation; members manage and control the day-to-day activities of their cooperatives. In doing so, cooperatives had their own organizational structure and division of labor. The organizational structure of cooperatives could vary from one form of cooperatives to another. The structure may also

change depending on the level and strength of the cooperatives. The higher authority is owned by the general assembly, which constitutes all members of the cooperatives. The day-to-day marketing and other operational activities are decided and effected by the electoral managing committee or board. As per the strength and/or the level of cooperative, the committee or board will delegate a manager, who will be employed by the cooperatives to accomplish and manage the cooperative's undertakings.

Cooperatives are owned and financed by their members, who also are its customers. Their purpose is to provide services to members at the lowest possible cost and not to generate profit for the cooperatives as business entity. Profits are distributed to cooperative members based on how much the members used the cooperative, not on how much the members have invested in it (Marvin, 1998).

Members usually control cooperatives on a one-person, one-vote basis. By working together, cooperative members may be able to meet objective that would not be possible for them to do as individuals. Size is a key factor in gaining higher bargaining power in the market (Marvin, 1998). If done properly; a cooperative organization can create a competitive edge for farmers. Cooperatives are subject to the same limitation as many businesses. They face the same economic environment, and many of the same legal restrictions and interpersonal problems. However, some unique problems relate to the agricultural industry in general and specifically to cooperative organization (Mather and Preston, 1990).

Cooperatives peculiar characteristics as opposed to any other corporations could enable them out of such problems. These peculiar characteristics are known as primary operating procedures. According to Burt (1997), the basic principles underlying modern cooperatives include user-control concept and user-benefits concept. In the user control concept the controllers and users of a cooperative are one and the same. Members have a management role. Members' votes usually guide the cooperative's board economic decision making. In the user-benefits concept, the cooperatives sole purpose is to provide and distribute benefits to users based on the amount of their use

A cooperative is not a mere association. It is both an association and an enterprise. The enterprise aspect gives primary to the economic and business functions of cooperative. A cooperative enterprise comes into being when the participating members decide to establish a joint enterprise or undertaking, which is collectively operated. A cooperative aims at optimization of resource use and maximization of net returns to its members (Burt, 1997).

In a cooperative enterprise, there is direct relation between users and the enterprise, and the specific objective of the enterprise is the satisfaction of common users, user-sellers, user-purchasers and user-workers. The aim of cooperative is not to maximize the return on share capital, but to render service to owner-users at a minimum cost. It is, thus, a service enterprise as distinct from profit enterprise. A cooperative, like any other enterprise must seek out opportunity for expansion and diversification, so that it can coffer better benefits to members, i.e., it must strengthen its viability (Krisinaswami and Kulandaiswamy, 2000).

The efficiency of a cooperative enterprise is measured primarily, not in terms of return on investment, but in terms of quality, adequacy, and cost of service rendered to member users. For achieving the economic efficiency, cooperative organization must plan, organize, motivate and control its operation (Knapp, 2000). As any other enterprises do, cooperatives need to also periodically control and evaluate their marketing activities. There are basically four types of marketing controls in many companies including cooperatives, namely: annual-plan control, profitability control, efficiency control, and strategic control. However, in spite of a serious need to monitor and control marketing activities, many companies including cooperatives have inadequate control procedures (Kotler, 2003).

Market performance evaluation must combine various types of analysis that would provide the basis to analyze the functioning of the system, explain efficiencies, and asses the potential for and means of improving in relation to economic efficiency or other objectives. Firm organization, management structures, motivation and incentive arrangements, and decision making rules and processes were seen as having important influence on the efficiency of operations. This approach suggests that performance of marketing system can be analyzed by looking on the productive efficiency (the combination of technical and operational efficiency) of each firm in the system (Scarborough and Kydd, 1992).

In cooperatives, member's economic right is measured by the extent of his participation in undertakings business transaction, while his right of control is based on 'one member one vote'. In the division of surplus, the cooperative enterprise excludes share-based division and applies the rule of distribution in proportion to patronage. A cooperative is said to be successful, only when it achieves success in both enterprise and association aspects. It must, therefore, synthesize the association and enterprise characteristics.

Cooperation is a social philosophy, the ultimate aim of which is the creation of better social order and the economic betterment of the society. Cooperative is organized with the immediate objective of satisfying the needs of its members and the social system (community) in which it operates. A cooperative, therefore, directly aims at serving both its members and the community as a whole. Social responsibility is inherent in the very idea of cooperation. Cooperatives are not an end in them; but they justify themselves by their usefulness to society. By means of the service they render to the society, they make the community stronger (Knapp, 2000).

2.1.8.1.5 Cooperative movement in Ethiopia

2.1.8.1.5.1 Imperial regime

Modern cooperatives were introduced in Ethiopia soon after the Italian invasion of 1936. But, however, it was only in 1960s that cooperative was legally enacted (Federal cooperative Agency, 2005).

The Ethiopian Majestic Government attempted to organize the land-less people and the retired military into agricultural cooperatives through the Ministry of National Community Development in 1960. Accordingly the government issued also a farm workers Decree number 44/1961 to facilitate the organization of land-less people into cooperatives. However, it did not work well because the scheme met various problems that arose directly or indirectly from the then landlords who feared that the project/ scheme would eventually diminish the tenant work force on which they totally depend for cultivation. The plan was to organize about 20 cooperatives but it was accomplished only 2. As most of the land lords

were at the same time, part of the existing government machinery, it was not so disrupt any program that seemed to work against their interests (Yeshital and Zehirul, 1997).

However, a modern cooperative in Ethiopia was started first in 1961. During this time the first cooperative legal action was made and it is known by Decree number 44/1961. the main reasons for this decree was the increase in the number of unemployment, the fast increase of migration from rural area to urban, the increase in number of students who drop out of their education, and finally the disarmament of the military without proper compensation and pension. Mean while, in order to incorporate the international principles and regulation of cooperatives, the above decree was replaced by proclamation number 241/1961.

According to Wolday (2003), cooperative movements in Ethiopia started to accelerate in the late 1960s with the launching of the comprehensive agricultural development projects such as the Chilalo Agricultural Unit (CADU). According to yeshitla and Zehirul (1997), the employees of Ethiopian Airlines organized the first savings and credit unions (cooperatives) in the country in 1964. In 1966, the government issued a special proclamation for this type of cooperatives, which became popular among the formal sector employees. All primary credit unions were associated with Ethiopian Thrift and credit cooperative societies Ltd (ENTACCS) as national apex body. ENTACCS became a member of the African Confederation of Credit Unions (ACCOSCA) in the same year. The number of savings with credit unions continued to increase even after the abolition of the national apex body in 1975.

After the “Cooperative Societies Proclamation” of 1966, the modern cooperative began to emerge in Ethiopia. The third five-year plan (1968-1973) also placed great emphasis on the formation of cooperatives in the rural sector and multi-purpose agricultural cooperatives were considered to be among the best institutional forms for carrying out programs necessary for the development of peasant agriculture. The target of establishing new cooperatives was to create 300 new ones, of which 158 were formed. Out of 158, 98 agricultural multi-purpose cooperatives, 23 coffee growers cooperatives and the remaining were other types of cooperatives such as consumers, weavers etc.

During that time, relatively wealthy farmers who often employed land-less people as farm workers formed most agricultural coffee cooperatives. The main purpose of joining cooperatives at that time was to get loans for farm inputs, funds for processing and marketing of coffee. However, the coffee grower cooperatives were almost entirely engaged in marketing activities aimed at obtaining better prices for their members. But only a small portion of the marketed Ethiopian coffee was sold through cooperatives. Virtually no inputs were distributed to growers by these cooperatives.

Much cannot be said about these cooperatives, as they were practically at their infant stages by the time the Derg regime took over the leadership of the country. As it is well known the military government had destroyed all rural as well as urban institutions including the multi-purpose cooperatives that were replaced by new types of rural organizations in line with socialist doctrines.

2.1.8.1.5.2. Derg regime

2.1.8.1.5.2.1 Peasant Associations

Shortly after the revolution of 1974, Peasant Associations emerged as a result of proclamation (No. 71 of 1975) and proclamation number 138/78 issued by the military government on land reform and cooperative organization respectively. Peasant associations, the lowest form of administrative hierarchy were mainly formed to consolidate peasants' participation in political, economic and social activities of the nation. The peasant associations not only replaced the traditional rural administrative organs in regard to land distribution, land use, and local defense, but also, aimed at rural self-administration, cooperative organization, and villagization programmes. They were also engaged in assessing input needs and the distribution of inputs to the peasants (Yeshitla and Zehirul, 1997).

2.1.8.1.5.2.2. Service cooperatives

The proclamation on land reform and cooperative organization proclamation stipulated that service cooperatives were to be formed by 2 to 10 peasant associations. The objectives of the service cooperatives were mainly to provide the following services to the members.

1. Provide political education with a view to establish agricultural producers' cooperative societies,
2. Provide extension services,
3. Provide marketing services for the produce of members at fair prices,
4. Arrange loans for members at fair interest rates,
5. Provide storage and savings services,
6. Supply consumer goods to members according to needs, and
7. Supply improved agricultural implement and provide tractor services.

2.1.8.1.5.2.3 Producers' cooperatives

The Derg regime considered service cooperatives just as a first step of a massive "co-operatization" program, which ultimately aimed at transforming the rural economy into the socialist mode of production. Therefore, the individual farmers were encouraged to form producers' cooperatives with collective ownership of production.

The organization and stage-by-stage development of producers' cooperatives was elaborated in the 1979 directives of agricultural producers' cooperatives. There were three stages as per directives:

1. Malba – (Primary)
 2. Wolba – (Advanced), and
 3. Weland – (Union of Wolbas)
-
1. Malba: It required transferring private holdings of land to communal holding leaving 1/5th of a hectare, for individual cultivation. Draught animals and farm implements were to remain private property and the cooperative would pay rent to owners.

2. Wolba: In the advanced producers' cooperatives, all land holdings becomes communal holding and all animals and implements are transferred to cooperatives. The farmers can individually cultivate up to 1/10th of a hectare. All members or a minimum of 30 members of peasant associations could form advanced cooperatives.
3. Weland: It was a union of advanced agricultural producers' cooperatives having an average land holding of 4000 hectares and membership of 500 peasants.

Generally, the peasant does not like the idea of producers' cooperatives. Peasants in fact were forced to set-up such cooperatives. The dislike for these kinds of cooperatives could be witnessed immediately after the declaration of the economic reform program in 1990, which stipulated, "The organization of the cooperatives was not based on the absolute democratic decision of the members". The result was that some of the service cooperatives and almost all of the producers' cooperatives were brought to an end by their own members. The steps taken by the cooperative organization clearly indicates that any form of organization without the full and direct participation of the beneficiaries will never be successful (Yeshitla and Zehirul, 1997). However, up to 1990 there were 10,524 different types of cooperatives with 4,529,259 members and total capital of Birr 465,467,428 throughout the country. From these cooperatives, 80 percent were rural cooperatives (Zemen, 2005).

2.1.8.1.5.3 Present regulation

2.1.8.1.5.3.1 Preliminary period

During the change of Derg regime by the present government of 1991, the negative view towards cooperatives was manifested in the actions of the farmers looting and destroying of the properties and records of their cooperatives. According to Dessalegn (1994), more than 24 million Birr was misappropriated by those cooperatives, which the Ministry of Agriculture had audited. The audited cooperatives were certainly not more than 25%.

2.1.8.1.5.3.2 Present time activities

The current free market economic policy believed on the importance of the cooperatives. Further more, the cooperatives are expected to perform a great role in the marketing of goods and services to satisfy the needs of producers and consumers.

The present government issued a proclamation on agricultural cooperatives societies named proclamation number 85/94 in 1994 (Yeshitla and Zehirul, 1997). This proclamation incorporates the international cooperative principles; however, its focus was only to solve the rural cooperatives problems. In addition there was no separate entity to support these cooperatives both at federal as well as regional level (Zemen, 2005).

At present, cooperatives are playing significant role in the rural Ethiopia economy specially, in the area of input supply, saving and credit, coffee and cereal marketing. The establishment of cooperative unions in coffee and cereal growing areas, as well as the start up of cooperatives Federation in areas of grain, coffee, dairy and saving & credit activities is a great deal achievement to improve the agricultural marketing system in the country in general, and increasing the livelihood of the farmers and the general citizens in particular.

The present times economic policy and rural development strategy of the country, cooperatives are taken as pertinent institutions or tools to advance the livelihood of the general population. To realize this responsibility, the process of cooperative policy formulation becomes an important factor to organize and promote cooperatives as to participate in the economic (marketing) activities of the nation in the future.

2.2 Empirical studies on cooperatives

Before market liberalization program of 1990, a few studies were undertaken on cooperatives and marketing cooperatives. Asmare (1989) concluded that, the factors of production employed in producer's cooperatives were inefficiently used. Inefficiency includes under utilization of labor, fertilizer and capital expense and size groups. However, positive marginal value products of input indicated that the potential for the improvement of the efficiency level and for maximizing the growth of income of the producer's cooperatives was high.

Gentensh (1988) examined how proper record keeping and audit reports will help the farmer in analyzing the management performance of his enterprise efficiency, and concluded; cash and non-cash inflows and outflows should be distinguished. The gross return should be broken down by major products, expense should be allocated to different sub-headings avoiding rather large amount of “miscellaneous” expenses.

Admasu (1998) analyzed the performance of coffee marketing system with the aim of evaluating the overall performance of coffee marketing and concluded that there was marketing inefficiencies prevailing in the system. He has also summarized that the pricing inefficiencies, lack of standardizations at rural market centers, lack of appropriate price information system, abnormal profit in marketing, lack of short run integration between central and local prices.

Mulat and Bekele (1995) analyzed market integration using secondary and primary data and indicated that food grain marketing efficiency need to be improved through a combination of several policy measures; improving infrastructure, like road, providing price information, checking the activity of unlicensed intermediaries.

Tesfaye (1995) analyzed the role of producer’s cooperatives for agricultural development, and concluded that, the existence of authentic and effective rural peasant organizations is indispensable to ameliorate the problems that have been identified as major obstacles to Ethiopia’s agricultural development, such as limited access to agricultural credit, inefficient input delivery system, low price of agricultural produce, poor infrastructure and weak research-extension linkage. So organizing farmers is not of the past. Peasants’ still exist in different forms though they are being used by the traditional government for political purposes and peasant cooperatives are reviving.

The Ethiopian Herald (1995) cited in Tesfaye (1995) explore that some peasant cooperatives in coffee growing regions of Oromiya and the southern Ethiopia Regions had been reorganized and have success stories. In a way, it was commented that their

performance could be a model to those, which are yet aspiring to pool their resources and form cooperatives.

Stephen McCarthy(2007) made a case study on Ethiopia's coffee cooperatives and concluded some of the main constraints facing smallholder coffee producers like: poverty, illiteracy, lack of understanding on the parts of administration of policy environment needed for successful integration of rural producers, business environment and provision of service favors upper end of the value chain, globalization(rapidly changing market environment), poor vertical and horizontal linkages in industry, economies of scale poor infrastructure and lack of trained personnel are major constraints in coffee marketing cooperatives in Ethiopia.

Besides, the same study further indicated that specific market problems facing rural producers as price volatility, over supplied market (130m bag supply Vs 113m bag demand), market domination of buyers, broker driven market linkages (old relationships) little production differentiation, no producer incentive for quality (commodity driven market), producers lack of market information, awareness and requirements (demand driven market) were found to be critical.

Demeke (2007) analyzed the performance of coffee farmers marketing cooperatives and level of members' satisfaction in Dale wereda of SNNPRS, and found that the performances of the coffee farmers' cooperatives were inefficient and the members were found to be dissatisfied with the services rendered by their respective cooperatives resulting in poor participation

The overall conclusion of this review is that previous studies of cooperatives have focused on producer's cooperatives and no in-depth empirical study has been conducted on coffee marketing cooperatives in Ethiopia. This study, therefore, try to address information gap on the performance of coffee marketing cooperatives and members satisfaction in Yirgacheffe and Wonago weredas, found in the Gedeo zone, Southern Nations Nationalities and Peoples Regional State (SNNPRS).

2.3 Marketing margin

Each market participant generally should obtain some profit margin. The services of various agencies constituting a marketing channel are remunerated out of the marketing ‘margin’. This term is used to denote the difference between the price paid to the first seller (producer) and that paid by the final buyer. It is made up of individual margins obtained by intermediaries who actually assume ownership of a product and then resell it, together with specific charges for marketing services rendered. In general terms, marketing margin refers to price difference between any two stages in the marketing system (Abbott, 1958).

The total marketing margin in the coffee marketing system constitutes the marketing costs plus profit earned (mark-up price) by different actors in the system (Tadesse, 2006).

2.4 Theoretical framework

Structure-conduct-performance (S-C-P): S-C-P is one of the most common and pragmatic methods of analyzing a marketing system. It analyzes the relationship between functionally similar firms and their market behavior as a group and is mainly based on the nature of various sets of marketing attributes, and relations between them and performance (Scarborough and Kydd, 1992). This analytical method is based on the theory that market structure and market conduct determines the performance of a marketing system.

The relationship between structure-conduct-performance parameters.

-Buyer and seller	-price policy	-Allocative efficiency
Concentration	-Output policy	-Technical efficiency
-Product differentiation	-Legal tactics	
-Barriers to entry	-Advertising policy	

Source: Wolday, 1994

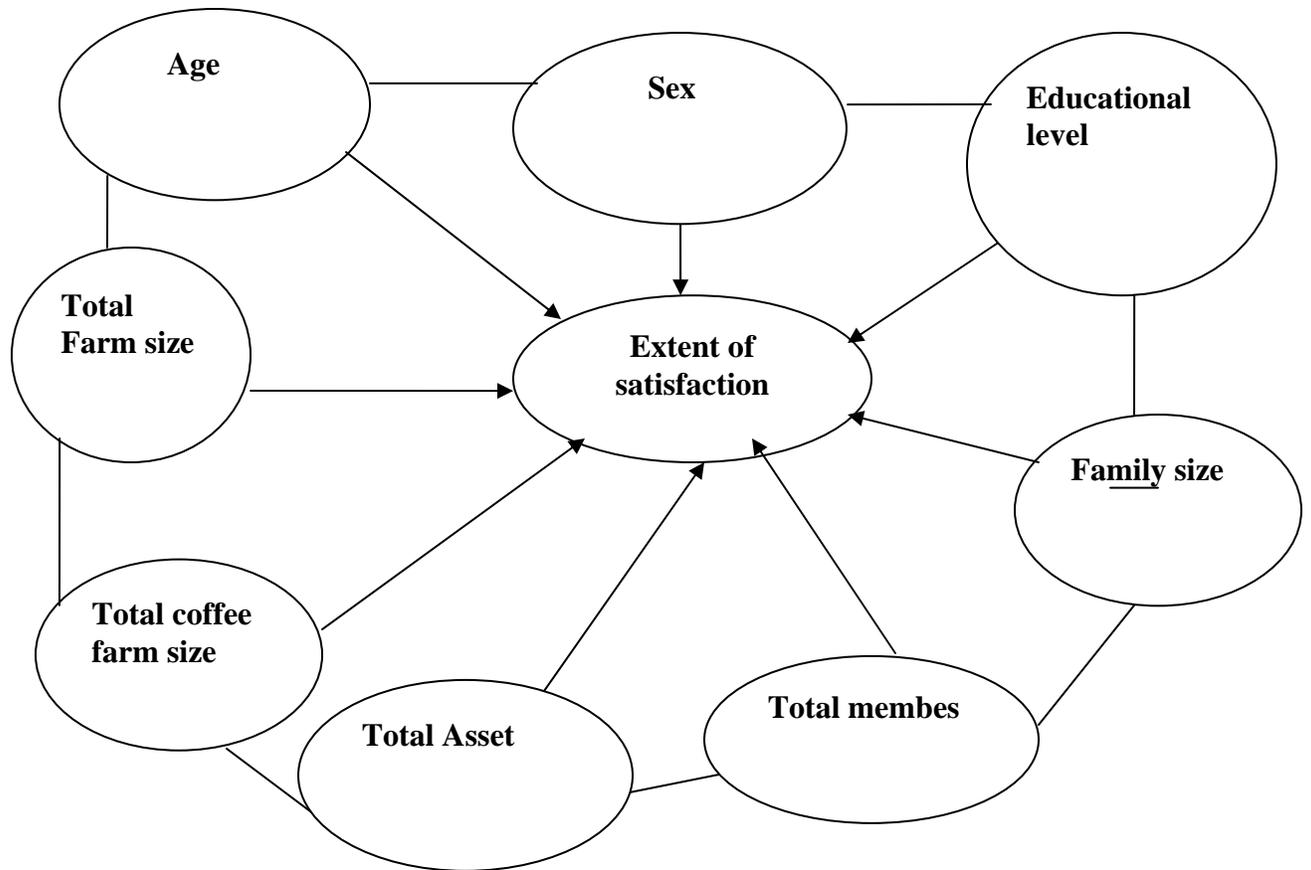
All the three parameters do not have unidirectional movement, but rather have an interdependent relationship as shown in above. Hence market structure does not only influence market performance but also has an impact on market conduct. Furthermore, the performance also affects the development of market structure and market conduct. The later emits a similar effect on the structure of the marketing system. The factors that count for efficiency can also be evaluated by examining marketing enterprises for structure, conduct and performance.

Structure: market structure includes all the firms engaged in a particular marketing channel. There are two strategic features. The first is the number and relative size of the firms involved. Is one or two so large as to determine the others? The second is the business relationships between them. Are they independent or interlinked in ownership and management? Are they connected by formal contracts or informal understandings?

Conduct: this refers to the market behavior of these firms. In what ways do they compete? Are they looking for new techniques and do they apply them as early as practicable? Are they looking for new investment opportunities, or are they disinvesting and transferring funds elsewhere.

Performance: this is an assessment of how well the process of marketing is carried out and how successfully its aims are accomplished. Is produce assembled and delivered on time and without wastage? Is it well packed and presented attractively? Is its quality reliable and are contracts kept? There are many such practical indications of how well a certain marketing system is operating (Abbott and Makeham, 1981)

2.5 (Fig. 1) Conceptual Frameworks



CHAPTER III: MATERIALS AND METHODS

The objective of the present chapter is to discuss the choice and interpretation of appropriate methodology to understand the physical and socio economic features of the study area.

3.1 Description of the study area

The study was conducted in the Southern Nations Nationalities and peoples Regional State (SNNPRS), Southern Ethiopia.

Figure2. Location of the study area (map of Ethiopia)

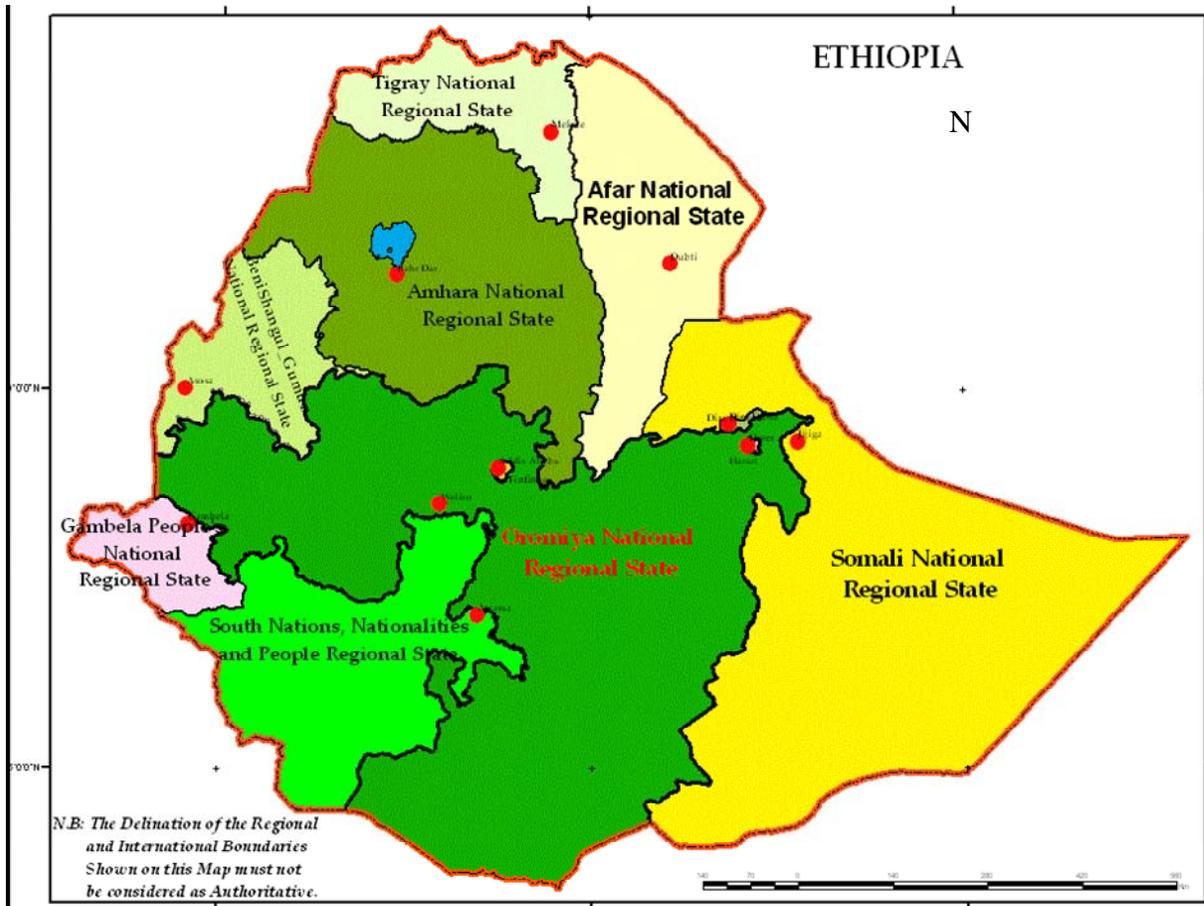
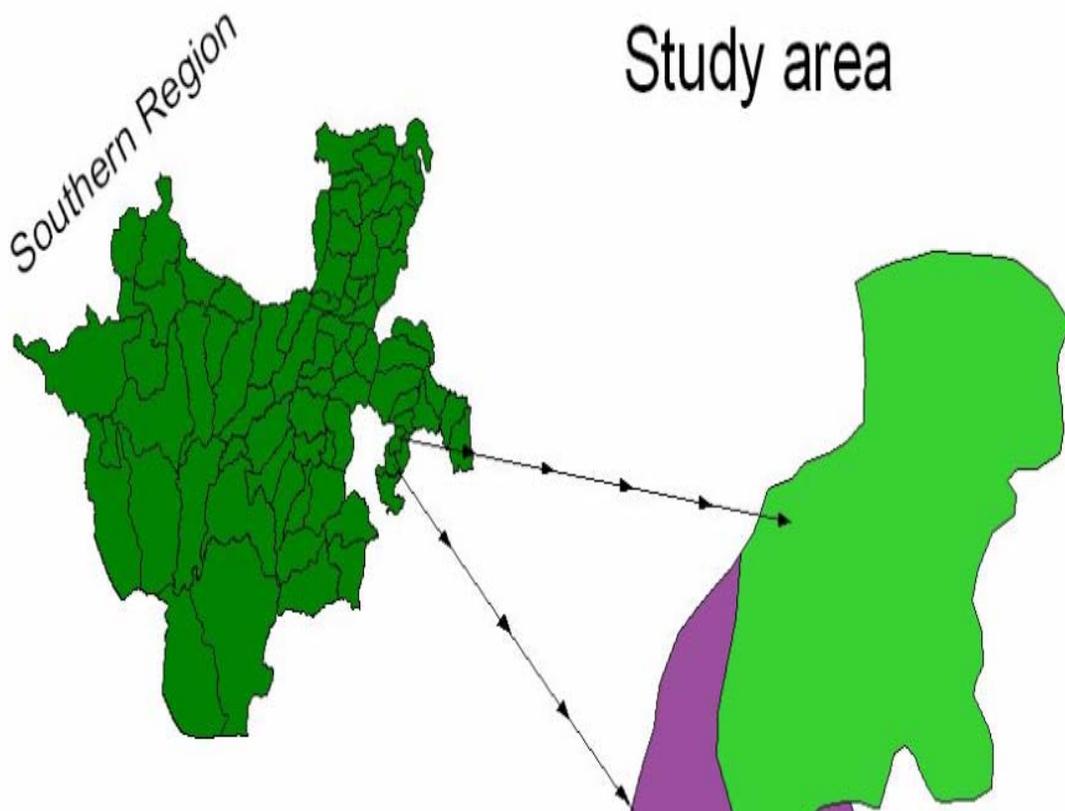


Figure2. Location of the study area (map of SNNPRS and Woredas)



SNNPRS is one of the Ninth Regional States in Ethiopia, located between 40°27' - 80°30' Latitude North and 34°21' - 39°11' Longitude East. The Regional Capital is Awassa, 275 km South West of Addis Ababa.

SNNPRS borders are, Kenya to the south, the Ilemi Triangle (a region claimed by Ethiopia, Kenya, and Sudan) to the southwest, Sudan to the west, the Ethiopian region of Gambela to the north, the Ethiopian region of Oromia to the north and east. Besides Awasa, the region's major cities and towns include Arba Minch, Bonga, Chench, Dilla, Yirgalem, Mizan Teferi, Sodo, Wendo, Hosana, Wolkite, Worabe and Butajira.

Based on figures from the Central Statistical Agency of Ethiopia (CSA) published in 2005, the southern Ethiopia or SNNPR has an estimated total population of over 15 million. Close to 90% of the population is estimated to be rural inhabitants like all other regions in

the country, while about 10% is urban. With an estimated area of 112,343.19 square kilometers, this region has an estimated density of 132.65 people per square kilometer making it one of the most densely populated regions in the country.

The SNNPR, being an amalgam of the main homelands of numerous ethnic groups, contains over 56 indigenous ethnic groups.

The region is well known in coffee production and marketing by contributing 40% of the total coffee production of the country. Among the 6 coffee farmers' cooperative unions, 5 of them belong to SNNPRS, and their total primary coffee farmers' marketing cooperatives are 107 with the individual members of 142,017 out of 851,457 of the region. In general the region has 1453 different types of primary cooperatives and 19 unions participating in the development process of the region in particular and the nation in general.

Gedeo zone is one of the thirteenth zone in SNNPRS has a total area of about 134,700 hectare and found 400km south west of Addis Ababa and 115km of Awassa. The zone has six woredas, namely, Yirgachefee, Bule, Gedeb, Wonago, Kochere and Dillazuriya.

According to Gedeo Zone Agriculture and Rural Development Department (GZARDD) 2006, the climatic condition of the study area is humid (dega), semi-humid (Woinadega) and arid (Kola) agro-ecological zones accounting for 32.05%, 67.30% and 0.65% of the zone, respectively. The altitude of the zone ranges from 1350 to 3250 masl and has an average annual rainfall ranging from 760 to 1800 mm.

The total number of farm households in the zone is about 158,444 with a total population of 819,873 (116909 or 14.26 % Urban and 700,964 or 85.47% Rural) of which 51.3% of the population is active (15-64 age) and 49.7% is under the age group of less than 15 years and greater than 64 years old. The major cereal crops grown in Gedeo zone are maize, teff, sorghum, wheat, barley and perennial crops produced mainly include coffee, sugar-cane, avocado, mango and banana. Vegetables, such as potato, sweet potato, garlic, pepper and enset (false banana), are also grown in the zone.

According to ARDD (2006) major household land holding less than 0.5ha (53.5%), 0.5 to 1.0 hectare is about 18.9% and above 2.0 hectare is 7.8%. Overall the total cultivated land is 107,160 hectare of which 62,104.4 ha is covered by coffee.

In Gedeo zone, there are 23 primary coffee farmers' marketing cooperatives distributed in all the six wereda, namely, Yergacheffe seven, Wonago six, Dilla zuriya four, Kochere three, Bule one, and Gedeb one, out of the zone one. With the aim of securing better price in coffee market and entering into export marketing, these primary cooperatives have formed secondary coffee marketing cooperative or a union. The union has opened an office in Addis Ababa for the purpose of facilitating market positioning, especially coffee exporting activities. In the study woredas, there are 13 primary coffee marketing cooperatives.

Table2. Primary coffee farmers' marketing cooperatives in Gedeo Zone as of April 2007.

.No.	Name of woreda	Name of primary cooperatives	yield in tones	farm size in ha.	Membership		
						Male	total
1	Wonago	Addis ketema	1749	2799	237	1821	2058
2	„	Belekaara	2116	3386	189	2301	2490
3	„	Kello	2301	3681	248	2459	2707
4	„	Resa	3183	4933	204	3423	3627
5	„	Haseharo	2060	3296	106	2318	2424
6	„	Finchewa	2870	4800	9	1720	1729
7	Gedeb	Worka	381	100.4	105	290	395

8	Amaro	Amarokele	886	2979	74	696	1043
9	Kochere	Hama	1584	2223	65	1799	1864
10	„	Boloya	1389	3397	42	1593	1636
11	„	Sigiga	2441	1418	90	2782	2872
12	Bule	Adadi	2498	2105	90	2849	2939
13	Dilla Zuriya	Dama	1316	2127	109	1439	1548
14	„	Michle	1862	2979	160	2031	2191
15	„	Chichu	1329	2127	188	1376	1564
16	„	Tumticha	1792	2868	128	1981	2109
17	Yirgacheffe	Aamaro	1070	1322	117	1142	1259
18	„	Dumerso	1513	2420	33	1747	1780
19	„	Konga	1182	1712	78	1313	1391
20	„	Edido	1573	2535	162	1689	1851
21	„	Koke	1430	1892	133	1550	1683
22	„	Hafursa	826	2289	22	905	972
23	„	Haru	1719	2717	237	1821	2058
	Total	23	39000	62,104.4	2826	41,363	44,189

Source: YCFCU, Annual Report 2006.

3.2 Data Requirements and sources

Both secondary and primary data on a wide variety of variables are used to meet the objectives of the study. The study requires a large variety of information that will enable to know the performance of coffee marketing with particular reference to primary coffee farmers' marketing cooperatives and/or the services offered by the cooperatives to their

members and the satisfaction of the same. Information was collected based on recording of the day to day activities, information exchange and treatment, time series data of (purchases, sales, members (composition), prices, assets, liabilities, credits taken, repayments, dividends, profits/ losses and defaults was collected from cooperatives audit reports and relevant offices, such as Cooperative promotion Offices, Rural Development and Agricultural Offices, etc.

3.3 Sampling Techniques used

As long as sampling techniques are concerned, a multistage random sampling procedure was followed in the study as indicated below.

SNNPRS is one of the nine National Regional States in Ethiopia, has 13 zones and eight special woredas.

From the 13 zones and eight special woredas of SNNPRS, Gedeo zone had been selected purposively for the study for the following reasons.

1. It is the most unique organic coffee producing area,
2. The Zone has Great potentials for market oriented development,
3. To some extent, it would be helpful to solve communication problems during conducting research as SNNPRS is a region with more than 56 languages and nationalities, and
4. The zone is the pioneer in the history of coffee farmers' marketing cooperatives

From the Gedeo zone which has six woredas, namely, Yirgachefee, Bule, Gedeb, Wonago, Kochere and Dillazuriya, two woredas (Yirgachefee and Wonago) were selected at random, which was 33% of the total woredas of the zone.

For the purpose of assessing performance of primary coffee marketing cooperatives and identification of factors influencing the same, Yergacheffe and Wonago woredas were selected randomly as mentioned above. The two woredas have 13 coffee farmers' marketing cooperatives out of the 23 primary coffee farmers' marketing cooperatives of the zone. From the 13 primary coffee farmers' marketing cooperatives of the selected

woredas, five (5) primary coffee farmers’ marketing cooperatives were selected randomly. For the purpose of assessing the satisfaction of the members’ of primary coffee farmers’ marketing cooperatives, 120 individual members were selected at random on the basis of proportionate to size.

3.4 Selection of Primary Cooperative Societies & Individual Respondents:

Table 3.Selected respondents.

S.No.	Name of Woreda	Selected Primary cooperatives	Total Members	Total Sample size (1.12%)
1	Yirgacheffe	Edido	1851	20
2	..	Haru	2058	23
3	..	Aamaro	1259	14
4	Wonago	Addisketema	2058	23
5	..	Resa	3627	40
Total	2	5	10,853	120

3.5 Methods of data collection

The required secondary data was collected from diverse secondary sources including primary coffee marketing cooperatives and from cooperative union, Agricultural Bureau of the region and Yirgacheffe and Wonago Woredas Cooperative promotion Office, Gedeo Zone Agriculture and Rural Development Department (GZARDD), Gedeo Zone Marketing office, Gedeo Zone Finance and Economic development department, Gedeo zone cooperative promotion office, Customs Office, Federal cooperatives Commission, National Bank of Ethiopia, Coffee, Tea and Spices Department, Coffee Liquoring Center and IPMS_ILRI. In the collection of secondary information, check list was used.

Most of the data related to the performance of the cooperatives was collected for seven years for each of the selected 5 primary coffee marketing cooperatives. An informal discussion was also conducted with the cooperatives; members, officials, and other key informants.

Primary data required for the assessment of member's satisfaction with the services of the cooperatives was collected from sampled members of the sampled primary cooperatives and the data was collected using structured interview schedule (A).

In addition to collection of primary data from 120 member respondents of primary coffee marketing cooperatives using structured interview schedule (A) , another group of 40 officials of coffee marketing cooperatives were selected for interview using a semi structured interview schedule (B), to collect other data regarding to marketing channels, performance of cooperatives and opportunities and challenges in coffee marketing, Focused group discussions(FGDs) was also conducted with coffee traders who are non-members of the primary coffee marketing cooperatives.

The tools were pre-tested and its contents were refined on the basis of the results obtained during the pre-test. In the process, five enumerators were used. These individuals were recruited and trained on interviewing techniques and the general approach to respondents. Researcher himself was closely supervising them during data collection period.

3.6 Methods of data Analysis

This study was basically used three broad categories of data analysis, namely ratios, descriptive and econometric.

3.6.1 Performance criterion and measures

The first objective is addressed by analyzing different performance measures. Measurement of performance involves knowing how far actual performance is consistent with planned performance or with standards already established. Measurement of actual performance does not mean merely knowing what has happened. It should also include why that has happened, deviation between actual and planned (standard) should be identified so that corrective actions could be initiated (Mamoriea, et al., 2003). Marketers today are showing a growing interest in developing better marketing metrics for measuring marketing performance (Kotler, 2003), lists four types of marketing control needed by companies including cooperatives: annual-plan control, profitability control, efficiency control, and strategic control.

A firm establishes performance criteria consistent with its mission and objectives. Typically, marketing managers are concerned with overall performance in five key areas as they apply to design and implementation of the marketing mix: Profitability, Activity, Productivity, liquidity, and leverage (Anderson and Vincze, 2000).

Although attempt will be made to use all types of marketing performance control techniques, the performance of the coffee marketing cooperatives in the study woredas was analyzed with special reference to financial analysis due to time and information constraints. In the process, from the audit reports of the cooperatives, the balance sheet and profit and loss statements were used to calculate key performance criteria.

Marketers are increasingly using financial analysis to find profitable strategies beyond sales building (Kotler, 2003). The researcher uses financial analysis to identify the factors that

affects the cooperative's rate of return on total assets. The return on total asset is the product of two ratios, the company's (cooperative's) Net profit margin (Net profits per Net sales) and its Asset turnover (Net sales per total Assets) (Kotler, 2003). Similarly, (Anderson and Vincze, 2000), confirms that the return on assets relates profits to the assets required to produce them, i.e., return on assets is net profit/total assets. In general, the larger this ratio, the better is the marketer's (cooperatives) performance.

3.6.1.1 Ratio analysis

Ratios can be used as one tool in identifying areas of strengths or weaknesses in cooperatives. Financial ratios enable to make comparison of cooperative's financial conditions over time or in relation to other cooperatives. Ratios were calculated from the audit reports of Coffee Marketing Cooperatives.

3.6.1.2 Financial Ratios of the coffee marketing cooperatives

From the audit reports of cooperatives, balance sheets and income statements were used to analyze financial ratios. The most well-known financial statement is the balance sheet. It gives a view of the assets and liabilities of the cooperative at the end of each accounting period.

The income statement summarizes the revenues and expenses of the cooperative during each accounting period and shows the result of the operation of the cooperative during the period.

The financial ratios were calculated using the most significant financial ratios allows forming a judgment about the efficiency of the cooperatives, the return on key aggregates (income ratios) and its creditworthiness.

Efficiency ratios

The efficiency ratio enables to form judgment about the efficiency of the cooperatives. It provides measurements of asset use and expense control.

One of the efficiency measurements is inventory turnover. It measures the number of times that an enterprise turns over its stock each year and indicates the amount of inventory required to support a given level of sales (Gittinger, 1982).

The ratio can be computed in the form given here, the cost of goods sold is divided by the inventory.

$$\text{Inventory turn over} = \frac{\text{Cost of goods sold}}{\text{Inventory}} \text{-----Eq (1)}$$

Low turnover ratios mean that a cooperative with large stocks on hand find it difficult to sell its product, and this may be an indicator that the management is not able to control its inventory effectively. A high turnover ratio may mean that the cooperative is able to reconvert its inventory investment rapidly and that there is a good demand for its products. The other important efficiency ratio used to measure the efficiency of cooperative was operating ratio. It is obtained by dividing the operating expense by the revenue.

$$\text{Operating ratio} = \frac{\text{Operating expense}}{\text{Revenue}} \text{-----Eq (2)}$$

The operating ratio is an indicator of the ability of the management to control operating costs, including administrative expenses (Gittinger, 1982). If the ratio is increasing, it may mean that the cost of raw material is increasing, that the management is having problems in controlling costs.

Income Ratios

Income ratio is used to judge net income or profitability-return on sales, return on equity, and return on assets.

The return on sales shows how large an operating margin the enterprise has on its sales. This is determined by dividing the net income by the revenue.

$$\text{Return on sale} = \frac{\text{Net income}}{\text{Revenue}} \quad \text{----- Eq (3)}$$

Lower return on sale indicates that the cooperatives were making lower operating margin and greater sales must be made to make an adequate return on investment.

One of the most important ratios is the return on equity (Gittinger, 1982). It is obtained by dividing the net income after tax by the equity.

$$\text{Return on equity} = \frac{\text{Net income}}{\text{Equity}} \quad \text{-----Eq (4)}$$

The larger ratio is related to effective use of the owners' capital (Anderson and Vincze, 2000).

The earning power of the assets of an enterprise is vital to its success. A principal means of judging this is to determine the return on assets (Gittinger, 1982). Profits, the amounts of money left for the marketer after paying all expenses, was calculated relative to other indicators, such as sales, assets, and capital of the cooperatives (Anderson and Vincze, 2000). The same authors utilize rate of return on asset for profitability ratio. With the same ratio it is taken to analyze cooperative performance. The formula for rate of return on assets is:-

$$\text{Return on total asset} = \frac{\text{Net income}}{\text{Total asset}} \quad \text{Eq (5)}$$

A crude rule of thumb is that, once the enterprise is operating at normal capacity, the return on asset should exceed the cost of capital in the society as measured by, say, the bank lending rate to industries-provided that there is no interest subsidy (Gittinger, 1982).

Creditworthiness ratios

The purpose of creditworthiness ratios is to enable a judgment about the degree of financial risk inherent in the enterprise before under taking a project. The ratios that measures credit worthiness include liquidity ratio (e.g., current ratio) and leverage management ratio (e.g., debt-equity ratio).

Liquidity ratios

As day-to-day operations are directly affected by the cooperative's degree of liquidity, they must remain liquid. Liquidity ratios are quick measure of cooperative's ability to provide sufficient cash to conduct business and settle its debts in the short run. According to Nevue (1985), Bringham et al. (2003), cited in Daniel, (2006) one of the most commonly used liquidity ratio is the current ratio that is computed by dividing current asset by current liabilities.

$$\text{Current ratio} = \frac{\text{Current asset}}{\text{Current liability}} \quad \text{Eq (6)}$$

A rule of thumb sometimes applied to the current ratio is that it should be around 2 (Gittinger, 1982).

Financial leverage management ratio

The relationship between a firm's assets and debt position can be evaluated with leverage ratios. Whenever cooperative finances a portion of asset with any type of financing such as debts, the cooperative is said to be using financial leverage. According to the above authors, financial leverage and recommends the debt ratio to evaluate marketing firm's performance. The formula for determining debt to equity is total liabilities/net worth (net capital).

$$\text{Debt-equity Ratio} = \frac{\text{Total liabilities}}{\text{Net worth}} \quad \text{Eq (7)}$$

There is no good rule of thumb for the debt-equity ratio. It depends on the enterprise ownership type and national objective. In agricultural projects, enterprises are likely to need a strong equity base (Gittinger, 1982).

3.6.2 Market Channels and margins

The analysis of marketing channels is intended to provide a systematic knowledge of the flow of the goods and services from their origin (producer) to their final destination (consumer). The price the consumer pays for the goods and services rendered compensates the marketing agent for his efforts. This price also serves as a signal to all the actors in the marketing channel, i.e., producers, rural assemblers, transporters, wholesalers, and retailers (Mendoza, 2002).

Taking the cooperatives and other intermediaries as links in coffee marketing channels, attempt was made to compute total gross marketing margin (TGMM). This is the difference between the prices paid to the first seller and that paid by buyer.

$$\text{TGMM} = \frac{\text{End buyer price} - \text{producer /seller price}}{\text{End buyer price}} \times 100$$

It is somehow useful to determine the portion of the price paid by the consumer that goes to the producers. The producers' margin is calculated as:

$$\text{GMMP} = \frac{\text{Price paid by end buyer} - \text{Marketing gross margin}}{\text{End buyer price}} \times 100$$

Marketing Agents

Some traditionally accepted definitions help to identify and classify participants in the marketing processes.

The fourth objective was addressed and discussed using the information collected from the field through formal and informal discussion with coffee cooperative members and management committees. In addition to assessment of the procedures of overall activities of the cooperatives, the study tried to identify the challenges they face and identify some possible market opportunities in due course.

Using descriptive statistics, it is also possible to clearly compare and contrast different characteristics of the sampled households along with the econometric model. Hence, descriptive statistics such as mean, standard deviation and percentage were computed to analyze the collected data. T-test and χ^2 -test were also employed for analysis.

3.6.3 Specification of econometric models

3.6.3.1 Mult-nominal probit Regression Model

In the bivariate logit or probit models the modeling process used were yes or no response binary variables. But often the response variable, or regress and, can have more than two outcomes and very often these outcomes are ordinal in nature; that is, they cannot be expressed on an interval scale. To study such phenomena, one can expand the bivariate logit and probit models to take into account multiple ranked categories (Gujarati, 2003). Gujarati (2003) recommends using multistage normal and logistic probability distributions to allow for the various ranked categories.

The attention of this research objective is the relationship of the overall satisfaction level of members of primary cooperatives with various types of socio-economic variables. Some of the variables include educational background, age of the household, terms of payment, farm size of the household, participation of members to various decisions making in their cooperatives, sex, and capital of the cooperatives. As the dependant variable i.e., satisfaction and cooperative services are a discrete qualities, the right modeling specification would be a multi-nominal regression model. This model is more appropriate when the dependent variable has more than two outcomes and the outcomes can be ranked orderly (Gujarati, 2003).

According to Anderson and Vincze (2000), customer expectations about the types of services that should be offered and their criteria for performance of these services have a major impact on the level of satisfaction or dissatisfaction felt with the total purchase and sale experience. This can be represented as:

$$\text{Customer Satisfaction} = (\text{Service expectations} - \text{perceived service performance})$$

The attention of this specific objective in this study was to analyze the relationship of the overall satisfaction level of members with various kinds of services and rating of the overall performance of their coffee marketing cooperatives.

The satisfaction of members' with their primary cooperatives could, thus, be specified as:

$$Y_i^* = B'X_i + U_i$$

Where: Y_i^* - dependent (response) variable,

B - Vector of coefficients to be estimated,

X_i - vector of socioeconomic variables, and

U_i - random error

Since the response variable Y_i^* is not observed, the degree of satisfaction S_i that a member is achieving is computed as an index. On the basis of the computed value, it is possible to know to which category each member will belong. If satisfaction categories are specified as, very satisfied (S_1), moderately satisfied, and satisfied (S_2), and dissatisfied and very dissatisfied considered as (S_3)

$$\text{Where: } S_i = S_{1i}, \text{ if } -\infty < Y_i^* < \mu_1$$

$$S_i = S_{2i}, \text{ if } 0 < \mu_1 < Y_i^*$$

$$S_i = S_{3i}, \text{ if } \mu_2 < Y_i^* < +\infty$$

Where: μ_s are the unknown threshold for the underlying response variable. In order to assess factors influencing members' satisfaction of primary coffee marketing cooperatives, a probit regression model will be used. Such a model may take the following form:

$$S_i = \alpha + \gamma Z_i + V_i$$

Where: S_i – Extent of member's satisfaction

α - Constant term

γ - Vector of coefficients to be estimated

Z_i – vector of independent variables

V_i – Error term

In addressing the third objective of the study, coffee marketing intermediaries including coffee cooperatives involved in coffee marketing channels and margins were described and assessed.

3.6.3.2 Definition of Variables

In the process of determining factors influencing the extent of satisfaction for coffee marketing co-operatives' members in relation to the service rendered by the co-operatives, the core task is to analyze which factors influence their satisfaction in using the co-operatives as marketing channel for this product (coffee) was discussed here under.

Dependent variable:

In this study, the dependent variable is the degree of coffee marketing co-operatives members' satisfaction on the overall performance of cooperatives and services rendered by the cooperatives discussed here under.

Independent variables:

Services as independent variables

Information Access (IA): It is dummy variable that takes a value 1 if obtained price information service from his cooperative and 0 otherwise. According to Eleni Z.et al. (2003) survey respondents respond that the farmers rely entirely on their own observations and interactions with other traders for information on local and distant market prices. It is clear that producers (smallholders) are severely constrained with regard to market information. Therefore, this variable influences farmer's satisfaction positively.

Transportation Access (TRA): It is dummy variable that takes a value 1 if the members' cooperative facilitates transportation and 0 otherwise. The availability of transport network and commercial vehicles is an important element for the speedy movement of agricultural

produce. Almost all agricultural produces were transported on road. The rural markets are connected with the central market by poorly paved roads. Many of the roads to the villages and rural markets are not accessible during the rainy season Eleni Z.et al. (2003). Thus, this variable is expected to influence positively.

Training of members (TOM): this variable is a dummy variable for this study taking a value 1 if the cooperative trained the members and 0 otherwise. Creating of awareness and skill development can have a positive impact to increase the participation of members in selling their product (coffee) to the cooperative. So training of members will have a positive influence for satisfaction.

Patronage Refund (PAR): It is used as dummy variable, which takes a value 1 if the member obtains a dividend at least once, 0 otherwise. It refers to the amount of money the member receives from the surplus the co-operative distribute in proportion to the members' participation (Balck and Knutson, 1985). It is assumed that the member will be satisfied to participate in his cooperative if there is patronage dividend. Thus, this variable expected to influence member satisfaction positively.

Credit (CR): It is dummy variable, which takes a value 1 if the farmer obtained credit on demand from the cooperative and 0 otherwise. The credit helps the farmers to buy farm implements in preparing grafting his coffee tree and transport cherries to the market during production and harvesting time respectively. Therefore, it is expected that this variable would have positive influence on the satisfaction of coffee marketing cooperatives.

Genuine Scaling (GSC): This variable is dummy variable that takes a value of 1 if cooperative is better than other traders and 0 otherwise. One of principal values of the cooperatives is genuine scaling (Cooperatives ethical values). So, this variable influences the level of satisfaction positively.

Price of red cherry (PRC): This is a dummy variable taking a value of 1 if price of the cooperative pleases members and 0 otherwise. If the cooperative declare price better than the other marketing agents, the member will be satisfied both with the price received and

future dividend payment if the cooperative makes profit. Therefore, cooperative price for red cherry influence the members' satisfaction positively.

Price of dried cherry (PDC): This is a dummy variable taking a value of 1 if price of the cooperative pleases members and 0 otherwise. If the cooperative declare price better than the other marketing agents, the member will be satisfied both with the price received and future dividend payment if the cooperative makes profit. Therefore, cooperative price for dried cherry influence the members' satisfaction positively.

Institutional Independent variables

Members' satisfaction in using cooperatives as marketing channel was hypothesized to be influenced by a combined effect of various factors such as household characteristics, socioeconomic characteristics, and other institutional characteristics where the farmers operates. In this study, a total of (18) variable were hypothesized to explain the dependent variable. The selected explanatory variables are briefly explained as follows.

Age of the Household (AHH): This variable is a continuous explanatory variable and refers to age of head of the household. The experience that the farmer accumulates about the advantage or disadvantage of the co-operative has an impact on his satisfaction. Therefore, the variable expected to influence positively.

Family Size (FS): This variable is a continuous explanatory variable and refers to the number of family of the household. It is assumed that household with larger family size can have more labor for his farming activities and/or higher expenditure for consumption and other expenses. Therefore, the variable expected to have a positive correlation with satisfaction of members.

Sex (SX): It is dummy variable that takes a value 1 if male and 0 female. The farmers satisfaction may vary based on differences in sex.

Educational level of the Household (EDU): It is a continuous variable and refers to the number of years of formal schooling the household head attended. The higher the education level, the better would be the knowledge of the farmer towards the co-operative and acquire news and education about the associated benefits of the co-operative (Kraenzle, 1989). Under normal condition, those farmers with higher education are in a better position to satisfy on the services rendered by the co-operatives. So this variable is expected to influence positively.

Number of members (NM): It is continuous variable representing the total number of members in the cooperative to which the respondent is a member. As the number of members in the cooperative increases, it may become difficult to meet the expectations of every member. On the other hand, the size of the members could increase the sales volume of the cooperative that have a positive influence on the profitability of the cooperative thereby dividend payment for each member.

Total farm Size (TFS): This variable is a continuous variable and it refers to the total area of farmland that a farmer owned in hectare. The usage of the co-operative as marketing channel requires having participation in either selling products or purchasing of goods and services from co-operatives. The farmer needs to produce in order to sale to the cooperative or to another marketing agent. The usage of the co-operative as marketing agent requires substantial economic resources of which land is the principal one (Wadsworth, 1991). Under normal condition, if the farmer participates actively, he will get benefit from the co-operatives also he will maximize his satisfaction. Therefore, this variable expected to influence satisfaction positively. Moreover, richer farmers may also benefit more than poorer farmers.

Coffee Farm Size (COFS): It is continuous variable and it represents the land allotted to coffee production in hectare. As the land of household for coffee increases the yield proportionally may increase, so that the amount of coffee sold to the cooperative increase or decreases based on the cooperatives efficiencies in handling their members. Therefore, this variable expected to influence positively.

Participation in election of cooperative leaders (PART1): It is a dummy variable that take a value 1 if the member participates in election of cooperative leaders and 0 otherwise. Principally, each individual member has equal voting to elect or to change the cooperative leaders. Otherwise, one may dissatisfy upon the election of misbehaviors as his perception. So, participation to elect the leaders could influence the satisfaction level positively.

Participation in planning and implementation of cooperative activities (PART2): It is a dummy variable that take a value 1 if the member participates in the cooperative planning activities and 0 otherwise. Each individual member has equal right to participate in the cooperative policymaking and he/she will be benefited from the cooperative program. So, participation in the planning process could influence the satisfaction level positively.

Participation in approving of cooperative audit report (PART3): It is a dummy variable that take a value 1 if the member participates in approving cooperative's audit reports and 0 otherwise. By doing so, the member will develop a sense of ownership and keep the cooperatives from defaulters. Otherwise, one may dissatisfy upon the misuse of cooperative resources. So, participation in approving the audit report could influence the satisfaction level positively.

Terms of payment for red cherry (TPRC): This variable is a dummy. It takes a value of 1 if the term of payment is in cash and 0 otherwise. Farm households sale their produce (red cherry) not only for based on credit marketing concept, but also for immediate demand of that particular money to settle his day-to-day expenses. If the cooperative do not have enough money, it is obvious that there is no immediate payment. This farmer will not come again to the cooperative, i.e., it has a negative influence on member's satisfaction.

Terms of payment for dried cherry (TRPDC): It is dummy variable that takes a value of 1 if the term of payment is in cash and 0 otherwise. Farm households sale their produce (dried cherry) not only for based on marketing concept, but also for immediate demand of that particular money to settle his day-to-day expenses. If the cooperative do not have

Appendix
Estimation of variables

Age:	it is the number of years completed by the respondent.
Education:	it is the number of years spent on school by an individual.
Size of the Family:	it is the number of individuals living in a family.
Social Participation:	it is the total score of all membership & positions, which an individual holds in different institutions.
Exposure to Mass media:	it is measured as the total score which a respondent has in reading, viewing and listening and the intensity in each.
Contact with Change agents:	it is the total score & the frequency of contact with each of the change agents.
Occupation:	adoption of agriculture or other than agricultural occupations by the household.
Total income:	it is the annual income of the family i.e. income derived from all sources.
Total Assets:	this includes approximate monetary value of house, household articles, cattle assets, machines and equipments, financial assets and land.
Borrowings:	total amount borrowed from all the sources.
Duration of Membership:	it is the maximum number of years membership in a cooperative society.