



**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**ASSESSMENTS OF COFFEE MARKETING CHAIN AND ITS
EXPORT PERFORMANC IN ETHIOPIAN GDP**

**BY
ABIY TEMTIME
ID No.: SGS/0099/2007A**

**JULY, 2016
ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY SCHOOL OF
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LIST OF ACRONYMS

ADBG	African Development Bank Group
AGP-AMDe	Agricultural Growth Program Agribusiness and Market Development
AMA	American Marketing Association
ECX	Ethiopian Commodity Exchange
ECEA	Ethiopian Commodity Exchange Authority
ECEA	Ethiopian Coffee Exporters' Association
ECGPEA	Ethiopian Coffee Growers, Producers and Exporters Association
FDRE	Federal Democratic Republic of Ethiopia
GAIN	Global Agricultural Information Network
GDP	Gross Domestic Product
GOE	Government of Ethiopia
GTP	Growth and Transformation Plan
IMF	International Monetary Fund
MoARD	Ministry of Agriculture and Rural Development
MOT	Ministry of Trade
NGOs	Non-Governmental Organizations
PLCTC	Primary Level Coffee Transaction Centers
SNNPR	Southern Nations, Nationalities, and People Regions
SSI	Standard Sustainability initiative
UNDP	United Nation Development Program

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ABSTRACT

Coffee is one of the most important traded commodities in the world and it plays a major role to Ethiopian economy. Currently, Ethiopia is the leading Arabica coffee producer in Africa, the fifth largest and the tenth in coffee exports in the world. Ethiopia export coffee to the international markets through different marketing channels and structures. Private producers, cooperative unions and exporters are the main actors of the coffee export sector. Currently, Ethiopian export coffee performance has decline. Due to this, the study was conducted on coffee marketing chain and its export performances on GDP. The data were collected through close ended questionnaire and documents. The sources of the information were Coffee exporters. The study was done in three factors: coffee marketing chain, marketing structure and export performance. The descriptive analysis shows that the dominant coffee marketing channels which scored the highest of 70.73% is channel III, similarly the dominant marketing structure which recorded 65.85% was structure III. In different channels and structures there is a significant difference in coffee export performance. The highest coffee export performance in quantity was recorded in 2013 and the lowest was in 2012, in value (USD) scored the highest for the year 2011 and the lowest was in 2014. The result of the study also shows that the factors which influence coffee export performances are coffee quality, Lack of international market, international coffee price and supply of coffee. From the results, it is concluded that quality (Specialty) coffee significantly influence both in volume and value of export coffee. The study recommends to produce and export organic and specialty coffee, this helps to increase the country's economy.

Key words: **Marketing chain, marketing structure, Trader characteristics, export performance and Descriptive study**

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Agriculture is the dominant sector in the national economy of the Ethiopia. It account for around 90% of foreign exchange and 40% of GDP. Thus the sector is the back bone of Ethiopian Economy. The coffee industry dominates agriculture sector in its contribution to the national economy in general and export sector in particular (Birhe, 2010). Coffee in Ethiopia accounts for 25% of GNP, 40% of total export and 10% of total government revenue (MoARD, 2007). Coffee is most important and backbone of Ethiopian economy, which accounts for an average 5% of GDP, 10% of the total agriculture production and 60% of export earnings (Girma, 2011).

Coffee (*Coffea L.*) is the world's favorite and non-alcoholic beverage and the second-most traded commodity after oil. Arabica coffee (*Coffea arabica L.*) and robusta coffee (*C. canephora Pierre ex A. Froehner*) are the two main species used in the production of coffee (Davis *et al.*, 2012). *Coffee Arabica L.*, is the most economical and it represent three quarters while *Coffee Canephora*. Makes the rest one quarter of world coffee production (Kristina, 2011). However, these species vary in terms of chemical composition. Arabica beans have good acid balance and chocolaty to flowery aroma while Robusta coffee beans have more bitter taste and woody to earthy aroma (Kristina, 2011).

Currently, Ethiopia is the leading Arabica coffee producer in Africa, the fifth largest worldwide and the tenth in coffee exports worldwide. The average annual production amounts to about 350,000 tons. The average yield is about 0.71ton/ha. Ethiopian coffee is intrinsically organic and renowned for its superior quality. Small holder farmer's account for more than 95% of the total coffee produced in Ethiopia, but still traditional farming systems. In Ethiopia, Coffee is produced under four broad production systems, i.e. forest coffee (8-10%), semi forest coffee (30-35), cottage or garden coffee (50-57%) and modern coffee plantation (5%) (UNDP, 2012).

Coffee marketing in Ethiopia comprises the following main transaction chain: Primary cooperatives: Immediate members are farmers, and are typically geographically organized. Primary cooperatives are somewhat limited in capacity and do not generally access export markets directly. Secondary cooperatives: These are larger cooperatives consisting of a collection of primary cooperatives. They are engaged directly with export markets for most of Ethiopia's major brands. Primary level coffee transaction centres: It is a place where coffee farmers and suppliers transact coffee. They are located near to the coffee farms. Currently there are about 979 primary coffee marketing centres in the country. Ethiopian Commodity Exchange (ECX): It is the secondary level where coffee transacts in Ethiopia. Currently, ECX warehouses are located in 8 different parts of the country - The centres are in Dire Dawa, Hawasa, Dilla, Sodo, Bonga, Jima, Bedele and Gimbi. The coffee transactions take place in Addis Ababa. And also the purpose commodity exchange is stabilizing prices, eliminate the huge number of middlemen involving in coffee sales and distribution, and enabling coffee farmers benefit from prevailing market prices. International coffee market: The third level where Ethiopian coffee transacts is the international market. At this level, exporters sell coffee to foreign importers (UNDP, 2012). In Ethiopia green coffee is only permitted to be exported by Ethiopian Nationals and persons of Ethiopian descent.

Ethiopia stands fifth in the world with a production of 379,500tn having the world's share of 4.5pc in 2012/13. Out of this the amount Ethiopia exported was 3,134 bags, which amounts to 47.5pc (180,262tn) of the total production. The other top producers of the world are Brazil with 34.46pc share of the total coffee with three million tons of production. Next comes Indonesia with 8.75pc share having 0.76 million tones, followed by Vietnam and Columbia having the world's share of 7.99 and 7.17pc with 0.69 million tone and 0.62 million ton as the International Coffee Organization (ICO) data indicates. The country planned to export up to 277,500tn in 2013/14 but has done only 190,876tn with the planned revenue falling down from the planned one billion dollars to only 717 million dollars.

The current government of Ethiopia encourages private investment in the coffee industry to promote a market economy including liberalization of the coffee sector, lifting price ceiling of

any kind, streamlining of export licensing procedures, removal of price control, currency devaluation, foreign exchange auctioning, creation of relatively better investment environment through new investment code and regulations , launching of new export promotion strategy, suspending all the export taxes, the recent establishment of the Ethiopian Commodities Marketing Authority and the Ethiopian Commodity Exchange (ECX). This was undertaken as a means of increasing producer's prices, Thereby encouraging production, reducing smuggling and maximizing export earnings.

However, the market operation on Ethiopia coffee trade has remained unsatisfactory especially for smallholders coffee growers. This is because there is no significant change in the form of production and processing for several decades. Regarding from the coffee market, International competitiveness in market of coffee commodity exports has a major challenges for Ethiopia, competitiveness is important because export of coffee is the major source of foreign exchange and thus account more than half of the value of total export.

1.2 Statement of the Problem

Ethiopia is gifted with environment suitable for producing high quality coffee beans. Despite this, Ethiopian coffee industry has been suffering from a number of multifaceted limitations. The problems relate to production, processing and marketing. In terms of production, Ethiopian coffee remains to be low yield due to, among others, lack of advanced technology, lack or shortage of cultivars suitable for different localities. In relation to processing, the main interest at stake is the quality of the coffee. Coffee quality plays irreplaceable role in the increasingly competitive international coffee market. In Ethiopia, however, the quality of large quantity of coffee is believed to decline as result of poor and traditional techniques of post-harvest processing such as during fermentation and drying.

The market operation on Ethiopia coffee trade, even though coffee has economic and social importance for the Ethiopian economy, the market operation on the coffee sector has remained unsatisfactory especially for smallholders coffee growers. This is because there is no significant change in the form of production and processing for several decades. Regarding from the coffee market, International competitiveness in market of coffee commodity exports has a major challenges for Ethiopia, competitiveness is important because export of coffee is the major source of foreign exchange and thus account more than half of the value of total export (Mintwn *et al.*, 2014)

Producers of coffee commodity, however, have faced long term downward trend in prices as global supply outpaced demand. The discouraged coffee market value result in polices regulating the market, and the low base of market infrastructure, lack of adequate marketing information system, high seasonal price variability, and the unorganized sector, high transaction cost, and mainly the longer marketing channel. In the first place, this traditional market comprises large number of small holder coffee farmers. Also, they are illiterate, poorly connected to one another and with market systems (Tadese, 2015).

The transformation of coffee production for domestic and export requires the existence of efficient marketing system that can transfer produced coffee from the point of production to the

required market at the least possible cost. This can be done through among others mainly by reducing the market chain. The longer marketing chain can affect the smooth process of coffee in delivering to the final consumers by keeping the right quality. Since coffee become the main source of income to the country, the amount of supply of coffee to the international market has an impact on country's foreign income and consequently in the economy. Recently, data's indicates that income generates from export coffee is decreasing. But the production of coffee indicates an increment.

However, strong and effective marketing management has required to correct and getting benefit from coffee export. In the competitive international coffee market the quality of coffee is the main factor to get the market for exporters. If they cannot able to deliver quality coffee to their customers or buyers, they will lose their customers. Eventually, these situations will harm country's economy, create loses of foreign exchange and country's revenue will be decrease, However, this situation need more focus and additional study to explore and analyze the existing situation. However, the researcher motivates to analyze the impact of coffee marketing chain on its export performance and contribution to the GDP.

The analysis of market structure by wendemagegn (2014), indicates that the volume of coffee traded in the area was concentrated in the hand of few traders who controlled the bigger share of the market. The four firm's concentration ratio for coffee traders remained 65.3% and 69% in Yirgalem and Hawassa respectively. This clearly implies that the coffee market in the area is non-competitive. He also depicted the major entry barriers into the coffee market such that shortage of capital, licensing only for specific business activities and presence of informal traders are obstacles for most traders.

Mutandwa *et al.*, (2009) in Rwanda analyzed coffee export marketing and indicated that the country's market growth rate registers the negative rate due to decreasing of production, and the relative market share also indicated that a very small proportion in the global coffee trade. Yoseph (2009) investigated export supply response of coffee in Ethiopia for the years of 1975-2008 by employing Autoregressive Distributive Lag (ARDL) model. World price of coffee affects coffee export positively its export price elasticity was 2.48, while the impact of producer

and export price is insignificant in the long run as well as in the short run. The estimated elasticity for domestic supply of coffee, exchange rate and GDP were 1.07, .891 and 1.35 respectively.

Even though there is a remarkable increase in the export sector it is not as intended and data shows that the coffee export performance of the country is low. By considering these gaps this study has analyzed coffee marketing chain and its export performance on the country's GDP. The overall success was depending on the knowledge of what factors constrain coffee marketing chain and export performance on the economic growth of the country. These gaps were caught the attention of the researcher to do further study in the export and economic growth relation in the context of Ethiopia.

1.3 Research Questions

Considering the objectives of the study the following research questions are deemed value for the study. The central questions addressed in this section are:

1. Who are actors that involve in the coffee export sector in Ethiopia?
2. Which type of coffee market channel and structure are better to export?
3. At what level Ethiopia's coffee export performance does exist?
4. How does coffee marketing chain influence its export performance?
5. What are the factors that affect the coffee export market?

1.4 Objectives of the Study

1.4.1 General Objectives.

- The general objective of this study is analyzing coffee marketing chain and its export performance on the country's GDP and to forward possible recommendation to address the problems in relation to coffee marketing chain and export performance.

1.4.2 specific objectives.

- Identifying actors who are involves in coffee export sector in Ethiopia.
- Examining the coffee marketing channel and structure.
- Investigating the country's export coffee performance.
- Analyzing the coffee marketing chain impact on its export performance.
- Investigating problems relates to export coffee marketing.

1.5 Significance of the Study

The result of this study would enable us to know about coffee marketing channels and structure, conduct and performance of coffee market chain. Examining the factors within the chain and structure helps to point out factors which affect coffee export supply, coffee marketing, coffee market chain efficiency and effectiveness. The study also identifies factors affecting coffee supply to the market, which enables policy makers and market participants on which variables to focus to increase coffee supply to the market.

This study generates useful information to formulate coffee marketing development projects and guidelines for interventions that will improve the efficiency of coffee marketing system. The potential users of the findings were farmers (producers), traders, government and non-government organizations, which have an interest to intervene in the coffee marketing system. In addition, further researches which are conducting on coffee marketing chain can use the result from this study.

1.6 Delimitation/Scope of the Study

This study focused on the analysis of marketing chain of coffee production. Specifically, it focused on the coffee marketing channel, the roles and relationship of the actors within the marketing chains and factors that will influence on its export performance and on economic growth particularly on GDP. Like most researches there was a constraint of time and relevant data that suits the particular needs of the research.

1.7. Organization of the Thesis

The first chapter deals with the background, statement of the problem, research questions, objectives, scope and limitations, and significance of the study. The second chapter consists of the review of the literature. Methodology is outlined and described in the third chapter. The fourth chapter deals with the results and discussion. Summary, conclusions and recommendations are presented in the fifth chapter.

CHAPTER TWO: LITRATURE REVIEW

2.1 Theoretical Framework

2.1.1 Theory of Marketing.

The quest for a theory of marketing, a project “to increase scientific understanding through (creating) a systematized structure capable of both explaining and predicting phenomena”, was first formally addressed at the 1946 winter conference of the AMA in Pittsburg (Marius, 2006). 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. According to AMA (2004), Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. Value of customer relationship and its management came into focus in the late 1990s and had a major impact on marketing thought and practice (Pelton *et al.*, 2014).

2.1.2 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 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 (Agarwal, 2004).

2.1.3 Theory of marketing channel.

The term marketing channel was first used to describe the existence of a trade channel bridging producers and users. Early writers compared marketing channels to paths through which goods or materials could move from producers to users. This description makes it easy to understand how the term ‘middleman’ came into being as a way to explain product flows. Since then, a whole lot of other flows have been made possible by marketing channels (Pelton *et al.*, 2014).

The movement of products and services is only made possible through the exchange process. Recall that marketing is an exchange process. In fact, the concept of exchange lies at the core of marketing. Exchange occurs whenever something tangible (e.g., a meal) or intangible (e.g., a political concept) is transferred between two or more social actors. In fact, marketing is generally studied as an exchange process. Marketing is a social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.

So, a marketing channel can be defined as an array of exchange relationships that create customer value in the acquisition, consumption, and disposition of products and services. This definition implies that exchange relationships emerge from market needs as a way of serving market needs. Channel members must come to the marketplace well equipped to address changing market needs and wants (Pelton *et al.*, 2014).

2.1.3.1 Marketing (Channel) Intermediaries: The Customer Value Mediators.

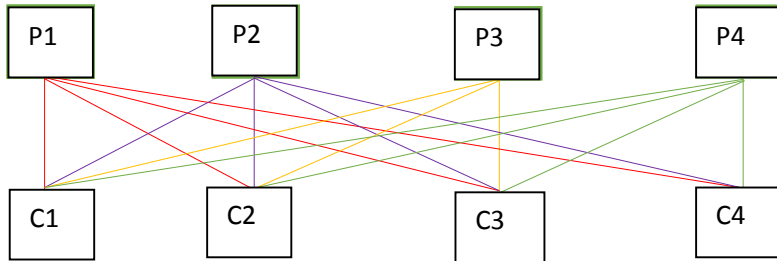
Middlemen that link producers to other intermediaries or ultimate consumers through contractual arrangements or through the purchase and resale of products (Pressley, 2011). Intermediaries generate form, place, time, and/or ownership values by bringing together buyers and sellers. While the names of the players have changed, the functions performed by channel intermediaries remain essentially the same. Intermediaries have always helped channels to ‘CRAM’ it: create utility by contributing to Contactual efficiency, facilitating Routinisation, simplifying Assortment, and Minimizing uncertainty within marketing channels.

Contactual Efficiency

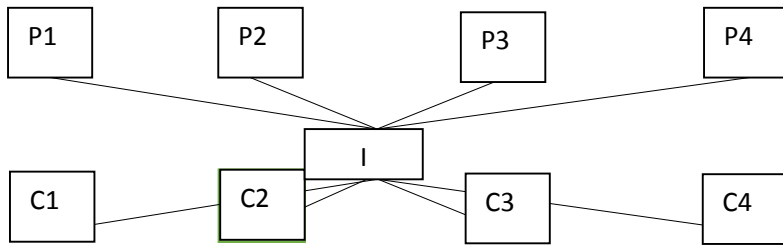
Channels consist of sets of marketing relationships that emerge from the exchange process. An important function performed by intermediaries is their role in optimizing the number of exchange relationships needed to complete transactions. Contactual efficiency describes this movement toward a point of equilibrium between the quantity and quality of exchange relationships between channel members. Without channel intermediaries, each buyer would have to interact directly with each seller, making for an extremely inefficient state of affairs. The process of exchange in a dyadic (Two parties) relationship is fairly simple, but it becomes far more complicated as the number of channel participant’s increases. As the number of intermediaries approaches the number of organizations in the channel, the law of diminishing returns kicks in. At that point, additional intermediaries add little to no incremental value within the channel (Pelton *et al.*, 2014). These relationships are illustrated in Figure 1

Figure 1: Contactual efficiency

No Intermediary

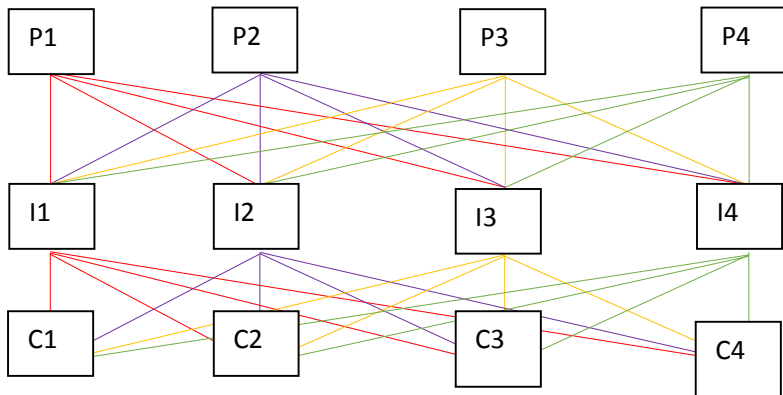


Single Intermediary



Four Intermediaries

Law of Diminishing Returns



C= Customer
I= Intermediary
P= Producer

Routinisation

It refers to the means by which transaction processes are standardized to improve the flow of goods and services through marketing channels. Routinisation itself delivers several advantages to all channel participants. First, as transaction processes become routine, the expectations of exchange partners become institutionalized. There is then no need to negotiate terms of sale or delivery on a transaction-by transaction basis. Second, routinisation permits channel partners to concentrate more attention on their own core business concerns. Furthermore, routinisation provides a basis for strengthening the relationship between channel participants (Pelton *et al.*, 2014).

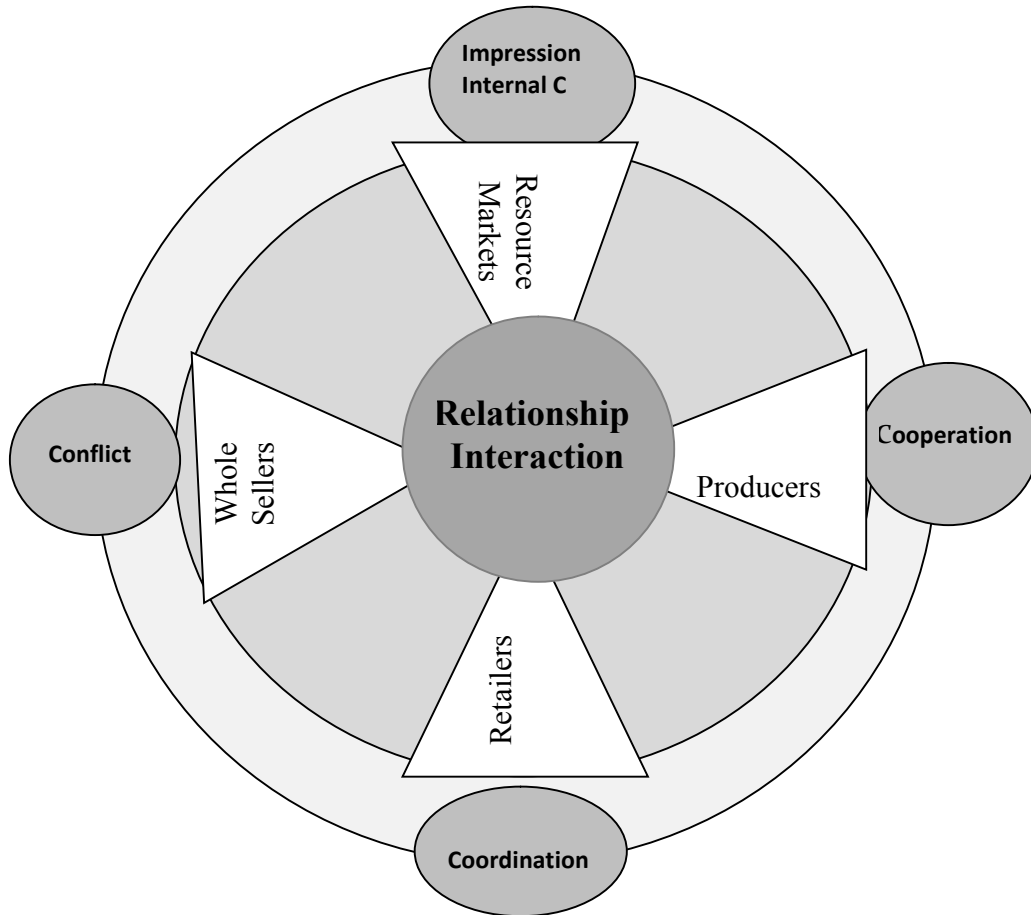
Sorting

Organizations strive to ensure that all market offerings they produce are eventually converted into goods and services consumed by those in their target market. The process by which this market progression unfolds is called sorting. In a channels context, sorting is often described as a smoothing function. This function entails the conversion of raw materials to increasingly more refined forms until the goods are acceptable for use by the final consumer.

2.1.3.2 Channel Relationship Model (CRM).

As it described earlier a marketing channel as an array of exchange relationships that create customer value in the acquisition, consumption, and disposition of products and services. Each component of this definition is embedded in the Channel Relationship Model (CRM) pictured here as Figure 2. While the marketing channel participants will likely change over time, the CRM provides a structure for examining marketing channels, exchange relationships and the creation of customer value (Pelton *et al.*, 2014).

Figure 2: Channel Relationship Model (CRM)



2.2 Conceptual Review

2.2.1 Ethiopian Coffee market Chain.

The coffee market chain in Ethiopia is composed of a large number of actors. It includes coffee farmers, collectors, different buyers, processors, primary cooperatives, cooperative unions, exporters and various government institutions (Gemech and Struthers, 2007), and their also exist local development agents advise, inspect and support farmers during before harvests, during harvests, and after harvest so as to maintain its quality. Ethiopian coffee is sold both at local level and at the international market, the latter mainly through the newly established commodity

exchange market¹ and directly to international buyers through specialty market channels by coffee cooperative unions. Normally, all Ethiopian coffee should pass through Commodity Exchange Market. Since 2001, however, cooperatives have been granted permission to by-pass coffee auction opening the way for direct export sales (Dempsey, 2011).

Farmers, local private traders, farmers and cooperatives assemble coffee produced in different Zones. The coffee assembled is transported to local processors if it is wet-processed and to the central market in Addis Ababa and Dire Dawa if it is sun-dried for the Ethiopian current regulation requires all coffee to be inspected at the center in Addis Ababa and Dire Dawa. After processing is completed, wet processed coffee too, is transported to central markets for further inspection and auction sale. The Coffee Standard and Quality Inspection and Auction Centers monitor the production and exportation of all coffee through the system. In the supply chain the NCBE had the responsibility of inspecting, organizing and coordinating the classification, grading and auction sale of the coffee supplied to central markets in Addis Ababa and Dire Dawa with its own operational rules, regulations, and modalities (Molina, 2010).

2.2.2 The global coffee market chain

The world coffee market has undergone dramatic transformations over the past couple of decades due to changes in international policies and new requirements both on the supply and demand sides. These factors, together with technological innovations, have deepened the power asymmetries between the various actors in the global value chain and made it more difficult for poor producing countries to rip the benefits of coffee trade (Petit 2007).

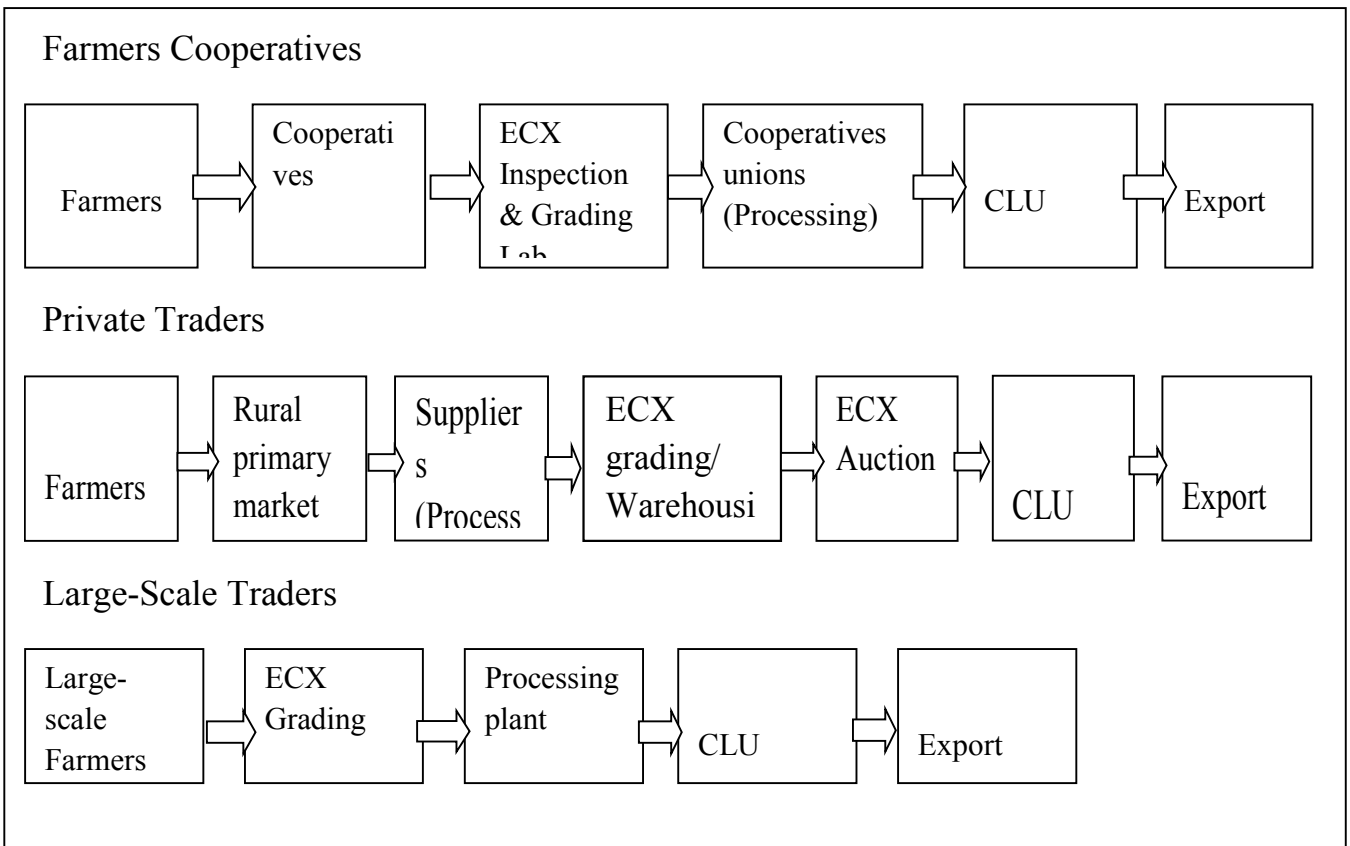
On the supply side, due to increased volumes and quality, Brazilian and Vietnamese coffees strengthened their market positions and marginalised other producers. On the demand side, new market trends such as specialty/gourmet, fair trade, decaffeinated and flavoured coffees have developed, making traceability of origin, as well as economic, social and environmental conditions, an important element for the establishment of long term partnerships between producers and roasters (Petit, 2007). The resulting phenomenon, by which actors downstream in

the global chain (such as traders, roasters and retailers) obtain a higher value than those upstream (mainly the producers), is what Daviron and Ponte (2005) call ‘the coffee paradox’. The paradox is described as a ‘boom’ in the consumer countries and a ‘crisis’ in the producing countries, mainly due to the fact that producing countries sell coffee for its ‘material quality’, while consumers buy coffee for its ‘symbolic value’ (ibid).

2.2.3 Structure of coffee marketing chain

From the mapping of the actors, it follows that coffee in Ethiopia can be exported through three main channels: a) private traders, b) farmers’ cooperatives, c) large-scale farmers. Figure 3 illustrates coffee flows for each of the channels.

Figure 3: Coffee flows in the different exporting channel



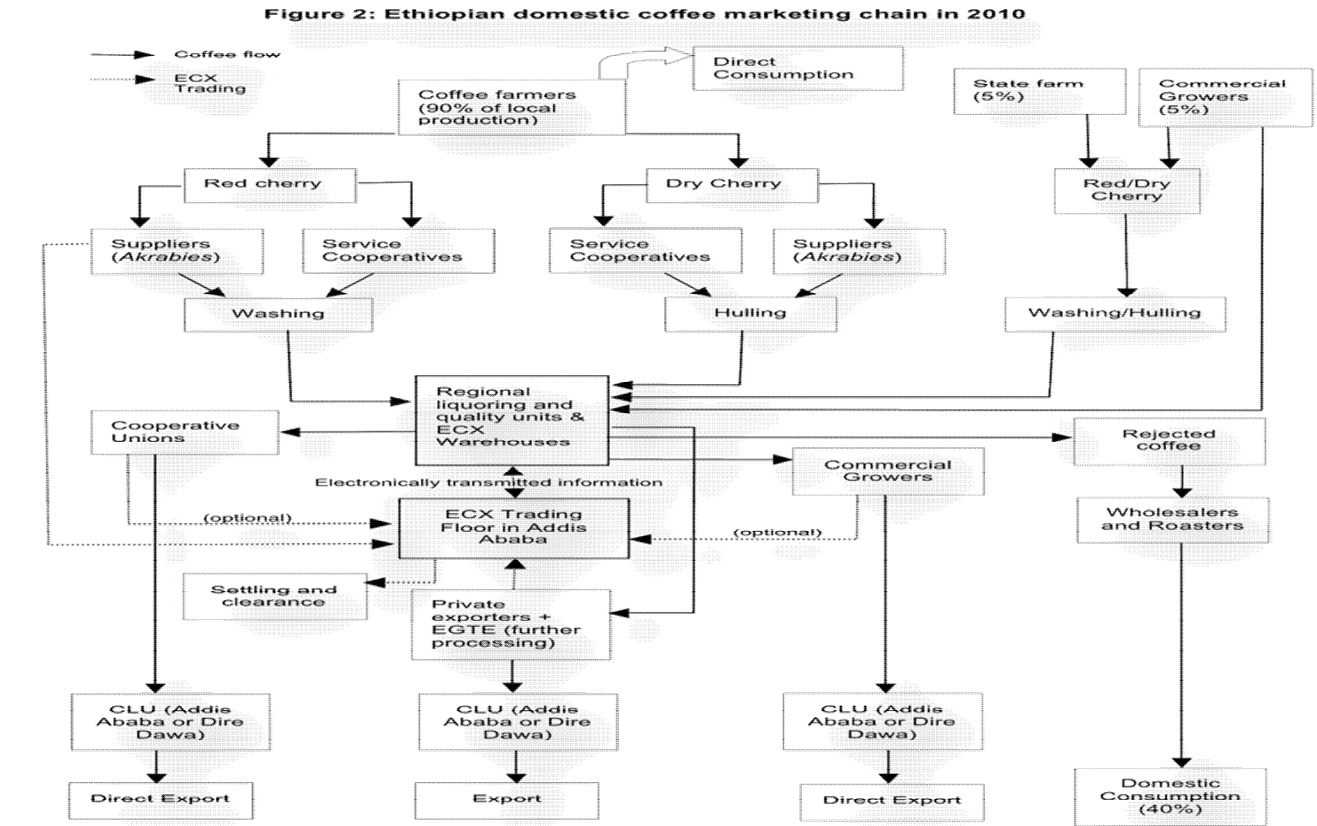
Source, Girma, 2011

The cooperative sector has also grown considerably since 2001, especially as a result of the intervention of numerous NGOs and international cooperation agencies and the increasing international attention to fair trade initiatives. Their market share is believed to be approximately between 4-5% and in any case less than 10%. This means that most coffee is still channelled by private traders. Small-scale coffee producers have rudimentary, low input-output agricultural and coffee harvesting practices, low incomes, weak organisations and little bargaining power (Cabi 2009); they sell their coffee to private traders or to their primary cooperatives.

Commercial growers, better able to implement intensive agro-ecological practices, aim to increase productivity and quality in order to enter the specialty markets; like cooperative unions, they are allowed by law to bypass the ECX. Several ECGPEA members have recently started implementing out-grower schemes through which they provide technical assistance to small-scale farmers in the vicinity of their plantations and serve as an outlet for their. However, it was not possible to verify the conditions under which such schemes take place, or the degree to which the emergence of contract farming in the coffee sector –alongside a continued policy to promote the growth of commercial plantations– could transform the structure of the coffee chain in the coming years (Hashim, 2013).

Although the ECX marketing system is primarily the private traders' marketing channel, both cooperatives and commercial growers use it to sell the coffee they are not able to trade through their own channels. Like the old auction system, the ECX platform also implies trading coffee at a central market in Addis Ababa, yet there are several important differences (Girma, 2011).

Figure 4: Ethiopian coffee marketing chain (2010)



Source: adopted and updated from petit 2007

2.2.4 Coffee Marketing Institutional Framework.

2.2.4.1 Domestic institutional framework.

The liberalisation process started in Ethiopia in 1991 with the fall of the socialist Derg regime and the arrival of the Ethiopian People’s Revolutionary Democratic Front (EPRDF), which implemented a series of reforms in line with the usual IMF and World Bank prescriptions. However, liberalisation was only partial, as policies to promote the participation of the private sector were combined with strict government controls in certain areas. According to Nicolas Petit’s depiction of the Ethiopian value chain in 2006, the reforms were introduced gradually through the years and consisted mainly in the abolition of: the former state monopoly for trade

and marketing in favour of private exporting firms, price controls, the quota system for traders and the export coffee tax (2007: 247-247).

Following a period of reorganisation of the powers and duties of the institutions involved in the coffee sector, the Government decided to eliminate the National Auction in 2008 and to “harmonize coffee marketing with the organisational work of the Ethiopia Commodity Exchange” (FDRE Proclamation n. 602/2008, also known as ‘the Coffee Quality Control and Marketing Proclamation’, and its Directives 159/2009 and 161/2009) (Hashim, 2013).

Aims of the new proclamation is to supply quality and competitive coffee efficiently to the global market, to make the coffee marketing system fast and cost effective, to enable coffee producers to earn better income from coffee transactions, to harmonize coffee marketing with the organizational work of the Ethiopia Commodity Exchange and the reorganization of the executive organs of the Government (FNG, 2008). This can also be read between the lines as a twofold strategy: to strengthen the coffee sector as a one of the main pillars of the economy, and diminishing the effects of market distortions created by private exporters. He recognised that their becoming an increasingly common practice among private exporters: to register as suppliers through sister companies, thus ensuring the possibility of reacquiring their own coffee by bidding higher prices, which increases the risk of making the chain non-competitive (Hashim, 2013).

2.2.5 The Key Actors and Institutions of Coffee Marketing chain In Ethiopia.

A market chain is used to describe the numerous links that connect all the actors and transactions involved in the movement of agricultural goods from the farm to the final consumer. Supporting these activities are services that enable the chain to operate efficiently. Agricultural goods and products flow up the chain and money flows down the chain. The efficiency of the market chain is dependent upon how well information flows between chain actors, their level of business linkage, and the ability of services to overcome problems as they arise (USAID, 2010).

The producers under this stage in the coffee value chain of Ethiopia include small-scale farmers, private owned farmers and state firms. The major portion inters of volume of products mobilized,

value adding functions, market share and capital owned in coffee value chain of the country is under the hands of producers especially the large-scale private coffee plantations and state farms of coffee plantations. After the coffee is grown and matured, the following value adding activities in the value chain performed by those producers are collecting coffee chary and transporting to processing areas (USAID, 2010)

2.2.5.1 Coffee Collectors.

The most important participants in coffee value chain and they directly bought the coffee with its pulp (Jenfel coffee) and/or without pulp and sold it to suppliers or private traders for further processing activities and preparation for marketing. Coffee collectors (sebsabies‘) play an essential role of bringing coffee from very remote areas to the market by adding value augmenting the volume of coffee (USAID.2010).

2.2.5.2 Traders (Suppliers).

Suppliers in coffee value chain of Ethiopia are those who buy coffee from collectors (both legal and illegal collectors) and sell it to either to exporters in Addis Ababa auction market or international importers. Suppliers acquire red coffee cherries from collectors or producers and process their coffee before bringing it to auction. They have hulling, washing and other sophisticated machines for processing purposes. There are wet and dry processing types performed by the processors (USAID, 2010).

2.2.5.3 Primary Cooperatives and Unions.

The primary cooperatives in Ethiopia are important participants in the coffee value chain of the country. They produce and harvest the coffee and some of them even perform some processing activities like washing pulping, sorting and finally sell it to their respective unions. The unions process the coffee or further processing. Finally further processed were packed, transported to their warehouse and make ready for export market. Here the unions have different alternatives to sell their products. They can sell directly to the international importer or to the domestic exporter

through ECX. The coffee unions contact to ECX for grading systems and to follow the rules and regulation of the government of Ethiopia (USAID, 2010).

2.2.5.4 Exporters.

After the all the coffee production and processing activities are finished, it exported to the international market by exporters. Exporters found in Addis Ababa central market who received coffee from private producers, private traders and cooperative unions to sell it to the international market. These exporters bought the coffee from the central auction market through ECX. They play a significant role by searching foreign market through the linkage they have with the importers outside the country. They add a place utility to the commodity coffee. Here, the unions, the private traders and the state owned producers could also act as exporters of coffee, since they can directly sell it to the foreign importers (MOT, 2012).

2.2.5.5 Importers.

Imports are those actors outside the country who buy coffee from different exporters in the country Ethiopia. The Ethiopian coffee importing countries are first German coffee importer, Japan, the Netherlands, and America. These foreign importers after adding some value to the coffee they received, they directly sell to wholesalers and then to supermarkets (MOT, 2012).

2.2.5.6 Domestic Wholesalers and Retailers.

The other important actors in coffee value chain in Ethiopia are wholesalers who directly buy coffee from the household farmer's or small-scale farmers. The small-scale farmers, who harvest, dry and hull the coffee and transport to market in Ethiopia. By doing so it the small-scale farmers play a significant role in adding a value on coffee. Here the function of hulling will go to retailers in that they add more value on the coffee and finally sell to consumers after hulling it (MOT, 2012).

2.2.5.7 Consumers.

Consumers are the ultimate users of the commodity coffee. In the coffee value chain in Ethiopia, there are varieties of consumers of coffee. These are domestic consumers and foreign consumers. The consumers present in domestic country consume directly from small-scale farmers and coffee collectors retailers throughout the country (MOT, 2012).

2.2.5.8 Service Providers at Each Value Chain.

The service provider in coffee value chain actors in the country are like Ethiopian commodity exchange main and its branch, input supplying government organizations, Woreda level administration bodies, development agents, transporters, credit and other financial service providers (commercial bank of Ethiopia, saving and credit association and other non-governmental organizations (MOT,2012).

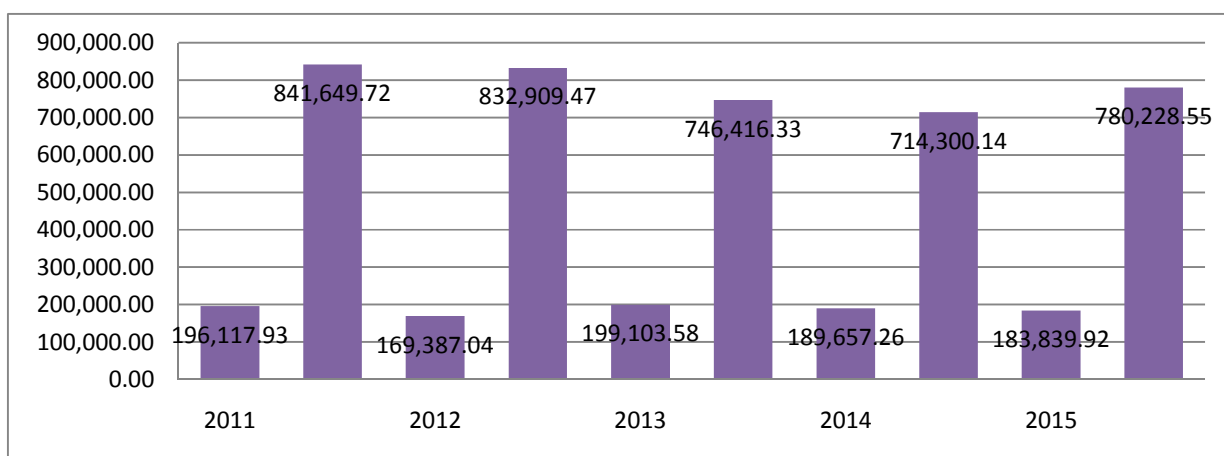
2.2.6 Coffee Export Performances in the Economic Growth of GDP.

Coffee is the number one source of export revenue, generating about 25-30 percent of the Ethiopia's total export earnings. There is strong international demand for Ethiopian coffee which is prized for its special aroma and distinct flavor. About half of Ethiopia's coffee is exported abroad. (Wolde, 2007), Coffee is the principal export product. The share of non-coffee exports has been rising remarkably in recent years attributed to the dropping in the coffee export earnings. The share of non-agricultural exports is very narrow.

Ethiopia mainly exports green beans with only a very small amount of roasted beans. Ethiopian coffee is currently 70-80 percent unwashed or sundried and 20-30 percent is washed coffee. Unwashed coffee generally commands a lower price in many markets, including the United States. The image of washed coffee being somehow 'cleaner' is prevalent in some countries, while other countries specifically require unwashed coffee for better and richer taste (GAIN, 2015).

Ethiopia exports coffee to markets around the world. In 2013/14, Germany accounted for the largest share of Ethiopia’s coffee exports by volume at nearly 22 percent, followed by Saudi Arabia at 17 percent, and Japan at 11 percent. The United States was the fourth largest destination, accounting for 9 percent of total exports. Collectively, these top four markets accounted for nearly 60 percent of Ethiopia’s total coffee exports in 2013/14. Figure 5, below show the value and volume, and destination for Ethiopian coffee for the last several years (GAIN, 2015).

Figure 5: Coffee export in quantity & value (2011 -2015)



Source: Coffee & Tea Authority

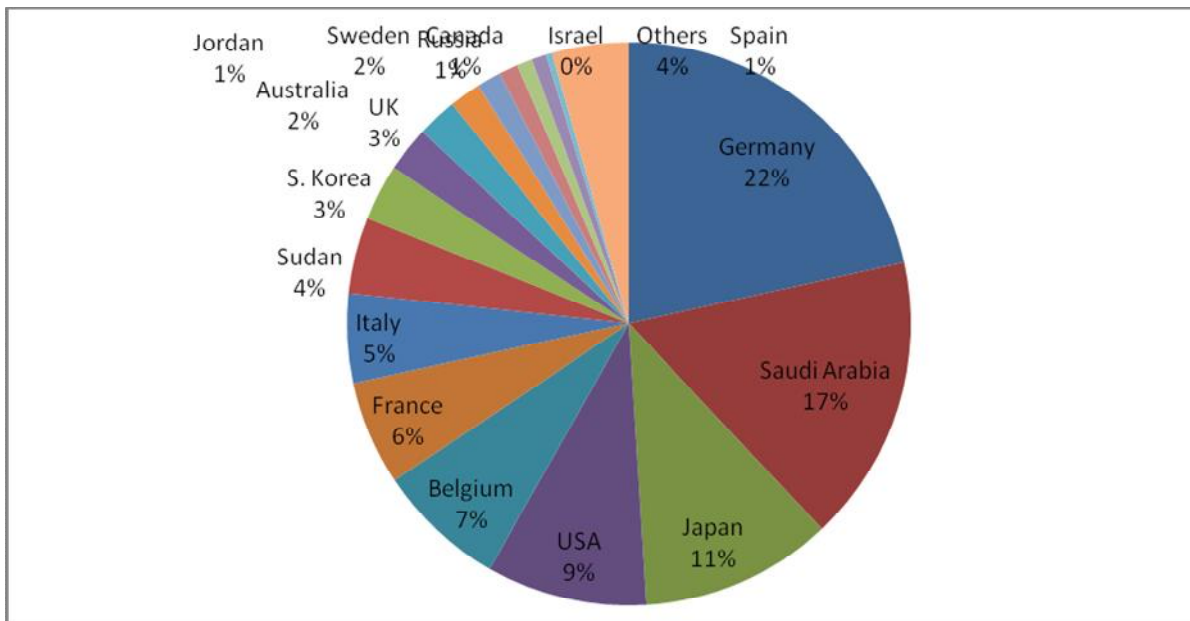
Table 1: Ethiopian coffee exports by destination (In, 000 60kg each bag)

Destination	MY2011/12	MY2012/13	MY2013/14
Germany	994	853	685
Saudi Arabia	421	462	525
Japan	160	392	349
USA	168	231	292
Belgium	120	256	235
France	187	162	190
Italy	155	146	163
Sudan	154	147	141
S. Korea	65	80	102
UK	54	67	83
Australia	50	51	72
Sweden	77	75	57

Jordan	57	20	45
Russia	40	35	35
Canada	25	27	28
Spain	38	27	27
Israel	26	19	11
Others	350	174	139
Total	3,141	3,224	3,179

Source, GAIN 2015

Figure 6: Ethiopian coffee exports country's percentage share in 2013/14

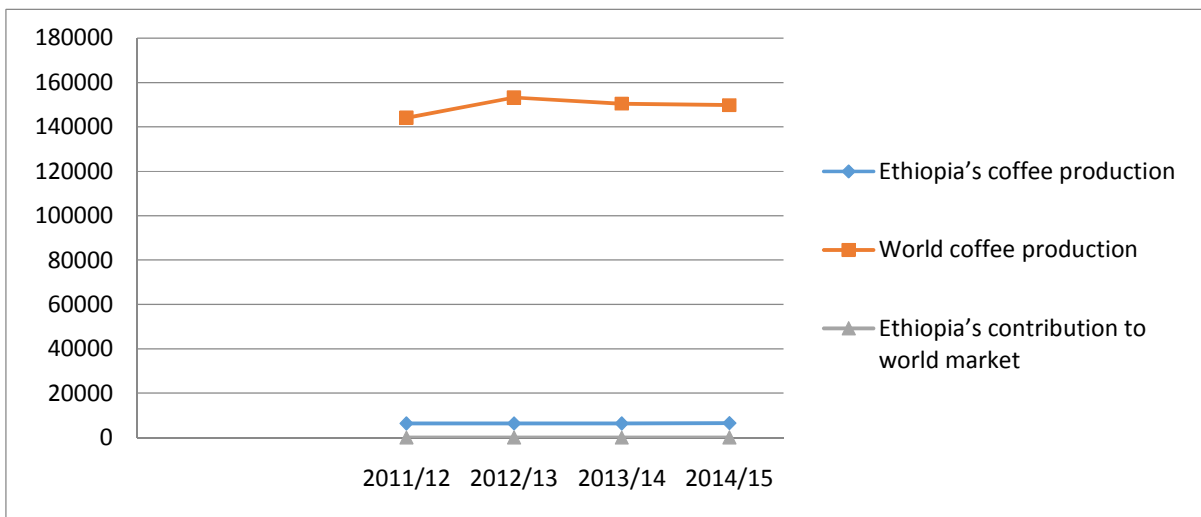


Source, GAIN 2015

Global coffee production varies from year to year according to weather conditions, disease and other factors, resulting in a coffee market that is inherently unstable and characterized by wide fluctuations in price and volume. According to (Alemseged, 2012) Ethiopian coffee export volume was volatile exhibiting a fall and a rise each month over the two fiscal years 2010 and 2011/12. Monthly shipped coffee during 2010/11 started with a higher volume of 20,091 metric tons in July 2010 but the volume in the subsequent months showed a decline and a rise, significantly dropping to 11,224 metric tons in December 2010 (GAIN 2015).

Ethiopia, which is considered as coffee’s birthplace, produces high-quality Arabica coffee for both the domestic and international markets. Coffee plays a major role in Ethiopia’s economy and is deeply intertwined with cultural traditions and day-to-day living. There are an estimated 15 million people, or approximately 15 percent of the country’s total population, who derive their livelihoods from coffee. Ethiopia is the single largest African producer of coffee with about half of its production going for export. And, the country is the world’s fifth largest producer after Brazil, Vietnam, Colombia, and Indonesia, accounting for about 4 percent of global coffee production. See Figure 7, below for Ethiopia’s contribution to global coffee production (GAIN 2015).

Figure 7: Ethiopia's share of the world coffee market



Source: GAIN, 2015

The government of Ethiopia (GOE) recently announced that for the next five years as part of the country’s second GTP Coffee production is expected to gradually expand with the support of the GOE, outside investors, and development partners, such as USAID’s Agricultural Growth Program Agribusiness and Market Development (AGP-AMDe) coffee value-chain project. One of the primary reasons for expanding coffee exports is to build the country’s foreign exchange reserves. While there clearly is potential to expand production, the magnitude of this projected increase seems unattainable in such a short period. From post’s perspective, production could increase 20-30 percent during this period as more public and private resources are devoted to building and modernizing the country’s coffee sector.

2.3 Empirical Review

Coffee producers in Ethiopia have historically received a very small share of the export price of green coffee. Reasons that are often mentioned are heavy government intervention and high marketing and processing costs. Prior to 1992, coffee production and marketing in Ethiopia was centrally controlled under the Ministry of Coffee and Tea Development. Producers had to sell at fixed prices and fixed times during the year. The Ethiopian Coffee Marketing Corporation (ECMC) handled the vast majority of the crop. The corporation put a substantial wedge between the producer price and the world price of coffee by imposing an implicit tax on producers (Tadesse and Feyera, 2008).

Following the overthrow of the Derg in 1992, the Government of Ethiopia introduced measures to promote a market economy including liberalization of the coffee sector. This was undertaken as a means of increasing producer prices, thereby encouraging production, reducing smuggling and maximizing export earnings (Celia *et al.*, 2004). In her article, Sarah (2004) indicated that certified organic Ethiopian coffee has been available since 1999 when some producers were granted a waiver to bypass the government auction system. Certified farmers can sell direct to western importers through the cooperatives to which they belong, and cut out the services of two sets of buyers and an independent exporter to deal with the final processing. According to her, it also enables some of them to gain fair trade status, and receive a significant proportion of profits.

Shumete *et al.*, (2012) on the study area of analyzing of marketing chain of forest coffee, they used descriptive statistics and employed structure-conduct-performance model to analyze the market structure, conduct and performance in the two study area of Gere and Shebe. The result of the assessment of the market structure indicated that producers, assemblers, wholesalers and retailers are the major actors involved in the market chain of coffee. The local coffee wholesalers' concentration index (40.85% for Gera and 29.64% in shebe) revealed that there is a threat of oligopoly in the market structure of coffee especially in Gera area. The result of the assessment of the market conduct revealed that price setting mechanism in the producers market is largely determined by the kindness of buyers whereas the existing market demand and supply are the major determinants of price setting mechanism in the other actors' market and in

evaluating the market performance, the margin analysis indicated that exporters (50.98%) take the largest profit margin in the coffee market chain. The ordinary least square regression analysis also pointed out that price; educational level of households, transportation cost and level of production were found to have a significant impact on the supply of coffee in the study area. High cost of transportation, absence of price premium for quality products, low bargaining power of producers, absence of organized action of producers, absence of documented market research and the undulating nature of the international market were the major problems encountered by actors in the market chain of coffee.

The study by Wendemagegn (2014) has tried to analyze coffee market chain in the case of Dale district of Southern Ethiopia. The analysis of market structure indicates that the volume of coffee traded in the area was concentrated in the hand of few traders who controlled the bigger share of the market. The four firm's concentration ratio for coffee traders remained 65.3% and 69% in Yirgalem and Hawassa respectively. This clearly implies that the coffee market in the area is non-competitive. He also depicted the major entry barriers into the coffee market such that shortage of capital, licensing only for specific business activities and presence of informal traders are obstacles for most traders. He tried to disclose that the coffee marketing channel in the study area is relatively short, the existence of informal traders in both rural and urban areas discouraged the legal/licensed traders. Their also have poor access for timely and reliable market price information.

Mutandwa *et al.*, (2009) analyzed coffee export marketing in Rwanda by employed the Bosten consulting group matrix (BCG). They took and evaluated two parameters namely rate of market growth and relative market share. The result indicated that in terms of market growth rate the country records the negative rate due to decreasing of production during the particular year of the study. The result of the country's relative market share also indicated that a very small proportion in the global coffee trade. In addition this, they tried to give ideas that concerning the growth of both parameters which are promotion of Rwanda coffee through participation in trade fairs and exhibitions in various countries. And also need to foster relationships with the international buyers.

The study by (Tadesse and Feyera, 2008) attempted to analyze the impact of coffee market liberalization on producer prices and price transmission signals from world markets by employing Co-integration and Error-Correction Model (ECM). The findings indicate that the reforms induced stronger long-run relationships among grower, wholesaler and exporter prices. Their estimation of the ECM showed that the short-run transmission of price signals from world to domestic markets has improved. In their conclusion, the authors indicated that domestic price adjusts more rapidly to world price changes today than it did prior to the reforms.

In 2011, Dema, on the study of coffee market performance, he analyzed marketing costs and price margins among the different coffee marketing activities in order to measure the degree of coffee marketing efficiency. He depicted that, falls of the coffee bean tree before growing, weight loss by affecting the bean size and huge loss of productivity by coffee diseases and low price, erratic rain-fall and shortage of land are the major constraints for the coffee production. Moreover, he identified constraints regarding coffee marketing are delay in unloading coffee at ECX (which creates additional cost), poor management and handling of coffee by farmers (which reduces its quality) and short supply of coffee (low economies of scale for traders).

Fair Trade certified farmers receive a higher price and a higher dividend than farmers not in a certified cooperative according to the study by Dahlberg (2011). Although, he confirmed that, when coffee prices are relatively high and the minimum price offered by Fair Trade is far below the world market price, certified farmers are still better off economically than non-certified ones. Not only do certified farmers receive a higher price for their coffee, with up to 30%, but they also enjoy a premium, which is invested in social projects benefitting both themselves and the local community.

Regarding the effect of world market price on the local price, it has shown to increase local price in the study by Andersson *et al.*, (2015). Their result indicated that the effect of warehouse access on price dispersion may not be linear, and that the downward pressure on dispersion may grow over time. They also presented an increase in the availability of adequate and timely market information should reduce search costs, while an improvement in the legal framework and reduced risk of defaults should reduce costs associated with transaction. The reduced transfer

costs are likely to reduce price dispersion between exported coffees from different regions, as well as price dispersion between the export price and local retail price within regions.

The study in Oromia coffee farmers' cooperative union by kumsa, (2015). concluded that the factors that influence in coffee export performances are competition, long duration of export document process, coffee quality, export barrier from country destinations, delay in transportation, communication barrier, lack more of international market knowledge, export administrative procedures, incapable to supply coffee in time, limitation of destination country, and delay of shipping. The study revealed that has the significant impact on export marketing activity of union which is volume of coffee supplied by members to the union. This condition also makes the export marketing of the union to fluctuate. The volume of Coffee supplied by members to the union has the significant impact on export marketing activity of union. As the volume of coffee supply increases, the volume of export sale also increases. This coffee supply depends on several factors in the study area in which weather condition is the determinant one. This condition also makes the export marketing of the union to fluctuate.

Ethiopia not only as a major producer and exporter of coffee, but also a major consumer in Africa. The study in Competitiveness and determinants of coffee exports by Boansi *et al.*, (2013). They revealed the effects of domestic consumption on the supply of exported coffee, and concluded that a unit increases in domestic consumption significantly decreases the volume for both export and stock to make up for future deficits.

The country's exports have also been growing strongly, averaging about 25.1 percent per annum since 2003/04. While coffee remains the largest source of merchandize export earnings, non-traditional exports have registered faster growth. As a result, the share of non-coffee exports rose from 40 percent in 1997 to 65 percent in 2008. In this regard, the growing demand by China and India for Ethiopia's non-traditional exports, such as sesame and other oilseeds, has contributed to the country's output and export growth (ADBG, 2010)

CHAPTER THREE: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter of the study deals with the research design and methodology of the study. It includes the research design, the study area, target population, sample and sampling designs, data collection instruments and methods of data analysis of the study.

3.2 Description of the Study area

This study was carried out in the country of Ethiopia. Are meant represented all coffee producer, supplier and exporter while Ethiopia is one of the famous and major producers of coffee in Africa. All the information was collected in Addis Ababa and it is geographical distribution of the area is found Latitude: 8°58'N. Longitude: 38°47'E.decimal degrees: 9°, 38.8°. Altitude/ elevation: 2324 m (7625 ft.), and it is Annual rain fall 1400 – 2000 mm.

This study areas on were meant to find out the major constraints in coffee marketing chain and export performance the existing economic growth of the country marketing system with reference to compliance to agricultural trade policies, laws and regulations.

3.3 Research Design

The study has used the descriptive study design and quantitative method to analyze and for the collection of the required data through close ended questionnaires with descriptions. The reason behind using descriptive study design is because the researcher is interested in describing the existing situation under study. This study used descriptive study to analyze and describe the marketing chain and export performance of coffee in contribution to the GDP. The study is cross-sectional in the sense that relevant data was collected at one point in time.

The target population of the study was coffee exporters which are settled at Addis Ababa. The respondents are selected on the basis of a criterion which demands at least five year practices in their current business.

3.4 Population and Sampling Techniques

The target population of the study were all coffee exporters who are found in Addis Ababa. This study has used systematic random sampling method. The sample size has comprised by choosing key participants in coffee marketing chain. From a total of **206** coffee exporters **41** respondent were selected by implementing systematic random sampling, and other organizations and institutions are selected deliberately.

3.5 Data Sources and Collection Methods

The data was collected in both primary and secondary, existing policies, legislations as well as the institutional framework guiding in coffee marketing chain and export performances on the economic growth of the country. In addition to secondary data, interviews were administered in number of key stakeholders in Addis Ababa Ethiopia. The research data was collected from 41 coffee exporters and it's only focused on in coffee marketing chain and the export performances and. Thus respondents will ask to give their views related to agricultural trade policies and its related laws and regulations which govern of coffee marketing in Ethiopia. Moreover, data on production, processing, storage, transportation, and marketing of coffee in Ethiopia have been collected.

Note that, this data set was generated through literature review, questionnaire and consultations. The literature reviews includes previous studies and research reports on coffee marketing chain and export performance.

3.6 Method of Data Analysis

Statistical Package for Social Science (SPSS) software version 20.0 has used to analyze and present the data through the statistical tools for the study, namely descriptive analysis.

Definition of Variables:

Depending on the information obtained from the survey, the following variables were identified as dependent and independent variables.

Dependent Variables

Quantity Supply and Value of export coffee: In this study the quantity and value of coffee actually supplied by producers to the export market through market channel is consider as dependent variable.

Independent Variables

Based on literature and own experience, the following independent variables was expected to influence the dependent variables that is actual quantity and value of coffee supplied through its marketing channel to the export market.

Quality performance, Access to market, Supply, Lengthens of the market chain and International market price volatility are assumed to have positive and significant impact on the supply and value of coffee that deliver to export.

Descriptive analysis

The descriptive statistical outcome has presented by tables, frequency distributions and percentages to give a condensed picture of the data through summary statistics, which includes the means, standard deviations values by compute for each variable in this study.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

This chapter presents the results obtained from ratio and descriptive analysis. The ratios were calculated based on coffee marketing chain and Export performance. The analysis were used to analyze coffee marketing chain and its export performance in different level of traders found in the country. In the descriptive statistics mean, percentage and standard deviation, were employed.

4.1 Traders characteristics

The working year of the sampled traders ranges from 5 to 13 years. The average year of the sampled heads is about 5 years. About 43.9% of the respondents were found in the category of 5-7 years, 29.2 % of Traders were found in year category of 8-10, and the remaining 26.82% were in 11-13 years.

Table 2: Distribution of sample by years

Year category	N = 41	
	frequency	Percent
5 - 7	18	43.9
8 - 10	12	29.27
11 - 13	11	26.83

Source, Authors survey, 2016

4.2 Marketing Channels

The analysis of marketing channels is intended to provide a systematic knowledge of the flow of goods and services from their origin (producers) to the final destination (consumers). Generally, the study revealed that three main marketing channels in which coffee was passing from producers to consumers.

The most commonly prevalent coffee marketing channel for Ethiopian coffee is depicted on Fig 9. At the beginning of the coffee marketing chain are the producer farmers, who plant and manage coffee trees and sell the dried coffee cherries to wholesalers or collectors at farm gate or nearby market. They are responsible for growing and harvesting coffee, thereby determining the amount and quality of coffee produced.

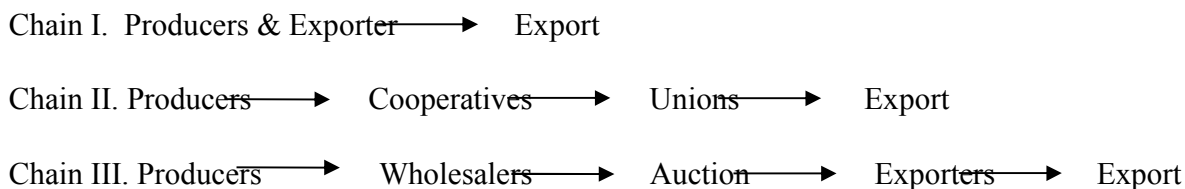
Wholesalers are licensed traders without which they are not permitted to operate in coffee markets. According to Tadesse *et al.*, (2008), the requirements to be met to qualify as a wholesaler are a working capital of 100,000 Birr, a coffee drying field and a warehouse, and their license is subject to renewal every year on a condition of good performance in the coffee market

In addition to wholesalers, there are also collectors (*sebsabies*) operating in the coffee market, not for their own but for licensed wholesalers (mainly for big wholesalers), and they receive commission for their services. Then, the wholesalers hull the dried coffee at hulling mills available in the area and then supply it to ECX market found in their region. Good quality coffee from wholesalers usually reaches the retailer through ECX, while poor quality coffee of the wholesalers, which is rejected at ECX, is sold by wholesalers to retailers for domestic consumption.

Exporters bought the coffee from the central auction market through ECX. After all processing activities are finished; it exported to the international market by exporters. Exporters found in

Addis Ababa central market who received coffee from private producers, private traders and cooperative unions to sell it to the international market.

Figure 8: Coffee marketing chain at different type of Trader



In channel I the exporters have their own coffee farms and processing plant, by doing so they exported their coffee directly to their customers. In Channel II coffee was passing from producers via coffee marketing primary cooperatives to export directly through secondary cooperatives (Unions). Among these, channel III is the principal coffee marketing channel and involved larger number of marketing agents through which coffee passes from producers to collectors or wholesalers and then processed coffee beans pass from wholesalers to auction market and from auction market to exporters for export.

Table 3: Distribution of coffee marketing chain

Marketing chain	N = 41	
	Frequency	Percent
Chain 1	8	19.51
Chain 2	4	9.75
Chain 3	29	70.73

Source, Authors survey, 2016

As revealed in Table 3, about 19.51% from the total traders was engaged in channel I for their coffee business, 9.75% traders was followed channel II and out of all traders 70.73% was engaged in channel III, this also the most dominant channel in the Ethiopia coffee market.

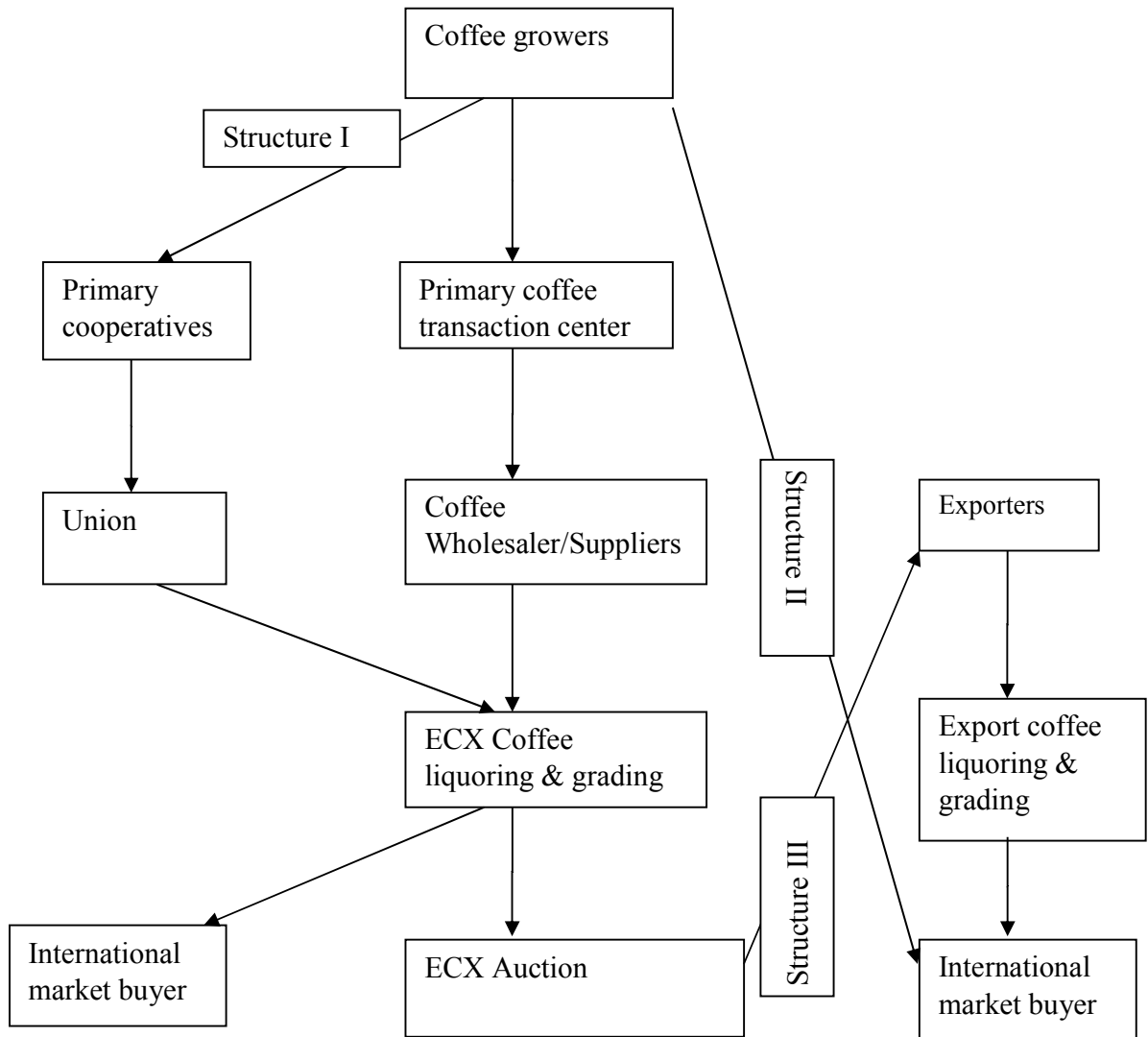
Accordingly the maximum marketing chain was recorded by chain III, from this chain the key actors are private exporters. This result was significantly different from chain I and II scored the lowest value those are producers & exporters, and Cooperative unions respectively.

This variation could be due to the changes in policy and structure of Ethiopian coffee export sectors, this associate with the establishment of Ethiopia commodity exchange at the end of 2008. As a result, the number of coffee exporters who traded through ECX has increased.

4.3 Coffee Marketing Structure

The structure of coffee marketing system in the study was characterized by the presence of individual coffee farmers to the production side and coffee marketing cooperatives, Unions, wholesalers/suppliers and Exporters to the marketing side was the member of the coffee marketing structure as shown on figure 9 below.

Figure 9: Coffee marketing structure at different type of traders



Source, Authors survey, 2016

There are generally two paths in the Ethiopian Coffee Marketing chain; one through Ethiopia Commodity Exchange (ECX); and other a direct export path through Producers & Growers and cooperative unions. Certified coffee is only sold through the Producers & growers and cooperative unions and is directly exported to different countries in the world.

Ethiopia Commodity Exchange

The Ethiopian Commodity Exchange is a market place in Addis Ababa where most coffee needs to bypass. It was established in 2008 to rationalize the marketing chain for coffee, and to create an efficient, reliable and transparent market place for buyers and sellers (ECX Annual Report, 2009).

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

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

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

The cooperative unions

There are numerous cooperative unions established in Ethiopia, The structure and regulations of the cooperative unions are the same. They are licensed to bypass the coffee auction (ECX) and can export their coffee directly. Under each union there are a number of Primary Cooperatives (PC's) with which the farmers can be members.

The PC's buy the coffee from its members at a price, set by the local market conditions (competition between cooperatives, local traders and wholesalers). When the union buys the coffee from the PC, they pay the current market price set at ECX for the specific kind of coffee. When the union sells the coffee to foreign importing companies, 70% of the net profit is paid back to the primary cooperatives. In turn the primary cooperatives, pay back 70% of their net profit as dividend to the farmers (Dahlberg, 2011).

The cooperative unions are located in Addis Ababa and are exporting coffee directly, bypassing the auction at ECX. The price received for their coffee is based on the NYBOT reference price. The dividend structure is government controlled and is the same for all cooperatives. Dividends to farmers are paid out on an annual basis at low season (Dahlberg, 2011).

Table 4: Coffee marketing structures at different type of Exporter

Type of Trader	Structure I		Structure II		Structure III	
	Fr.	Percent	Fr.	Percent	Fr.	Percent
Cooperatives & Unions	4	9.75				
Producers & growers			10	24.39		
Exporter					27	65.85

Source, Authors survey, 2016

As indicated in table 4 above, about 65.85% of traders were followed Structure III which is coffee supplied to the export market by a very large number of intermediaries in the market, it is the longest path among others. This caused to high transaction cost, gaps in the transfer of market information, high product cost and late shipment. 24.39 % of traders were followed Structure II which coffee is supplied to export market by themselves (Producer & Exporter). Structure I consisted 9.75% of traders. Traders involved in this structure are Cooperative unions. In a primary cooperatives coffee is supplied to the market by a very large number of farmers, where no producer affects the functioning of other.

4.4 Traders Business Type

The result shows in Table 5, the highest percentage was scored 65.85% by exporters, the medium was 24.39% by producers and exporters and the lowest scored was recorded 9.75% by cooperative unions. Accordingly the maximum variation was recorded by exporters who bought coffee at ECX auction center to export. This result was significantly different from the remaining two business type. This variation could be due to the fact that 24.39% of the sampled traders were Producers & Growers who are export coffee directly to international market and the rest 9.75 were Cooperative unions who are collect coffee from their member farmers and export to their customers.

Table 5: Distribution of traders by business type

Type of business	Frequency	Percent
Producer & Grower	10	24.39
Cooperative & Union	4	9.75
Exporter	27	65.85

Source, Authors survey, 2016

4.5 Export performance share

In this study, three Type of traders namely: Producer & Exporters, Cooperative unions and Exporters are actively participated in the coffee marketing activities.

The efficiency of each trader has been computed by their yearly exported coffee (coffee exported/country's exported coffee) in terms of quality and value based on the data they filled from 2011 to 2015 production years. As indicated in table 6, exported coffee is unstable and shows a decline trend from year to year

4.5.1 Export performance in quantity

According to the data Ethiopia's coffee export performances during the study period in the consecutive five years (2011-2015), the highest performance in quantity was recorded in the year 2013 and the lowest was recorded in the year 2012. These coffee export performance has comprised the share of all actors which involved in coffee export. Those are producers and exporters, cooperative unions and Exporters. The shares of these three main actors are appeared in the graph. The majority of coffee exports in the hands of exporters and scored the highest share in the year 2011 and share of 56.63%, the lowest share was scored 11.47% by Producers and exporters.

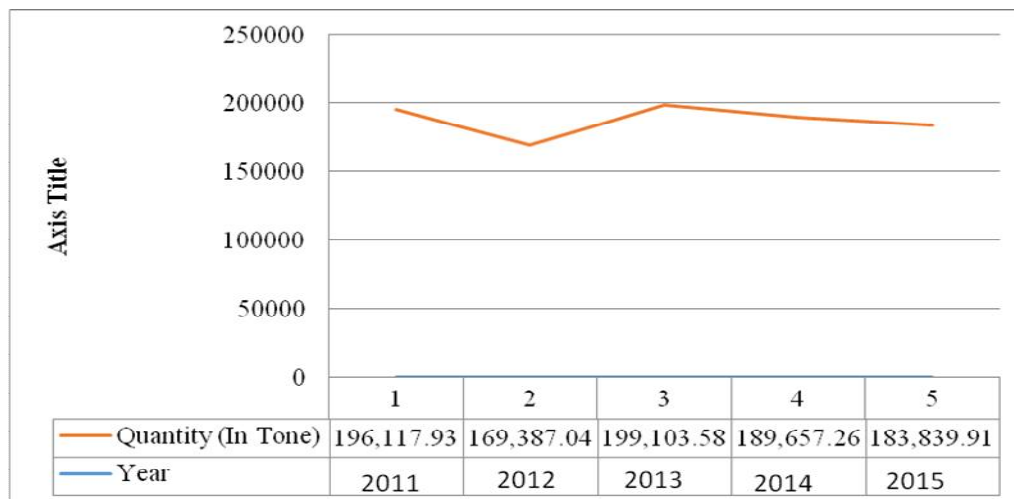
The share of exporters in quantity exported in 2011 was 56.63% followed by cooperative unions and Producer and growers 30.25% and 13.12% respectively. In 2012, share of 15.42% in quantity was recorded by producer and growers, cooperative unions share was 35.03% and the remaining 49.55% was shared by exporters. In 2013, cooperative unions have recorded a share of 32.27% in quantity, the highest share was by exporters 56.26% and the lowest share was 11.47% recorded by producer and growers. In 2014, Exporters have taken a share of 54.66% from the total of exported coffee in quantity by the country, 32.39% and 12.95% was taken by cooperative unions and producer and growers respectively. In 2015, from the total exported coffee in quantity 14.53% was by producers and growers, 33.16% and 52.31% was recorded by cooperative unions

and exporters respectively. With the five year coffee export performance the highest export share was recorded 56.63% by exporters in 2011, and the lower export share was 11.47% by producers and growers in the year 2013 have shown in Figure 11

From this analysis coffee export performance was decline after the peak year of 2013 this is due to the fact that, coffee export sector over the last decade document the characteristics of the sector, the policy shifts affecting the sector, and the important structural changes that have occurred in Ethiopia’s coffee export market during this period . In addition to this, change has mostly been driven by increases in international prices and to a lesser degree by quality of coffee exported.

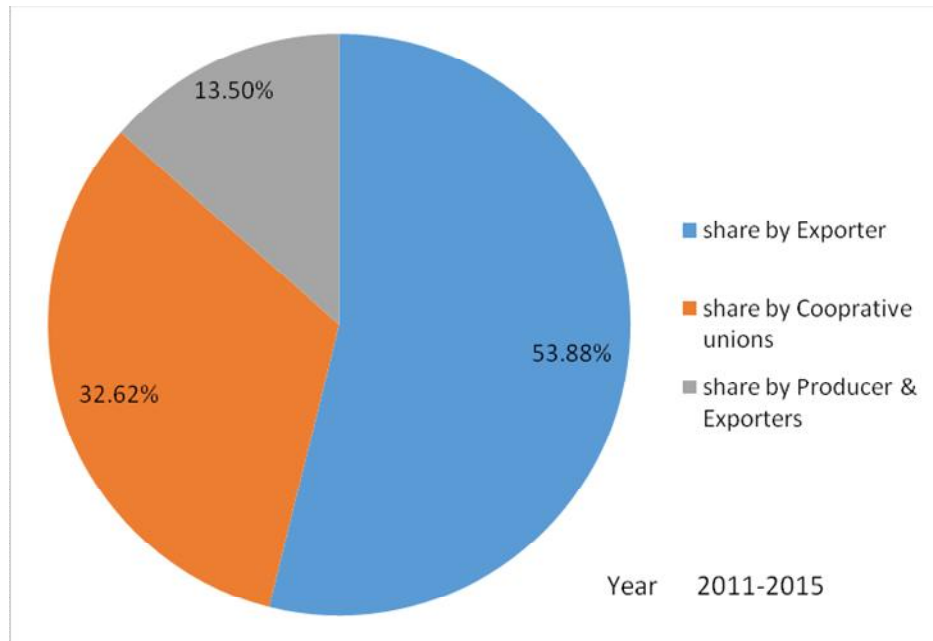
The present result is similarly reported by ICO, (2013). Few researchers have looked at how domestic policy change is affecting the performance of the coffee sector in these exporting countries. We look at the structure and performance of the coffee export sector in Ethiopia Its share of the international coffee trade that year was about 3 percent. Coffee is the most important export product of the country, On the other hand similarly reported by World Bank, (2014). The shares of incumbent firms are large possibly because if the expertise and reputation required to gain market share in the coffee export business.

Figure 10: Export Coffee performance by quantity



Source, Authors survey, 2016

Figure 11: Coffee export performance by different exporters in quantity



Source, Authors survey, 2016

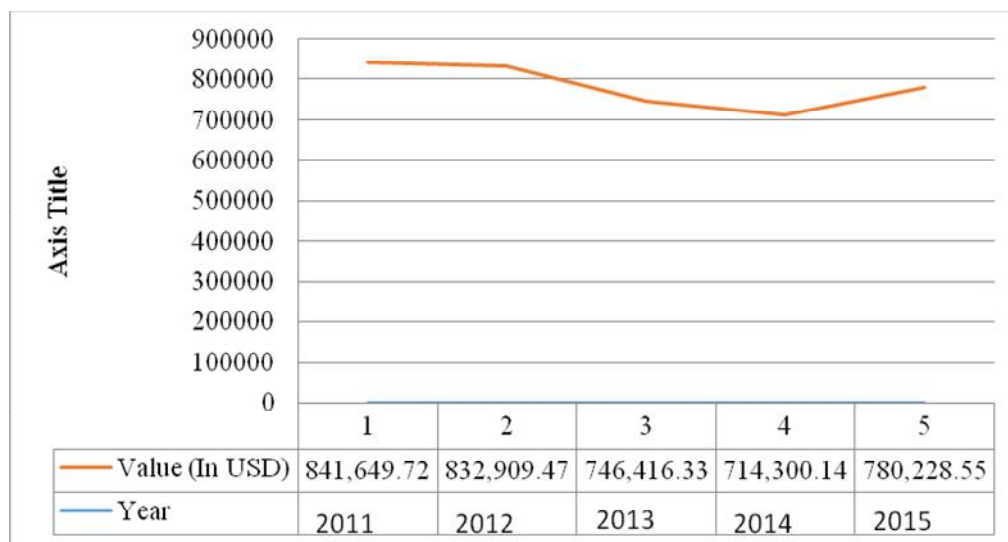
4.5.2 Export performance in value

According to the data Ethiopia's coffee export performance during the study period in the consecutive five years shows the highest value in USD was scored in the year of 2011 and the lowest value scored in the year of 2014 as shown in figure 12. This result found by the three exporter's actors involved in coffee exports from producers and exporters, cooperative unions and Exporters this three main findings appeared in Figure 13. The majority of coffee exports in the hands of exporters was scored the highest value USD with average mean of 50.08% and the lowest value was scored 11.9% found by Producers and exporters.

The share of exporters from the country's exported coffee in 2011 in value (USD) amount was 45.24% share, cooperative unions was a share of 39.84% recorded and the remaining 14.92% share was by producers and growers. In 2012, producers and growers was recorded share of 11.52% from exported coffee in value, 40.87% and 47.61% was recorded by cooperative and unions and exporters respectively. From exported coffee in 2013, 56.67% of share was recorded

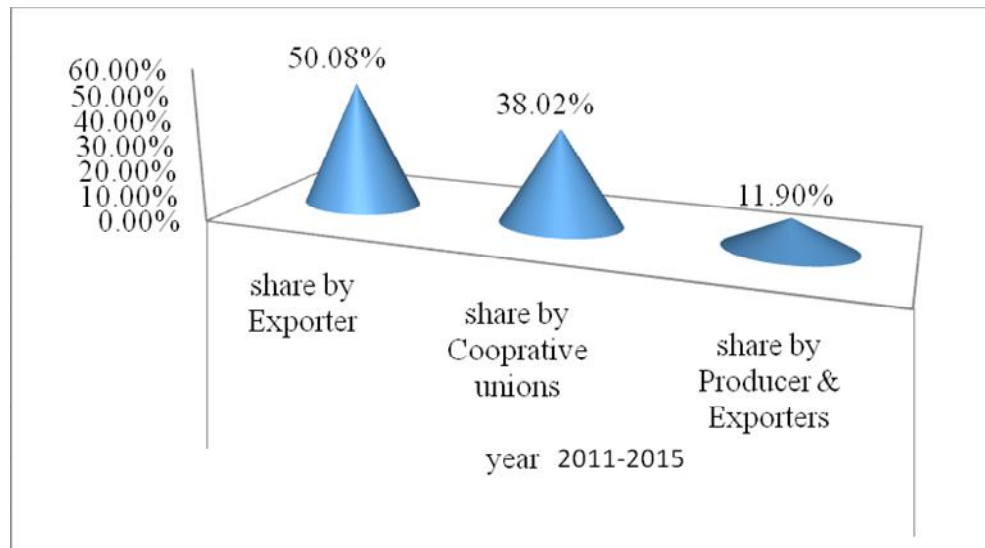
by exporters which is the highest in the five year export performance, 32.97% share was by cooperative and unions and the remaining 10.36% was by producers and growers which is the lowest. In 2014, 11.13% value share of exported coffee was recorded by producers and growers, 37.43% share was by cooperative and unions and 51.44% value share was recorded by exporters. in the fifth year 2015, Exporters was recorded share of 49.43% from the total exported coffee followed by 38.99% and 11.58% by cooperative and unions and producers and growers respectively as shown in Figure 13 below

Figure 12: Export Coffee performance by USD



Source, Authors survey, 2016

Figure 13: Coffee export performance by different exporters in USD



Source, Authors survey, 2016

4.6 Analysis of coffee marketing problems at different levels

The result shows in Table 6, in coffee marketing constraints the highest was scored 41.46% poor quality coffee as a major constraint, 29.27% scored lack of market and the remaining 12.2%, 9.76% and 7.3% are supply of quality coffee, volatility of international market price and lengthens of market chain respectively. According to this result the variation shows

Most traders, about 41.46% of the sample respondents confirmed that poor quality coffee was the major problems that affect the potential of coffee to fetch reasonable price at the export markets. The major reasons stated by traders were poor quality coffee created during the time of harvesting, processing, packaging and handling system at different producers and suppliers, and poor warehouse management at ECX regional center resulted in deterioration of coffee quality. Moreover, international markets are oriented quality coffee, due to this reasons the export performance of coffee has decreased.

About 29.27% of the traders confirmed that lack of marketing. This problem is a great pillar for the performance for coffee export. However, coffee marketing requires promotion in different international coffee exhibition. And timely and reliable market information is widely accepted service. Due to this reason coffee market efficiency and its performance was gradually reduced.

About 12.20% of respondents were identified Supply of quality coffee as problem. This is due to the case of skills and knowledge gaps by coffee producers, processors and exporters. Most of the times coffee quality was not started at producers level during harvesting red rip cheers and processing at the dry and wet meal stations. Because of this reasons the supply of quality coffee will be reduced. In addition, poor harvesting, handling and processing techniques and higher consumption in the local market lead to waste and reducing the supply of coffee.

The present result similarly reported by kumsa, (2015). The volume of Coffee supplied by members to the union has the significant impact on export marketing activity of union. As the volume of coffee supply increases, the volume of export sale also increases. confirmed that World supply of coffee was significant both in the long run and short run. The direction of this variable in the long run as well as in the short run was consistent and it showed negative sign with the coffee exports, and its effect to the total export of coffee was inelastic in the short run and long run.

International coffee market price volatility was reported by some of sampled respondents as another constraint for coffee exported as reported by 9.76% of coffee traders.

The present result similarly reported by Tesera, (2011). The higher export price exert a positive influence on coffee supply to the export market. The coefficient of lagged export price is positive and statistically significant indicating that favorable price regime is required to increase coffee supply to the export market. Asfaw, (2014), also confirmed that price volatility has significant consequences for those who depend on coffee for their livelihood, making it difficult for growers to predict their income for the coming season and budget for their household and farming needs.

When prices are low, farmers have neither the incentive nor resources to invest in good maintenance of their farms by applying fertilizers and pesticides or replacing old trees.

Table 6: Distribution of coffee traders by their perception about export coffee marketing problems in the country

Problem	N=41	
	Frequency	Score in %
Supply of quality coffee	5	12.20
Lack of market	12	29.27
Poor quality	17	41.46
International market price volatility	4	9.76
Lengthens of market chain	3	7.3

Source, Authors survey, 2016

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Coffee plays a major role in Ethiopia's economy and is deeply intertwined with cultural traditions and day-to-day living. There are an estimated 15 million people, or approximately 15 percent of the country's total population, who derive their livelihoods from coffee. Currently, Ethiopia is the leading Arabica coffee producer in Africa, the fifth largest worldwide and the tenth in coffee exports worldwide.

The starting and leveraging points for Ethiopian coffee sector development is the market. A comprehensive market chain approach is an excellent framework to direct business development and market linkages. Linking coffee producers to international markets in an economy such as Ethiopia's where many of the requisites to successful participation in overall markets are so weak requires institutional and capacity building carefully provided to support market chain expansion. Ethiopia's coffee market chain is composed of a large number of actors. It includes coffee farmers, collectors, different buyers, processors, primary cooperatives, cooperative unions, exporters and various government institutions.

The purpose of this study was investigate coffee marketing chain and its export performance on the GDP. The study aims to examine the problems in relation to coffee marketing chain and export performance.

In light of this objective the study adopted quantitative method of research approaches to test a series research questions and cross-sectional research design. Specifically, the required data for this study were collected through close ended questionnaires with descriptions and from different published and unpublished materials and documents. The sampled exporters were selected based on

systematic random sampling method from the total coffee exporters to avoid biases and represent all the coffee exporters. Consequently, the study selected a sample of forty one (41) coffee exporters from the total of 206 observations found in Addis Ababa. Data was then analyzed on quantitative basis using descriptive analysis.

The descriptive statistics shows that the average working year of the sampled exporters were about 6.5 year. About 43.9% of the respondents were worked from 5 to 7 year, 29.27% of traders were worked from 8 to 10 year, and the remaining 26.83% were in 11 to 13 year, with its minimum and maximum year of 5 and 13 respectively.

The marketing channel of coffee was characterized by the participation of different marketing agents such as producers, collectors/wholesalers, cooperatives unions, and exporters. In this study, three coffee marketing channels were identified, in which coffee was passing from producers to the final consumers. About 70.73% of the total exporters was involved through channel III, 19.51% and 9.75% of coffee exporters were engaged in channel I and II respectively. On the other hand individual coffee farmers, coffee marketing cooperatives, Unions, wholesalers/suppliers and Exporters was the member of the coffee marketing structure. As presented in figure and table, about 65.85% of sampled respondents were followed Structure III which is coffee supplied to the export market by a very large number of intermediaries in the market. 24.39 % of were followed Structure II which coffee is supplied to export market by themselves (Producer & Exporter), the remaining 9.75% were in Structure I in this structure mainly primary cooperatives and unions was found.

As presented in Table, most of the respondent's business type 65.85% were private coffee exporters, and 21.95% and 12.20% were producers and exporters and Cooperative unions respectively. Accordingly the maximum variation was recorded by private exporters who bought coffee through ECX auction center for exported. This result was significantly different from the remaining two business type.

Ethiopia's coffee export performance during the study period of five year from 2011 to 2015 have been reduced. However, the highest performance in quantity was scored in 2013 and the lowest was recorded in 2012. Additionally, the highest value in USD was scored in the year of 2011 and the lowest value scored during 2014. However, the overall coffee export performance of the country have been the result of the above three type of coffee exporters. During the study period the highest share in terms of quality and value (USD) was captured by private exporters which scored the average mean of 53.88% and 50.08% respectively. The lowest was scored by private producers and exporters in the average mean of 13.50% and 11.90% for quantity and value (USD) respectively over the study period.

Constraints related with coffee marketing which have an impact on the efficiency and better export market which identified by sampled coffee exporters the highest scored about 41.46% was poor quality coffee, lack of market was captured 29.28%, supply of quality coffee, volatility of international market price and lengthens of market chain were scored 12.20%, 9.76% and 7.3% respectively.

Generally, the study revealed three most commonly prevalent coffee marketing channel for Ethiopian coffee in which coffee was passing from producers to consumers. Through the first channel private producers and exporters are involving. They have own farms and privilege to export coffee directly to the international market. Their coffee passing through ECX only for cupping and grading. Cooperative unions are using the second channel for exporting their coffee directly to their buyers. Like Producers and exporters their coffee are passing ECX for cupping and grading before sending. The principal and the most dominant channel in the Ethiopia coffee market and existing larger number of marketing agents through which coffee passes from producers to collectors or wholesalers and then processed coffee beans pass from wholesalers to auction market and from auction market to exporters for export is channel III.

5.2 Conclusions

From the data analysis made in the study, the following facts have become apparent:

- I. Even though Ethiopia's coffee is the best in the world, poor quality coffee problem due to harvesting, processing, packaging and handling system at different producers and suppliers, and poor warehouse management at ECX regional center resulted in deterioration of coffee quality. On the other hand, because of the international markets are characterizing by quality coffee oriented, the export performance of coffee is decrease. Moreover, almost all coffee exports are in raw form without any value addition;
- II. Export market is a great pillar for the performance for coffee export and it requires promotion in various international coffee conferences and exhibitions. However, Ethiopia's coffee is the least promoted in the world market. in addition, there are inadequate marketing information centers on coffee supply and qualities, etc. As a result, the efficiency and performance of the coffee market is gradually reducing
- III. Ethiopia's coffee export performances during the study period in the consecutive five years (2011-2015), the highest performance in quantity was recorded in the year 2013 and the lowest was recorded in the year 2012. These coffee export performance has comprised the share of all actors which involved in coffee export. Those are producers and exporters, cooperative unions and private exporters. The shares of these three main actors are appeared in the graph. The majority of coffee exports lay in the hands of private exporters and scored the highest share in the year 2011 and share of 56.63%, the lowest share was scored 11.47% by Producers and exporters. The highest value in USD was scored in the year of 2011 and the lowest value scored in the year of 2014. The majority of coffee exports in the hands of exporters was scored the highest value USD with average mean of 50.08% and the lowest value was scored 11.9% found by Producers and exporters.
- IV. The dominant and maximum coffee marketing channel is recording by chain III, in this chain the key actors are private coffee exporters. Similarly, the dominant coffee marketing structure in Ethiopia is structure III, in which coffee should passing through ECX auction centers. This could

be due to the fact that the changes in policy and structure of Ethiopian coffee export sector, this associated with the starting of Ethiopian Commodity Exchange. Due to this, these coffee marketing channel and structure were formed.

V. Regarding the handling of coffee throughout the market structure, the study confirmed that especially for private coffee exporters who buy their coffee at central auction market sometimes they didn't get the right quality and quantity of coffee like what they purchased before. This is due to poor warehouse management at ECX regional center and during transportation for delivering to the private exporters the quantity also reduce.

VI. Important structural changes are happening in coffee markets internationally and locally within Ethiopia with significant implications on performance and, ultimately, on the livelihoods of local smallholder coffee producers, given their high dependence on coffee as a major source of income. Domestically, there have also been important policy changes related to the start of the Ethiopian Commodity Exchange (ECX), a modern marketing system based on warehouse receipts, interventions by the government in the issuing of export licenses, and changes in the export tax structure.

5.3 Recommendations

Based on the findings of the study the following suggestions are put forward to improve the performance of export coffee and its contribution to the country's economic growth.

- ❖ The demand for specialty and certified coffee has quickly grown in global markets by considering this two things the major actors who are involving in producing and exporting of coffee should be focus on producing and exporting of specialty coffee:
- ❖ The performance of export coffee by quantity and value of hard currency is declined for the consecutives years and very low as to compare to others similar coffee export countries. There apparently are significant opportunities for increasing the performances of export coffee, support at different levels of traders should identify and focus the demands of international markets by quality and quantity. However, by keeping the quality procedures from harvesting, processing, packaging and transporting up to the final customers all stockholders should be focusing at different levels of this mandates:
- ❖ To improve the performance of export coffee and to make the producers and exporters more benefiter, developing strong link between the market chain actors is very important. It is also important to increase coffee production, productivity, sales value and marketing by international level it needs standard quality level improvement is very important for the coffee producers and private exporters output by using coffee production and marketing chain governance.
- ❖ Certification of coffee farms can be powerful tools for value addition, access to a market, income generation and support country's economy:
- ❖ The trend in coffee export can be improved by improving the quality of coffee to international standards and the export quantity of coffee can be increased by offering intentional competitive price and the process of harvesting, processing and packing should use advanced technology to preserve the quality and taste:

- ❖ By increasing the number of cooperative unions the coffee sector can be more strength and give benefits to small holder farmers.
- ❖ The increasing number of actors and intermediaries in the chain and structure is leading to higher transaction costs, quality distortion, delay of shipment, and etc. These factors have a share for the declining of the country's coffee export performance:
- ❖ Further studies should be done by focusing on other export commodities to improve and increase the country's economy.

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APPENDICES

St. Mary's Unverstiy
Department of Accounting & Finance
Annex- 1 Questionnaire

This questionnaires is prepared by the student researcher of St.mary's university for the partial fulfillment of MBA degeree on accounting and finance. This research aimed by analysing coffee marketing chain and export performance on the economic growth of ethiopian GDP. All information will be kept confidential. Beliving of that your reliable and honest response will be great contribution to the success of the study.

Therefore, your response in this regard helps a lot to undertake the study. The result of this study will be treated with at most confidentially and will be strictly used for acadamic purpose only. The researtcher thus appreciates in advance your cooperation and sparing your valuable time in responding this questionnaire.

Prepared by: Abiy Temtime

MBA student

E-mail- abiyman333@yahoo.com

March, 2016

Addis Ababa, Ethiopia

Part I: Traders Characteristics

1. Name of organization

2. Year of your business establishment

3. Established Initial Capital

4. Source of capital

- 1) Bank loan
- 2) Own & Loan
- 3) Own
- 4) Borrow

5. Did you start coffee export?

- 1) Yes
- 2) No

6. If your answer for Q5, When did you start?

7. Which business type are you?

- 1) Producer & Exporter
- 2) Collector & Exporter (Cooperative, Union)
- 3) Exporter

8. For how many years have you been involved in coffee export?

- 1) 1 – 4 years
- 2) 5 – 7 years
- 3) 8 – 10 years
- 4) 11 – 13 years 5) 14 – 17 years

Part II: Trade &Marketing Structure

9. Where did you buy your export products

- 1) Ethiopian commodity exchange
- 2) Other growers and suppliers
- 3) Own farm

10. Did you get the right quality & quantity of coffee that you purchased from ECX?

- 1) Definitely
- 2) Probably not
- 3) Definitely not

11. If your answer is probably not & under, what are the major problems you are faced?

12. What benefit(s) you are obtaining from ECX?

- 1) Increase information
- 2) Increase transparency
- 3) Reducing cost
- 4) Other (please specify)

13. In which marketing channel you are involving?

- 1) Producers → Cooperatives → Unions → Export
- 2) Producers & Growers → Export
- 3) Producers → Wholesalers → Auction → Exporter → Export

Part III: Export Performance

14. How do you rate the last Five years of your coffee export performance in terms of quantity?

- 1) V. good
- 2) Good
- 3) Satisfactory
- 4) Poor

15. If your response is poor, please state the major constraints for those export performance.

16. How do you rate the last Five years of your coffee export performance in terms of Value?

- 1) V. good
- 2) Good
- 3) Satisfactory
- 4) Poor

17. If you are involved in coffee export activities for the consecutive years, how much quantity did you exported per year?

Year 1 _____, Quantity in quintal _____, Total value in USD _____

Year 2 _____, Quantity in quintal _____, Total value in USD _____

Year 3 _____, Quantity in quintal _____, Total value in USD _____

Year 4 _____, Quantity in quintal _____, Total value in USD _____

Year 5 _____, Quantity in quintal _____, Total value in USD _____

18. How do you rate the time to receive the coffee after you purchased from ECX?

- 1) V. good
- 2) Good
- 3) Fair
- 4) Poor

19. If your response is Poor and below please state your reason

20. How do rate the coffee market chain from farmers until exporters?

- 1) V. Strong
- 2) Strong
- 3) Fair
- 4) Poor

21. Did you get market information at the right time?

- 1) Yes
- 2) No

22. If your answer for Q21 is yes, from where did you mainly get market information?

- 1) ECX
- 2) Trade Minister
- 3) NBE
- 4) ECX & ECEA
- 5) Others (Specify) _____

23. What type of information did you get?

- 1) Price information
- 2) Market information
- 3) Quality information
- 4) Others (specify) _____

24. At what time interval did you get the information? (√)

- 1) Daily

- 2) Weekly
- 3) Monthly
- 4) Other (Specify) _____

25. The Quality of coffee have an impact on export price?

- 1) Strongly Agree
- 2) Agree
- 3) Neither Agree or Disagree
- 4) Disagree
- 5) Strongly Disagree

26. Who set the selling price of coffee?

- 1) My self
- 2) Buyers
- 3) Set by demand & supply
- 4) Negotiation

27. Which method of payment did you use?

- 1) LC
- 2) Cash in Advance
- 3) Others (specify) _____

28. Did you get the right quality & quantity of coffee that you purchased from ECX?

- 1) Definitely
- 2) Probably not
- 3) Definitely not

29. What are the overall coffee export constraints on your business? (Rank vertically)

No.	Constraints	No.	Rank
-----	-------------	-----	------

1	Small supply of coffee	1
2	Access to Market	2
3	Poor quality	3
4	Transportation	4
5	International market price	6
6	Lengthens of market chain	7

Part IV: Stakeholders

30. What the major stack holders for your companies are during the time of export your product?

- 1) Ministry of Trade
- 2) Ethiopian commodity exchange
- 3) Ministry of Agriculture
- 4) National Bank of Ethiopia
- 5) Ethiopian revenues and customs authority

31. Are those stake holders' gives a better technical support?

- 1) V. good
- 2) Good
- 3) Fair
- 4) Poor

32. If your response is poor and satisfactory, please state the major constraints

33. What do you advise to take a corrective measurement from each stack holders?

- a. Ministry of Trade

b. ECX

c. NBE

d. ERCA

34. How is the relationship with your clients and their response regarding the coffee?

35. If your answer is poor, please state the major problem

Thank you for your Patience!!

The Researcher

Signature: _____
