

"The Effect of global value chains participation on returns of smallholder coffee farmers in Ethiopia".

By
Kingsley N Emeana
Doctoral research Student
University of the West of Scotland
Kingsley.nnamdiemeana@uws.ac.uk

And

Centre for African Research on Enterprise and Economic Development (CAREED)

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Introduction

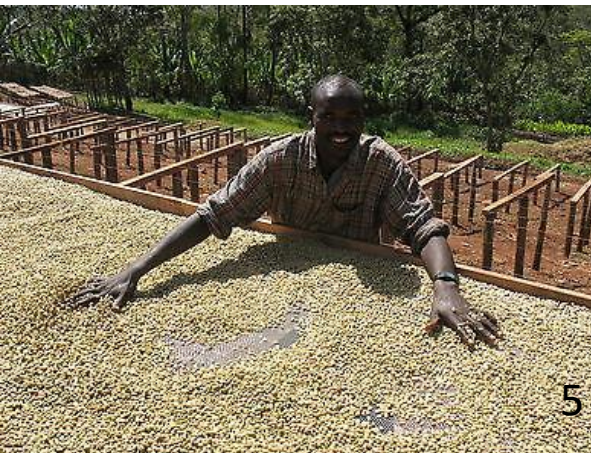
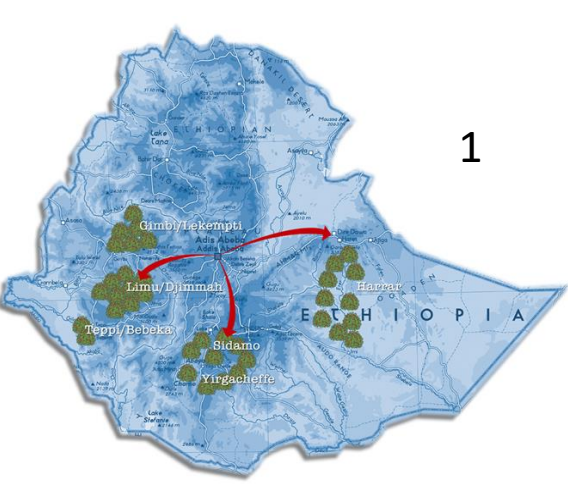
- Smallholder farmers are mainstay of agricultural production in developing countries.
- Smallholder farmers are defined in terms of: **land_size** (varies according to countries) and **units of labour** (FAO, 2004; OECD, 2015; UNCTAD, 2015a).
- 2.5 billion people globally depend partially or completely on agricultural production for means of livelihood (UNCTAD, 2015b).
- 1.5 billion of them are smallholder farmers and they supply 70% of the total global food production (FAO, 2011; UNCTAD, 2015b).
- More than 85% of coffee producers worldwide are smallholder farmers and they produce in the rural areas (Assefa et al., 2015).
- Coffee: world's favourite beverage and largest consumed commodity; also second most traded commodity, is predominantly produced by smallholders in developing countries (Minten et al., 2014; Fundira, 2015).
- Coffee production overall has been in decline for two consecutive year while consumption has increase with about 1.3% contributing to coffee price volatility (ICO, 2017b).

Coffee production in Ethiopia

- Ethiopia regarded as the birthplace of Arabica coffee and is known for its high quality.
- Coffee is very significant in social gathering and local consumption.
- Ethiopia consumes up 50% of its coffee production (Ferris et al., 2014; Minten et al., 2014; Troster, 2015).
- Coffee production is predominately in rural areas mainly in the South and West of Ethiopia with Yirgacheffe, Sidamo and Haraar the leading areas for premium quality coffee.
- Eighth largest exporting country in the world and second largest in Africa after Uganda with Brazil largest exporting country in the world (ICO, 2017a).
- Coffee exports account 30% of Ethiopia's total foreign exchange revenues (Troster, 2015; Mohan et al. 2016).
- From an overall population of 105 million 15 million people depend on coffee production for survival and 1.2 million are smallholder producers,(Ferris et al., 2014; Troster, 2015; Wordometer, 2017)
- Most coffee smallholder farmers belong to a cooperative and produce on less than 2ha of land (Ferris et al., 2014; Minten et al., 2014; Troster, 2015).
- Cooperatives play significant role in aggregating small quantities of coffee from smallholder farmers and export through coffee unions.
- The quantities produced are often too small to meet the requirements of participating in global value chains (GVCs).
- Inefficient transport systems, collection processes, unorganised and fragmented markets, poor processing methods, traceability issues are factors affecting coffee production

Global Value chains Participation and Coffee returns

- Global value chains (GVCs) is a framework that have become very prominent amongst economic development researchers.
- Argument whether GVCs is to advance neo-liberal or pro-poor development objectives (Dalle et al. 2014).
- GVC provides a platform form economic and social upgrading.
- GVCs participation offers opportunities and threats to participating countries/firms.
- Ethiopia is at the bottom of coffee value chains (Producers).
- Most smallholder farmers are not export oriented and lack the capacity to participate in the GVC (Volume, bargaining power, storage, and technicalities).
- Cooperative unions act as agents for these producers in the international market.
- GVCP associated with efficiency and value, how efficient is Ethiopian coffee sector?
- Ethiopian Commodity market (ECX) a former market to interact between global market and domestic producers? Many of these smallholder farmers and their cooperative unions participate in this Exchange market?
- Survey showed 418 smallholder farmers and their cooperatives trade direct in the domestic market and foreign buyers.
- Processing and traceability.
- Quality
- Access to finance.



Empirical approach

- This study aims to contribute to the empirical literature by examining the robustness of factors frequently suggested in previous academic papers in predicting the **probability of participation in the international coffee market** by small scale producers in Ethiopia compared with their large scale counterparts.
- **Dependent variable** is the measure of participation in the international coffee export market. From the questionnaire, this is captured by the response to question 23 recoded as (yes = 1, No = 0)
- Explanatory variables: Two explanatory variables to test GVCP used which are returns (captured in question 21) and productivity (captured **18/13**)
- Out of 600 farmers surveyed in 3 different regions (Harar, Sidama and Yirgacheffe) 583 where correctly answered and returned.
- But the focus for today is on Just GVCP.

- Binary logistics was used to run the regression.
- $GVCP_i = \alpha + \beta_1 P_i + \beta_2 R_i + \varepsilon_i$
- Where GVCP means Global value chains Participation (Question: 23)
- P means productivity (Questions 18/13)
- R means Returns (Question: 21)

Result

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	P	.702	.228	9.495	1	.002	2.018
	R	-.062	.200	.096	1	.756	.940
	Constant	-2.672	.344	60.272	1	.000	.069
a. Variable(s) entered on step 1: P, R							

Findings and Conclusions

- Too many middlemen
- Lack adequate storage facilities and processing facilities for the cooperatives
- Absence of private investors and extension services.
- Bank requirements and collateral barrier to credit access.
- Large domestic consumer market
- Lack of rural road network
- Inefficient means of transportation
 - Rural-Urban migration
 - High level of illiteracy amongst these farmers
 - Inefficient manpower
 - Manual farming process
 - Khat farming competing with coffee production (Risk management mitigation)
 - Government working to improve road network
 - Police recommendation: Warehouse receipt to be issued to smallholder farmers and duration increased.
 - Strong Private Institutions encouraged.

Thanks for Listening

