POLITICAL ECONOMY OF THE COFFEE FILIÈRE IN ETHIOPIA

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Submitted in accordance with the requirements of the degree of PhD

The University of Leeds
Institute for Politics and International Studies

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The candidate confirms that the work submitted is his own and that appropriate credit has been given where reference has been made to the work of others

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Acknowledgements

I am grateful for the support, encouragement and advice of my supervisor, Professor Lionel Cliffe, and for the help willingly given by so many people in Ethiopia, including those in national and state government departments, officials of the Coffee and Tea Authority, coffee traders and exporters, academics and librarians at Addis Ababa University, and farmers and merchants in rural areas. I have also greatly benefited from the resources of the library of the International Coffee Organization in London.
ABSTRACT

In this thesis the coffee filiere in Ethiopia is studied from a historical and institutionalist perspective. Although it may also be regarded as part of a global commodity chain, the French concept of a filiere, which addresses social and institutional contextualisation, offers deeper insight into the characteristics and origins of a national marketing structure. Accordingly, the current marketing structure of coffee in Ethiopia is the end result of an evolution in which the various agents, regulations and controls are derived not only from sector specific history, dating back mainly from post-1941, but also from their setting, or embedding, in a state system which has itself evolved in a centralising and controlling fashion. The latter owes much to the prolonged period of rule by Haile Selassie, effectively from 1918 to 1974, in which consolidation of the Ethiopian state was confirmed against politicised ethnic and factional opposition, in a pattern distinct from that of former European colonies in Africa. This influence of the past is not so much a legacy as a continuing process in which pressures to centralise, to control, and to subvert regional opposition remain dominant. This has taken different forms through the three principal regimes of the last hundred years: the Imperial under Haile Sellassie (1918-74), the Revolutionary (1974-91), and the present dominated by the Tigrai People's Liberation Front. The tendency is pervasive and is manifest in the institutions of the coffee filiere which derive substantially from the decades of the 1950s to 1970s. These continue to retain the essential structure of that period, reflecting also the continued small-holding nature of production, despite the introduction of federalism and the concentration of the country's coffee production in the two states of Oromia and SNNP. Although a class analysis of the current situation is difficult a Marxian type of political economy, which addresses the issues of political and economic power, is shown to be a more relevant approach to understanding this process, and its links with the global coffee chain than that of schools of thought associated with the New Institutional Economics, Rational Choice Analysis or a more conventional historical institutionalism.
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ABBREVIATIONS

Association of Coffee Producing Countries
Amhara National Democratic Movement
Coffee Board of Kenya
Coffee Improvement Project
Commission for Organizing the Party of the Working People of Ethiopia
Communist Party of the Soviet Union
Central Statistics Authority
Cocoa, Sugar and Coffee Exchange
Coffee and Tea Authority
Democratic Republic of the Congo
Ethiopian Birr
Ethiopian Coffee Export Enterprise
Ethiopian Fiscal Year
Eritrean People's Liberation Front
Ethiopian People's Revolutionary Democratic Front
Food and Agriculture Organization
Free on Board
Fiscal Year
Global Commodity Chain
Gross Domestic Product
International Coffee Agreement
International Coffee Organization
International Monetary Fund
International Trade Centre
London International Financial Futures Exchange
Mean Average Percentage Error
Ministry of Economic Development and Cooperation
Monopolies and Mergers Commission
Maria Theresa Thaler (Dollar)
New Institutional Economics
Oromo Liberation Front
Oromo People's Democratic Organization
Price Differential Committee
Provisional Office for Mass Organization Affairs
Addis Ababa
Southern Africa Customs Union
Somali Abo Liberation Front
Southern Nations, Nationalities and Peoples
Transnational Corporation
Tigray People's Liberation Front
United Nations Development Programme
Workers' Party of Ethiopia
World Wide Web
Ethiopia

Source: FAO World Coffee Survey

Coffee

- Coffee
Chapter 1

Introduction: Coffee in Ethiopia, Filieres and Institutions

1.1 Introduction

Ethiopia contributes only a small amount to world exports of coffee, averaging 2.2% during the period 1994-2000 and generally ranks around thirteenth in terms of volume exported. Globally, it is a small, though significant, player. It is also known, possibly correctly, as the ‘home’ of coffee and has been producing and exporting Arabica coffee beans at least since the seventeenth century. As such it is also important today for its genetic variety and for the varied types which are grown in different zones of the country. Since the beginning of the twentieth century coffee has also been the country’s principal earner of foreign exchange, contributing (until the recent dramatic fall in prices) some 60-66% depending upon the level of international prices. Some indication of volume and share of exports in recent years is given in Table 1.1. There are two important points that can be made immediately from these initial observations. One is that the crop has been, and remains, of great significance in the political economy of the country, both as a taxable activity and as a resource for the generation of foreign exchange, and another is that it provides the country’s principal link with the global economy. Each of these has had profound implications for the pattern of domestic production and for the institutional nature of the channels of distribution and export of coffee in Ethiopia and which together form the subject of this thesis.

Table 1.1 Ethiopian Coffee Production and Exports 1996-2000

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<th>Coffee Exports (m.bags) (2)</th>
<th>Coffee Exports (m.US$) (3)</th>
<th>Total Exports (m.US$) (4)</th>
<th>Coffee Share of Exports (3)/(4)</th>
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<tr>
<td>1996</td>
<td>3.270</td>
<td>1.838</td>
<td>278.5</td>
<td>417.4</td>
<td>0.667</td>
</tr>
<tr>
<td>1997</td>
<td>2.916</td>
<td>1.980</td>
<td>349.7</td>
<td>553.9</td>
<td>0.631</td>
</tr>
<tr>
<td>1998</td>
<td>2.745</td>
<td>1.917</td>
<td>381.9</td>
<td>560.3</td>
<td>0.682</td>
</tr>
<tr>
<td>1999</td>
<td>3.505</td>
<td>1.818</td>
<td>269.1</td>
<td>448.5</td>
<td>0.600</td>
</tr>
<tr>
<td>2000</td>
<td>2.768</td>
<td>1.982</td>
<td>255.4</td>
<td>481.9</td>
<td>0.530</td>
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Source: Columns 1 and 2 - International Coffee Organisation.
Columns 3 and 4 – UN International Trade Statistics
In this first chapter I begin with a short summary of the main features of the coffee marketing chain in Ethiopia, to set the scene which will be examined in greater detail in Chapters 5 and 6. This is followed by a review of the concept of a commodity ‘chain’ in conventional literature, of how it has been extended in recent years to the idea of ‘global commodity chains’ with a greater political economic perspective, and finally of the variation found in French literature of the commodity ‘filiere’. The chapter concludes with an outline of the structure of the remainder of the thesis.

1.2 Production and Marketing Structure: An Overview

The production and marketing of coffee in Ethiopia is characterised by a number of distinctive features of which the most important may be identified as follows:

(a) the predominance of smallholding production, accounting for some 95% of total production,
(b) the variety of distinctively flavoured bean that is produced in different regions, such as Sidamo, Limu, Nekempte or Harar (See map p.xi),
(c) the fact that only around half, perhaps slightly more, of all production is exported, with the remainder consumed within the country
(d) a legacy of centralising regulation dating from the middle years of the 20th century.

The smallholding nature of the production stage of the filiere in Ethiopia has determined the pattern of collection at the initial stages of marketing and distribution. This currently accounts for around 95% of total annual production. Some 10% is collected wild from forest coffee plants, about 45% from semi-forest areas where there has been some thinning and management, and around 40% from garden coffee grown adjacent to homesteads, usually alongside or intercropped with other plants. In most cases the fresh coffee berry is picked as it ripens, though practice is variable, and is sun-dried on the farm, with little in the way of measured quality assessment or grading, before being taken to a local market, usually for sale to a private buyer, or primary collector called a sebsaby. Some is also retained for household consumption. Sebsabies are located throughout local market towns and villages. In the past it seems that these primary collectors actually toured the remote hamlets and homesteads by donkey, collecting small amounts from each farmer as they went along while selling other goods (Teketel
Haile Mariam 1973), but this practice was discontinued by the 1974-91 revolutionary government as part of its socialist programme (International Trade Centre 1993, p.15), and has not reappeared.

The many small lots of coffee purchased by these agents are then sold on, in the form of dried cherry or *jenfal*, to nearby wholesalers or bulkers, known as *akrabies* (or suppliers), who will generally be responsible for cleaning, dehulling and preliminary grading, by a combination of mechanical and hand-sorting methods. *Sebsabies* and *akrabies* require licences to operate. Until the mid-1990s these were fairly expensive (5,000 and 10,000 birr respectively) and purchasable only centrally, but since then they have become considerably cheaper (150 birr) and obtainable locally, though registration is still at national level. The intention is to make entry easier than in the past and competition consequently greater. In order to ensure as far as possible that all coffee marketed outside a given growing area is sold only through the terminal auctions licences to trade are limited to operations within a defined geographic area: a given group of villages (i.e. markets) for *sebsabies* and zone level for *akrabies*. Until November 1999 farmers could only sell to *sebsabies* but from that date they have also been permitted to sell directly to an *akrabie*. This change seems partly to have been based on the hope that an *akrabie* would exercise greater discrimination in regard to quality when buying from farmers and that this would be reflected in a higher price to the farmer thus acting as an incentive to improve farm gate quality in general.

After a preliminary grading the *akrabie* arranges for transport to the terminal markets in Addis Ababa and Dire Dawa. All trucks departing from originating areas, such as Jimma or Yirga-lem, must have their loads weighed, inspected and officially certified as of a given grade, type and origin before departure, and on reaching the outskirts of Addis Ababa there are roadside inspection stations on all major entry points into the city, where these certificates of origin, bills of lading and licence permits are checked.

The much smaller proportion, around 20% in 2000, of production for export that is processed by the ‘wet’ method (as opposed to ‘sun dried’), and so producing a higher quality of green bean, is routed slightly differently. Here the newly picked red cherry has to get to a washing station as soon as possible before deterioration sets in. A number of these washing stations, or pulperies, are owned by cooperatives, of which there were some 3-4,000 in 1999 and are the legacy of what were the service cooperatives of the Derg period but they have had to compete with an increasing number of private pulperies, many of which have been set up by *akrabies* as independent ventures. The
washed coffee beans can then be taken directly to the central auctions without having to pass through sebsabies or akrabies (which are not licenced to deal in washed coffees).

The principal sources of washed coffees at present are government owned estates which were the nationalised large scale farms of former private owners prior to the revolution of 1974 plus a growing number of small farmers, especially in the Sidamo region. A number of new private estate growers have also been appearing since the mid-1990s, leasing state land from the government. The superior bean quality of the washed method commands a substantial price premium in international markets and as part of its drive to increase foreign exchange earnings from exports the government has encouraged the growth of privately owned washing stations, through investment incentives and with the assistance of foreign aid (especially the EU). Clearly a combination of price advantage and local convenience will influence the small farmer’s decision on the merits of sun-drying or washing as far as household income is concerned.

On arrival in Addis Ababa (and Dire Dawa) all beans are taken physically to the auction compound where their provenance and quality is tested on a sample basis by inspectors employed by the Coffee and Tea Authority. Before 1998 only washed coffees were cup-tested by the CTA Liquoring Unit but since then sun dried beans have also been included. As a result of these procedures the green bean is graded, according to number of defects and by cup taste, into six categories of which the first five are permitted to be exported, and anything above grade five may only be sold in the domestic market. This results in about eight key varieties and grades for which Ethiopian coffees are known. Of the sun dried, Jimma 5 is the commonest, followed by Sidamo 4, Lekemt 5 and Harar 5, while washed coffee supplies are usually dominated by Sidamo 2, Limmu 2, Yirgacheffe 2 and Bebeka 2 (Coffee and Tea Authority 1996, Kaffa Coffee 1998). All have their own distinctive characteristics known to buyers overseas, though even after purchase further sorting and grading by exporters is necessary in order to meet international grade requirements. Most of the Harar grown coffee exports are destined for the traditional markets of the Middle East via the auction at Dire Dawa with the rest passing through the Addis Ababa auctions.

Deliveries which do not meet export standards are given a certificate allowing their sale in the domestic market. As can be surmised from Table 1.1 the latter is substantial and accounts for around 50% of annual production. Within the growing areas there are high levels of coffee consumption and a proportion of the crop will be retained for household use while a large share of the marketed output finds its way into local hotels, bars, restaurants and non-farming households. Consumption throughout the rest of the
country is also high and, officially, supplies to meet this demand must pass through the central auctions.

In summary, the bulk of Ethiopian coffee is grown by a large number of small farmers, mainly by garden or semi-forest methods and by a much smaller number of public or private estates. Most of it is sun-dried. That part, around half, which is exported is initially purchased by licensed merchants or co-operatives before being channelled through terminal auctions in Addis Ababa and Dire Dawa to be purchased by exporters for final grading, packing and onward shipment. Of the remainder the following uses need to be distinguished: on-farm consumption, off-farm consumption within the growing areas, and consumption outside growing areas which in theory also has to pass through the central auction. The marketing structure is therefore subject to a number of controls and regulations.

Figure 1 summarises schematically the main links in the process between production and export of coffee in Ethiopia. This Figure also indicates the principal international agents involved at points of final destination or processing.
Figure 1.1 Main Links in the Ethiopian Coffee Filiere
1.3. Subject of Analysis: Chain or Filiere?

In setting the scene in Part 1.2 of this chapter the use of expressions such as 'commodity chain' or 'marketing chain' were deliberately avoided. Such terms come from a literature which reflects particular modes of analysis from within certain well-defined schools of thought, and constrain us to a pre-ordained discourse. For instance, in conventional economic analysis the object of study in this field is usually referred to as a 'commodity chain' in which the links correspond to the different stages involved in getting the raw material from producer to consumer. This is also the approach of agricultural marketing texts. While this does not preclude an overall view being taken, the analogy of a chain implies a number of separate markets linked together, and this is an accurate reflection of much of this type of analysis, which also tends to focus predominantly on questions of economic efficiency within each section. The approach is encouraged by the methodology of microeconomics with the result that the system as a whole tends to be viewed as no more than the sum of the stages, even where issues of vertical integration are considered. Even when more radical perspectives are being taken, as in dependency or regulation theory, the essence of the argument is on interchange between the different elements of the chain as the economic surplus extracted within one level is appropriated and transferred to the next level up, whether this is expressed in terms of nodes, peripheries or regimes of accumulation. Very often the institutional nature is unspecified.

In recent years the metaphor has been adopted by analysts of globalisation, notably Gereffi (in Gereffi & Korzeniewicz 1994), where many internationally traded goods are described as being in a 'global commodity chain' (GCC). Initially this approach was confined to manufactured goods and reflected the spatial diffusion of production processes in the garment industry, electronics and automobiles, but has since been applied to a wide range of agricultural goods originating in developing countries. These include fresh fruit and vegetables (Dolan & Humphrey 2000, Raynolds 1994), fish (Gibbon 2001), cotton (Larsen 2002, Gibbon 2001), fruit canning (Kaplan & Kaplinsky 1999), cocoa (Fold 2002) and coffee itself (Ponte 2002). In each case the chain is seen as a whole, as a phenomenon of global extent. Four dimensions to the analysis have been suggested by Gereffi: the input-output structure of the chain, the territory covered, the governance structure and the institutional framework. The first two of these tend to have been used as a descriptive basis for the more analytical application of the third, with the fourth seen as a means for implementing the third at local national and international levels. Power comes from control over co-ordination of the elements of the
chain and is either 'producer driven' or 'buyer driven', though the former expression derives from the influence of producers in the automobile and electronics industries rather than having any reference to most raw material suppliers.

The application of GCC analysis to trade in agricultural produce has frequently revealed a process of increased concentration, combined with the rising power of supermarket chains, at the final processing and retail ends of a number of agricultural commodity lines. The implications of this have included greater emphasis on supplier controlled inventories, operated through intermediate trading companies, with, in some cases, more direct sourcing from commercial farms in the producing countries. The net effect has tended to marginalise smallholding producers. Gibbon sees such developments as the consequence of changing forms of corporate 'financialisation' which has led in recent years to spates of corporate restructuring and downsizing, together with increased outsourcing by final producers of what were previously regarded as core production activities. At the same time, markets have become increasingly differentiated, with "new types of product standard or quality conventions" (Gibbon 2002: 97), and, in the case of coffee, new types of consumer outlet which increase the proportion of value added that is retained in the consuming countries. The latter is highlighted in value chain analysis (Fitter & Kaplinsky 2001). The effect at the producer end of the commodity chain of these changes has been to increase a tendency towards vertical integration, whereby control of supplies is increasingly in the hands of multinational companies (Ponte 2002).

Although the concept of a global commodity chain clearly covers a product like coffee which is widely traded and subject to varying degrees of processing to meet consumer standards in the west, there are times when the original focus of the approach on manufactured goods of much of this literature renders it remote from any sense of relevance to African raw material production and export, and the origins of the concept in post-Fordist and regulation theory debate in the West are exposed. Yet, the emphasis on the relations of international trading is relevant, particularly when set against the price based analysis of orthodox economic theory. That is, GCC directs its attention to the organisational aspects of international trade (Raikes et al. 2000) rather than the optimising individualism of the neoclassical economic approach. It is therefore through those private and public institutions which control, regulate and transform commodities that power is exercised. When looked at in this way the relevance to Ethiopia and its involvement in international coffee markets becomes more evident. It is an examination of this theme that is expanded on in the major part of this thesis.
Yet, as a tool of analysis the idea of a global commodity chain has a number of
drawbacks. One is that it habitually takes its starting point to be the global dimension
and then works back to one or more individual country experiences. The agenda is set
by the global perspective of the analytical literature, often influenced by Western based
scholars. A second is that it maintains the analogy of a chain, a metaphor designed to
illustrate the nature of trade as perceived within a particular paradigm.

An alternative to which increasing attention has been given in Anglo-Saxon writing in
recent years is found in the work of French scholars on commodity filières. These relate
much more to the distributive channels and terms of contract through which commodities
reach their market, and have their origin both in France itself in the 1960s and in a number of French colonial and post-colonial studies (Raikes et al 2000). Because of this different tradition the focus of study has tended to be at the production end of the filière. This has some attraction, at least as a starting point, when the object of study is a country-based analysis of a given commodity, such as Ethiopia and coffee, and is reflected in the interest by a number of French based scholars in this commodity, particularly as it refers to coffee production in Francophone West Africa (Losch 1999; Pelupessy 1999). Linguistically, the term ‘filière’ refers to a pathway, channel, procedures, or network, depending on context which is usually an administrative, legal, bureaucratic or organisational environment (Collins 1985). In both historical and contemporary analysis considerable attention is therefore paid to the institutional structures of a filière, with links therefore to institutional economics and the role of transaction costs (Griffon 1989). In the case of Ethiopia where the institutions of the coffee marketing structure evolved over a lengthy period the institutional aspect of the filière approach has, as I shall show in Chapter 2, significant relevance. Other early studies highlighted related tendencies to vertical integration in agricultural markets (Lauret 1983) and hence attention to the totality of the filière along its length, including the distribution of power. More recent studies of West African produce markets, in addition to those on coffee mentioned above, have taken a filière approach to the exploration of the interface between international supply chains and local large traders whose links with a larger more dispersed small-scale sector are often more tenuous than is often assumed, being subject to different socio-political environmental conditions (Leplaideur 1992; Coste and Egg 1996).

Although the notion of a commodity filière has often tended to be understood more
pragmatically than theoretically (Raikes et al. 2000) and as a conceptual tool it may be
said to lack precision, the same may be said, in some respects, of the 'chain' analogy, despite the efforts of Hopkins and Wallerstein (1994) and Gereffi (1994) to define, classify and dissect its principal dimensions. However, even within its rather loosely defined boundaries the focus on institutional structures which is implied by the filière approach, particularly at the earlier, local stages of distribution, introduces a dimension that is often neglected in other approaches. The more descriptive empirical basis of many earlier applications has also been overtaken by efforts to explain the dynamics of changes to the structure of a filière over time in terms of regulation theory. Here the mechanisms of formal and informal control, regulations regarding quality and the institutional forms through which these are exercised and monitored provide a more substantive analysis, as in the application to the French wine industry by Bartoli and Boulet (1989). As analogy, the filière also carries with it the implication of a continuous entity, rather than a set of discrete links in a chain, and thus of how an intervention at one point may resonate differentially along its length. This introduces parallels with the GCC concern with governance and with how power is exercised at different stages by key coordinating agents, especially where multinational companies may take an arm's length position (Gibbon 2001). The case of the international coffee market in the period up to the early 1990s has been explored in such a fashion by Daviron (1993, 1996).

The issue of how political and economic power is transmitted thus introduces the wider context in which the various segments of a filière are constituent parts of a more composite phenomenon including cultural and social embedding. These broader aspects of filière analysis have been summarised by Bernstein whose interpretation and development of the concept provides a useful focus for later analysis here. For him the key points are that the filière tradition is grounded in 'real markets'; that this draws attention to issues of power and hence of political as well as economic variables; and that regulation is pervasive (Bernstein 1996:121-2). By regarding the filière as a continuous entity in which different segments are related to one another within an overarching concept a more comprehensive understanding of its functioning and regulation may therefore emerge. From this the question of who gets what, when, where and on what terms can be appropriately addressed, as can the related issues of employment and distribution of wealth. As a final element Bernstein includes those "cultural and sociological dynamics that may shape the forms and functioning of particular filières" (ibid:126). These will be peculiar to each country and society and will change only slowly over time, thus ensuring continuity of that distinctiveness in the nature of its institutions. To anticipate some of the discussion of Chapter 2 the degree to
which such dynamics create an institutional legacy over time will determine the strength of what has been called ‘path dependence’, and hence the scope for certain types of policy intervention. Examples of the latter, would include the extent to which the liberalisation policies of the international financial institutions are transposable to different societies around the world without experiencing considerable modification and diffusion at local level in order to meet local norms and to allow time for local vested interests to adjust (van de Walle 2001). In Ethiopia much of the present structure of government, including those sections responsible for the regulation of the coffee sector, is derived from the extended ‘modernising’ period of Haile Sellassie’s years in power, and much also represents an arena in which long standing cultural, ethnic and political differences have been played out amongst rival contenders. This is explored in detail in the following chapters. First, let us look at the filiere as an institutional structure.

1.4 Institutions of the Filiere

The frequent reference in preceding paragraphs to terms such as ‘regulation’, ‘structure’ and ‘institutions’ are indicative of an underlying characteristic of any filiere that it is an organisational structure. The movement of the commodity from producer to consumer is an organised process, whether this be mediated via the internal organisation of firms, regulated by government decree or monitored by national and international para-statals of one form or another. The filiere, it may be said, is defined by its institutions and it is through these that advantage is lost and gained by the various participants, some of whom will have been influential in designing that same institutional structure. Although market transactions will also be present, questions of economic efficiency are a sub-set of the wider frame, in which the market as a form of exchange is also institutionally defined. In order to understand the politics as well as the economics of the filiere it therefore becomes important (a) to identify the major players, (b) to explore how and to what degree they are able to exert influence, and (c) to locate the main sites of contest, which may not be those most obvious. In the case of the coffee filiere in Ethiopia typical questions that arise are therefore:

- Who are the key players and how do they wield power and influence?
- What resistance are minor or poorly organised players able to exercise?
- Why has the particular institutional form of the filiere in Ethiopia evolved?
- Whose interests are served by the auction system?
- How different, and why, are the export and domestic market organisations?
• How relevant is the idea of path dependence and what are its cultural and historical foundations in contemporary Ethiopia?

• How does the present role of the government differ from that in the past? What is the basis of national, regional, regulatory and financial intervention?

• What influence do international factors have and how is this articulated domestically?

• What are the main class, ethnic and gender characteristics of the coffee filiere?

The most fundamental of these is the third: how do we account for the emergence of a particular institutional form in Ethiopia? And what are the implications of that for the present? In other words, although the object of study is to understand the nature of the coffee filiere in Ethiopia the means of doing so here will be to investigate the nature and origins of the institutions through which its various parts are defined, and by means of which control is exercised and maintained. It is thus the institutions of the filiere which provide the key to its political economy. As part of the process of analysis it will therefore be necessary to consider those theories from other literatures which attempt to account for the emergence and role of institutions in society and to examine whether these provide a means of understanding Ethiopian specificity. This task is undertaken in the following chapter, in which the theoretical underpinnings of subsequent discussion and analysis of the Ethiopian case are developed.

To focus on the filiere approach rather than the global commodity chain literature does not mean that global aspects disappear from analysis. Despite what has been said above these are not necessarily conflicting concepts, and one may regard Ethiopian coffee as passing through a domestic filiere before it is absorbed into the global commodity chain of the international coffee market. This is to mix metaphors rather than confuse theories. For what is essentially a country study looking at the political economy of the production and exchange of coffee in Ethiopia, though subject to international influence, the filiere approach, particularly in addressing the issues raised by Bernstein, seems more appropriate. But the filiere extends into the world market, where a different set of institutional arrangements operate, but from where considerable influence echoes back down its length, as I shall show in Chapter 10. The concerns of the GCC literature on how these international relations are manipulated by major private and public players are also of concern to those who follow a country filiere through to its international absorption in the world market. This also has resonance with a separate literature on 'global food' which is less concerned with 'chains' than with power relations between
nations and transnational companies. A number of writers in this area (see for example the collections edited by Ward & Almas 1997 and Goodman & Watts 1997) have responded to post-modernist critical theory by confining their attention to networks of relationships between different sets of actors, while others have retained a more structuralist approach in which the political economy of class continues to play an important part. Both, however, identify the need to link international with local responses and of the important role of institutions. Typical of the former group is Ward & Almas when they refer to the “thick network of social, economic and institutional relations” found in successful agro-industrial districts as in parts of Italy (p.622), while McMichael represents a more structuralist tradition, in highlighting the “complex institutional anchoring ...... legitimising the power of global institutions in the state system itself” (1997:642). In the present thesis it is the domestic institutional anchoring of the filiere that is explored at most length, though international links are addressed in Chapter 10.

To summarise, in Ethiopia the workings of the coffee market will be examined in an institutional setting in which state, class, ethnicity and culture are essential constituents. creating an internal dynamic at one end of the filiere which will engage at different levels with the political and organisational structure of the international coffee market and its associated global concerns at the other end. Only by seeing the filiere as a whole in this way, I believe, can the origins, contemporary performance and evolutionary direction of any one sector, such as the early or final stages in Ethiopia, be properly understood, and only in this way can the real structure of power in the filiere be fully exposed and analysed. This is the purpose of the following chapters.

1.5 Outline of Thesis

From this introductory overview of the marketing structure of coffee in Ethiopia and of the value of the filiere approach as the basis for a political economic analysis, a certain pattern of analysis emerges. It is, first, essential to have a clear statement at the outset on the methodological grounding of the project. This not only influences how empirical results will be analysed but also how they are selected and interpreted in definitional terms. Chapter 2 prepares this methodological ground: first, at fundamental level in order to declare a critical awareness of subjectivity in social science research, and second, in an extended discussion of how the institutionalisation of economic behaviour is perceived in the different disciplinary perspectives of political science, history and
economics. In conclusion, a process of analysis founded in 'political economy' is proposed as the basis for subsequent analysis, and, by implication, as providing the criteria for the selection of empirical phenomenon relating to the coffee filiere.

The latter begins in Chapter 3 in which I review the rise of coffee in Ethiopia from small beginnings in the late 19th century to its role as the major export crop by the middle of the twentieth. This historical overview is essential to our understanding of how the main characteristics of the Ethiopian coffee filiere today are derived from the socio-political environment in which it has been embedded over time. This chapter therefore takes us from the late 19th century through the reigns of Menelik and Haile Sellassie to the early 1940s, by which time coffee was established as the single most important earner of foreign currency. The end of World War II saw the return to peacetime production in the economies of Europe, North America and Japan, and to a substantial increase in the demand for coffee (amongst other commodities). In the meantime, the restoration of Haile Sellassie to the throne in Ethiopia in 1941 allowed him to resume the series of legislative changes which both 'modernised' the administration of the country and strengthened his own position at the centre. This included reform of land and tax regulations. By 1952 these changes also began to affect the coffee filiere and this is explored in Chapter 4, showing how, by 1974, a tightly regulated system was in place which survived the seventeen years of revolutionary government (1974-1991) to form the basis of the coffee marketing system that continues to prevail today. Chapters 5 and 6 describe in greater detail the structure of this present marketing system, in the process drawing on field work with farmers, merchants, exporters and the Coffee and Tea Authority, in order to arrive at an understanding of the workings of the filiere as it exists at the beginning of the 21st century.

It soon becomes apparent in tracing the history of the growth of coffee as a major crop that the actions of the state have been critical in shaping the nature of the filiere over time. Although this is evident in the historical Chapters 3 and 4 the main focus in these two chapters is on the development of the coffee filiere rather than on the nature and objectives of the state itself in Ethiopia. This is therefore addressed in Chapters 7-9. In Chapter 7 the emergence of what we might term the 'modern' Ethiopian state is traced from the late 19th century to the collapse of the revolutionary government in 1991, while in Chapter 8 the story is picked up with the incoming government of the EPRDF (Ethiopian People's Revolutionary Democratic Front) in May 1991, and, in drawing certain parallels with the past (in terms of ethnicity and centralisation), shows how the coffee filiere was unlikely to be allowed to discard much of its past legacy of regulation.
and control. Chapter 9 considers the impact in more detail, particularly in fiscal outcomes, of the constitutional change to a federal state and the implications for the coffee filiere. The key point of interest here is that the bulk of the nation’s coffee exports originate in Oromiya, by far the largest regional state, and for which the distinction between the decentralisation of power and the decentralisation of administrative functions has important long term significance.

Chapters 3-9 therefore give a comprehensive account of the political, historical and economic context which has largely determined the shape of the Ethiopian coffee filiere as it appeared at the beginning of the 21st century. As an export crop it has also been required to meet the standards of the international market, and the Ethiopian government in the past has had to abide by the various international agreements to control world prices. The domestic filiere, in other words, reaches out to a global coffee filiere, or coffee commodity chain, which in turn has had certain implications for the way in which the domestic filiere itself has evolved. This international aspect is studied in Chapter 10 which concludes by assessing how international market forces (or the international political economy of coffee) have impinged on the domestic filiere, and on how such pressures have been manipulated by the local elite. Such broader, political factors are picked up at greater length in Chapter 11 which returns to the methodological themes of Chapter 2. This penultimate chapter both reassesses the relevance of different theories of institutionalism to our understanding of the evolution of the structures of the Ethiopian coffee filiere and, in the process, also sheds light on our understanding of that evolution itself, particularly with regard to certain features of historical continuity. I conclude in this chapter that the way in which the filiere evolved, and thus how its present shape has been delineated, can therefore only be understood by looking at the political economy of the series of changes that were introduced during the fifty to sixty years prior to the present (2002). These have ensured that control of the country’s coffee wealth, and of the foreign exchange thereby earned, remains in the hands of whoever controls the state, from which it follows that, although the nature of the present social formation is difficult to discern, it is ultimately a class-based political economic analysis which incorporates the politicisation of regional ethnicity that will offer the greatest insight into likely future developments.

After this major interpretative chapter the thesis concludes with a short final chapter, Chapter 12, on the scope for future policy change given both the strong historical connections demonstrated in the body of the thesis and the boundaries set by the values implicit in a mode of analysis based on political economy.
1.6 Data Collection and Fieldwork

Fieldwork took place during the course of seven visits to Ethiopia between December 1997 and May 2002. As very little of the detail of the Ethiopian coffee filiere was available in written form and as my objective was to put together a picture of the history and current status of the coffee filiere as a whole my primary research took the form of a large number of semi-structured interviews spread along the length of the filiere rather than a more intensive study at any one point. In Ethiopia this included interviews with principal coffee exporters, senior officials of the Coffee and Tea Authority, officials in the Ministries of Economic Development and Cooperation and of Finance, relevant departments of the National Bank of Ethiopia, officials in the Oromia State Offices, senior researchers at the Institute for Development Research at Addis Ababa University, and senior staff at the Central Statistical Organisation. With several coffee exporters and senior staff at the CTA I had follow-up interviews on each of my visits, and was therefore able to build up a comprehensive picture of the local coffee filiere over a four year period. Also in Addis Ababa extensive archive searches (in the absence of comprehensive indexing) were conducted in the libraries of the Coffee and Tea Authority, Institute for Development Research, Central Statistical Organization, Addis Ababa Chamber of Commerce, and the JF Kennedy Library of the University.

Fieldwork outside Addis Ababa consisted of two visits to coffee growing areas, at Jimma and Wondo Genet, in which observation and discussion with traders and regional representatives of the Ministry of Agriculture were the principal sources of information. For knowledge of farmers' roles in the marketing structure I took advantage of an extensive survey conducted in 1999 by the consultants to the EU Coffee Improvement Project, on which I was able to make suggestions and to which I had sole external access. On each visit to the country I regularly spoke informally with hotel managers, café and restaurant owners, and retail outlets about their sources of coffee. I made one conducted visit to the Addis Ababa mercato. (I may add that I had a certain amount of prior familiarity with Ethiopia, having lived and worked there for four years in the 1970s and had maintained contact and interest since then, with periodic visits.)

In Britain I also conducted repeat interviews with the senior economist of the International Coffee Organization (ICO), an extensive interview with the buyer of a major coffee importer, and also interviewed the ICO Representative of the Ethiopian Embassy, two specialist coffee roasters, and an officer of the London International Financial Futures Exchange (LIFFE). The following libraries were regularly consulted: International Coffee Organization, School of Oriental and African Studies, Leeds
University, Sheffield University, and Sheffield Hallam University. The Public Records Office was consulted for certain historical aspects. Full details of dates, organizations and people contacted are provided in Appendix 1.

By adopting a format of semi-structured interview across such a wide range of respondent it is clear that, within any given time frame, the numbers so interviewed must normally be fewer than where a fully structured questionnaire is to be completed. The latter, however, would be inappropriate where the population from which a sample would be drawn is as heterogeneous as here. Given that my task was to build up a picture of the workings of the coffee filiere from the harvesting of coffee to its export, together with an understanding of the nature and origins of the principal institutions and of the regulations which are operative in Ethiopia, and that little of this had been already documented, a more open-ended form of intensive interview with a range of government and private actors seemed most appropriate. This also allowed me to explore the views of major stakeholders on current problems and the likelihood of significant changes. The informational demands of the study were therefore diverse, given its two dimensional longitudinal nature: the first of these being to trace the contemporary structure of the coffee filiere along its length (together with an assessment of its efficiencies and inefficiencies), and the second being to seek out the historical antecedents of that structure with a view to discerning continuities or discontinuities over time. While my methodological approach means that information on any particular stage of the local filiere is based upon relatively few primary sources all those interviewed held senior positions in their respective activities and it has been possible, with follow-up interviews in the course of the seven visits, to cross check for inconsistencies. The combination of interviews and a variety of historical documentary sources (covering auction prices, farmers’ prices, government proclamations and various UN and ICO reports over the years since the early 1960s) has thus enabled me to construct a comprehensive picture of the Ethiopian coffee filiere both in its contemporary form and in its historical origins. From this it has been possible to embark on an analysis of how it has evolved and thereby to arrive at a more contextualised understanding of its key institutional characteristics today.

Before beginning to address this, however, Chapter 2 takes a more fundamental look at the methodology of the social sciences, and of the problem of implicit values. From there it embarks on an assessment of economic, political, sociological and historical accounts of the role and development of the institutional environment of market structures, creating a theoretical base to which I return again in Chapter 11.
Method and Theory: The Political Economy of Markets and Institutions

2.1 Methodological fundamentals

The key problem posed in the previous section was that of determining why a particular form of institutional structure of the coffee filiere in Ethiopia exists, and of how it is evolving. This is in contrast to the conventional economic approach of studying the production and distribution of coffee as a series of markets in which buyers and sellers respond to price within a framework of regulation that is taken as given, or at least for the purpose of model building is treated as exogenous. That is, the possibility that 'the market' is itself a socially constructed form of producing and distributing goods is not considered. Before taking this critique further it is important to be clear about certain methodological fundamentals.

In attempting to answer questions about the political economy of the coffee filiere in this chapter a number of alternative theories will be considered. However, theory itself has a social context and an awareness of this must necessarily preface any comparative theoretical discussion. The first, and most basic point is - why theorise at all? Interestingly, it is only towards the end even of a widely used text that this question is clearly answered:

"the point of all science, indeed all learning and reflection is to change and develop our understandings and reduce illusion ... learning, as the reduction of illusion and ignorance, can help to free us from domination by hitherto unacknowledged constraints, dogmas and falsehoods". (Sayer 1992 p.252).

In this process of learning and reflection we form concepts and construct theories, with a view not only to developing our understanding but thereby also to improve prediction and, following Marx's famous epithet, to change society. As a preliminary to investigating the 'real' world the investigator therefore needs to be aware of "constraints, dogmas and falsehoods" that are implicit and hitherto unacknowledged in his or her approach to study. These may be cultural, psychological, linguistic or historical in origin, and will have arisen from a variety of causes. They are not to be confused with the Marxian notion of 'false consciousness' though there can be overlap. The latter offers an account of how an ideology that serves to preserve the interests of a
dominant class in a given mode of production achieves hegemony through the promotion and acceptance of a certain set of values. The former takes a step further back, asking for reflection on the origins of the Marxian theory itself. To what degree, for instance does it carry particular eurocentric values which reproduce themselves unwittingly through the writings of its main proponents?

Behind this lies a more general question concerning the nature of scientific knowledge and of how this influences our processes of conceptualisation, from which we create theories of the world around us. This calls for an awareness of the interrelationship between the observer and the observed, the subject and the object, and of the prior perceptions and social conditioning that affect how both the physical and social worlds are seen, whether we are researching as physical or social scientists. This has led to the proposition that our observations are already ‘theory laden’, and to the implication that whether we are using theory as an ‘ordering framework’ or as conceptualisation we are bringing a preconceived way of looking at the world to bear on our observations.

There are many examples of the latter in the social sciences. Since much of this thesis is about marketing structures that have frequently been analysed in economic terms in the past it is pertinent to illustrate the point with examples from the field of economics. This will also be relevant to further discussion below, on the origins of ‘New Institutional Economics’, and is worth pursuing at some length. We may begin by observing the implicit values which are evident, for instance, in the language of economic policy advice, and of the analysis which often supports it, particularly when transferred from the industrial ‘West’ to the less developed ‘Third World’. Thus we have neo-classical economic terms such as ‘free’, ‘efficient’, ‘optimal’, and ‘constrained maxima’ appearing in numerous research and consultant reports. These are terms which imply a particular set of underlying values which in turn reify a given institutional form of market behaviour and underline the close relationship that exists between mainstream economic theory of markets and the neoliberal reforms that have dominated Western economic policy agendas since the 1980s.

The main implication of deriving policy from abstract economic models of this kind is neatly summarised by one of the discipline’s new institutionalists, when he notes that

“outcomes that deviate from outcomes in models based on fully defined rights and costless transactions are called ‘inefficient’”
when it is not clear that any practical alternative is feasible (Eggertsson 1990 p.21). Others choose to emphasise ‘realism’ as the neglected ingredient and highlight the social and cultural factors that are at play in ‘real markets’ (White 1993, Harris-White 1996, 1999, Bernstein et al. 1990) while others again have highlighted the apparent difference between what economists profess in theory (their rhetoric) and what they very often practice (McCloskey 1986). The question of realism has been addressed at a more fundamental methodological level by Lawson in which mainstream economic theory is trapped in a closed system by a deductive logic based upon assumed axioms of individual behaviour (Lawson 1997). This leads him to an extensive critique of the epistemology and ontology of economic ‘science’.

That this ‘science’ is value laden has been demonstrably revealed by feminist economists who have shown how the masculine dominance of the profession of economics has influenced terminology, conceptual definitions and method itself. The study of labour markets, household behaviour, and even theories of investment have been shown to have incorporated the inherent gender bias of a predominantly male profession (Kuiper and Sap 1995; Pujol, 1995; Nelson 1995). Even when some attempt is made to adapt the theory to its wider social and political context the propensity to think in established ways remains. As we shall see below, the focus of new institutional economics on ‘property rights’ and ‘contract theory’ is an example where choice of words has come out of the same paradigmatic value set that is being critiqued. There is, in other words, a presumption, not only that the models and their associated methodology are value free but that there is a universality in their construction and areas of application. Such presumption starts at an early stage when first year students are introduced to the idea of ‘positive economics’ as the study of what ‘is’ in contrast to ‘normative economics’ which refers to what one believes ‘ought’ to be the case.

At a broader, and deeper, level, the body of knowledge incorporated in mainstream economic theory and its derivatives is part of that wider spectrum of thought and mode of analysis which is generally recognised as having evolved out of the period of European intellectual history known as the ‘enlightenment’, and which includes Adam Smith, David Hume, Quesnay, and others who were the precursors of the ‘political economy’ of the nineteenth century, in which modern neoclassical theory has its roots. This entire spectrum has been extensively criticised by post-modernist writers, frequently via the deconstruction of discourse and using methods of analysis drawn from the 20th century French philosophers Foucault, Derrida and Lyotard amongst others. This has led to the rejection of the validity of ‘grand narratives’ such as those of
Marx, Weber, and later structuralist thinkers (Howarth 1995). For many applied researchers this has undermined the conceptual foundation of their work, and has had the consequence of persuading a number of researchers to focus on the micro level details of relationships between individuals and groups, concentrating, for instance on ‘principal-agent’ or ‘actor network’ approaches (Law 1986, 1994, Latour 1986, 1993, Long & Long 1992). Others have argued that while this type of approach in many ways provides a welcome acknowledgement of the variety of behavioural and institutional patterns that were often glossed over in structuralist analysis it does not deal adequately with those issues of class and power that remain important in the allocation, distribution and appropriation of resources (Kayatekin 1998, Wells 1997, Mohan 1997, Holton 1992). The claim here is that overly detailed analysis merely creates a descriptive smokescreen which hides a systemic exploitation (Walker 1997, Dirlik 1994).

Although the post-modern critique has its own origins in linguistic philosophy and cultural theory, it may be noted that as it relates to economics and political economy some awareness of its relativist aspects had been anticipated, at least to a degree, by earlier writers. In 1948, for instance, Schumpeter was writing

"at any given time every nation has a certain class structure and a certain civilisation ...(which) .... comprises a system of beliefs, a schema of values, an attitude to life, a state of the arts, and so on. This ... will in general determine a nation’s behaviour in its foreign and domestic affairs.” (Schumpeter 1948:429 – quoted in Ebner 1999:150)

His contemporary, Spiethoff was more specific:

“Most economic phenomena are time-conditioned and are rooted in specific geographical areas. They are subject to change over time and cannot be treated therefore, with the help of concepts and theorems purporting to be of universal applicability” (Spiethoff 1952:132)

From outside the economic mainstream we also have Polanyi grappling with the distinction between the assumptions of market theorists and what he termed the ‘human economy’:

“The claim of formal economics to an historically universal applicability ... in effect argues the virtual presence of a market system in every society, whether such a system is empirically present or not. All human economy might then be regarded as a potential supply-demand-price mechanism, and the actual processes, whatever they are, explained in terms of this hypostatization” (Polanyi 1957: 240)
It is interesting to note that for all three of these scholars a strong sense of history profoundly influenced their thought, a point that will be seen to be of some importance as this thesis develops. However, although they each indicate how orthodox economic theory has a predisposition to analyse within the bounds of a localised paradigm, the question of the possibility of political interests being served by the structure and propagation of that paradigm is usually left begging. To pursue this would take us beyond the terms of the present thesis, but would lead us, for instance, to consider the application of Gramsci’s concept of hegemony to the link between neoclassical economic theory and economic policy (Gramsci 1991), or, from a less radical stance, to the approach of Berger and Luckmann in The Social Construction of Reality (1966), thus enabling us to place the body of neoclassical economics, and its approach to such phenomena as commodity chains, in a wider critical context.

There is a danger, however, that in increasing the researcher’s self awareness of these problems, particularly in the post-modernist versions, a form of investigative paralysis is created wherein the researcher as subject can never be released from his or her own environmental conditioning. By being unable, for that reason, to identify totally with the object of study the external investigator is without authority and hence without legitimacy. However, as Evans points out, this can lead to a form of reductio ad absurdum, where, for example, “the history of religion would have to be left to clergymen, of war to the generals, of fascism to fascists” (Evans 1997: 213). What this means is not that the clergymen and generals cannot write important and insightful histories but that their empowerment is not exclusive, that others with values more removed from the subject of study itself also have a contribution to make. This is important for those who study the institutions and political structures of other countries and answers the criticism, for instance, that only Africans can write about Africa, as the logical consequence of the observation that we are all ‘theory laden’ before we even begin. In the case of an empirical phenomenon like the coffee filiere we also have to recognise that it also has a global aspect and that it is the blending of its national and international aspects that will bring us to an understanding of its significance to Ethiopian polity. It is thus a complex mix of values, histories, models and theories that have to be drawn on in such empirical work, in which reflective awareness is more important than the nationality, occupation, or religion of the writer.

The approach which I shall adopt here is that of recognising the insights that are offered by post-modernism, particularly at the micro and cultural levels, and also by those such
as Schumpeter and Spiethoff who have been able to stand back from the prevailing assumptions of mainstream theories, while at the same time I shall retain something of the structural references of a political economy drawn from the Marxian tradition as a useful way of contextualising historical processes. By this somewhat eclectic method a more comprehensive, and thereby intellectually fulfilling, understanding of the role of coffee in Ethiopian social formation and its political institutionalisation can be constructed.

The case of Ethiopia offers a classic illustration of how these differing perspectives can be brought to bear in arriving at any understanding of present political and economic structures. Popular reportage of Ethiopia, for instance, rarely indicates the depth and historical strength of important cultural norms and their associated institutions in the country, thus giving encouragement to those from outside who promote formulaic solutions to perceived problems. Yet in examining any key aspect of the polity or economy of the country, such as the coffee filiere, its embeddedness in an evolved social formation, specific to the history of the country, must be taken into account. The present structure of the coffee marketing chain, for instance, owes much to legislation introduced during the reign of Haile Sellassie, particularly between 1952 and 1973, while its regulative context is as part of the machinery of a state which has its roots in the 19th century or earlier. The importance of coffee, being the major export crop, can therefore only be fully assessed, and the origins of its market structures understood, if questions of ownership and control are addressed, particularly, at least in this early period, from the perspective of a class based analysis. Only in this way can the social and political dynamics of transition from a feudal type to the partially capitalist type of productive system that prevailed by 1974, and of the adaptations and reforms since then be satisfactorily traced.

Furthermore, although the long reign, from 1930 to 1974, of Haile Sellassie, has left a significant legacy and even the shorter period of domination by the Derg from 1974 to 1991 is associated with the personality of Mengistu Haile Mariam, each had a place in a broader set of cultural norms and each was constrained by wider economic and political forces. In methodological terms, therefore, it is essential to attempt to emulate and develop what Walker has termed that “fine line between the performative and the ostensive characterisations of society in order to capture the reciprocal determinants of structure and agency” (Walker 1997: 274). This notion is expanded on in the following section, while how it works out in the Ethiopian case will be explored in later chapters.
Given an alertness, therefore, to the social and historical roots of any methodology and theories derived from it, certain further considerations follow. One is on the nature of theory itself. An awareness of the traditional distinctions between inductive and deductive methods, between necessary and contingent relationships, between cause and effect, and between what may be expected of open and closed systems is essential in comparing competing theoretical accounts of actual phenomena, such as the particular form of the coffee filiere in Ethiopia. This is most evident in comparing historically based accounts, which tend to be open and contingent, with those based upon economic or rational choice models which are often closed, deductive and verging on tautology, as, too, is the case with certain crude types of Marxist model. These are issues to be explored in the following sections of the present chapter.

An additional important, albeit reactive, reason for theorising about the nature of the coffee filiere is to counteract the pervasive influence of that distinctive neo-classical economic model which now underwrites practically all policy making in this area. By this I do not mean to imply a simple head-on challenge to IMF or Ministry of Finance theories of market led behaviour. It is more the hegemonic influence of that particular school of thought throughout the policy making process, whether it be internally or externally generated, that requires exposure and critical challenge. In other words, in examining the developing structures of the coffee industry, the presence and effects of an already existent theory in application must be recognised. The theoretical premises of economic orthodoxy are evident at two levels: one is within government in the nature of policy advice coming from planning and finance departments, and reflects the standard syllabuses of economics courses at Universities, whether these be at the level of undergraduate or post-graduate. The other level is that of policy related research, often funded by Western official aid programmes, the UN or the WB, and reproduced in publications and papers prepared for workshops.

This is not, at this stage, to prejudge neoclassical economic theory and its concepts but rather to note its pervasiveness as a premise for responding at a like theoretical level. The fact that one of the formative influences on the structure of the coffee and other markets is the model of neo-classical economics as filtered through the official policy making process begs questions of objectives and legitimacy which can only be answered by raising the possibility of alternative theorisations, especially those which raise questions of class and power. Such response is not novel, of course, and has taken various forms, ranging from debates on 'real markets' (Bernstein et al. 1990, White 1993, de Alcantera 1992, Harris-White 1996) through a number of attempts to bring in
an 'institutional economics' which are discussed in Section 3 below. Other views are not so much responses as parallel approaches arising from different disciplinary bases, such as the sociology of market phenomena, organisation theory and political theories of the economy and the state, including those of 'Global Commodity Chains' discussed in Chapter I. The latter are less prone to a weakness in the former of having the agenda set by neoclassical economics.

In summary, it therefore becomes particularly important in the examination of ostensibly economic phenomena that the researcher remains conscious (a) of the pervasiveness and different manifestations of prior theorising, and (b) of the cultural discourse from which all theories derive. In the remaining sections of this Chapter, a number of theories of 'institutionalisation' are examined. They tend to be associated with the different intellectual disciplines of political science, sociology and economics, which, as separate fields, have western European origins, and particular strands of which have also provided theoretical justification for certain types of western intervention to alter the institutional environment in developing countries. Examples of the latter include the principles which underlie structural adjustment policies as promoted by the IMF, or the association of democracy with 'good governance' in policies pursued by many bilateral donors. Our substantive analysis therefore begins by being 'theory laden' in so far as these disciplinary bases are used as entry points, but we shall proceed with an acute awareness of the artificiality of their boundaries and of their cultural origins.

Consequently, we begin the next section with a brief consideration of how an institution may be defined. This is followed by a critical assessment of historical, rational choice and economic approaches to our understanding of the role of institutions in political and economic life. Given the dominance of economic development as a policy objective, and hence the considerable impact of economic theory on policy formation, including its success in promoting the idea that the coffee chain consists of a series of markets, somewhat more attention will be paid to the arguments (and limitations) of the economic analysis of institutions. This leads on finally to an approach in which an historically based political economy appears most appropriate for the analysis of the Ethiopian case. We should perhaps note that at this stage the distinction between international and national elements of the filiere is secondary to the more conceptual understanding of the role of institutions in markets. Most empirical references at this stage are therefore to the filiere within Ethiopia. International aspects and their implications are explored in greater detail in Chapters 10 and 11.
2.2 Institutionalism

As indicated in the previous paragraph, while the study of economic behaviour in its more technical sense has been largely the domain of economists, the institutional setting has also been studied by historians, sociologists, industrial sociologists, social anthropologists and political scientists. The methods adopted, models used and conclusions reached from theorising in these disciplines are not always in agreement either with each other or with those of economics. To present the problem in this way, however, can be taken to imply that, in the case of mainstream economics, there is indeed a valid 'technical' area to be studied and secondly that the methodology and models derived from it are to varying degrees useful approximations to this aspect of perceived economic reality. These are issues which are taken up in more detail in Section 3 below when I examine the New Institutional Economics in more detail. In examining the origins of political and economic power within a filiere some form of cross disciplinary approach will be more useful and this I shall outline in the concluding section to this chapter. I shall approach it first however through a more generalised taxonomy of institutionalism in recent political theory.

First, it is important before proceeding any further to have some idea of what is generally meant by the term 'institution'. Many commentators have accepted Peter Hall's definition which comprises

"the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy" (Hall 1986:19).

This is fairly general. According to Steinmo et al.

"institutionalists are interested in the whole range of state and societal institutions that shape how political actors define their interests and that structure their relations of power to other groups" (p.2)

The reference here to 'power' is significant. For Peters, on the other hand, the most important element of an institution is that it is

"in some way a structural feature of the society and/or polity ...(which) ..... may be formal (a legislature, an agency in the public bureaucracy, or a legal..."
framework), or it may be informal (a network of interacting organisations, or a set of shared norms)” (Peters 1999: 18).

These indicate the breadth of the concern which comes under the rubric of ‘institutionalism’, and it clearly follows that the way in which a commodity filiere is structured falls well within its scope. What is less clear from such definitions are the origins and functions of institutions and in whose interests they are perpetuated. Answers to this type of question will be suggested as we proceed.

Since institutions, as defined, are a widespread feature of human society in all its activities it is inevitable that as many interpretations of their meaning will be found as there are schools of thought and value systems. There is also a tradition of analysis going back at least to ancient Greece and taking many twists and turns during the intervening centuries, including the 20th. My concern here is with what is often termed the ‘new institutionalism’ which emerged, in a number of forms, as a reaction to the domination of behavioural theory in political analysis during the 1950-80 period of the 20th century (Hall & Taylor 1996, Peters 1999). Although ‘new institutional economics’ is frequently included in this rubric by political scientists its origins are rather different, as will be noted later. Peters (op.cit.) has identified as many as seven contemporary approaches to the study of institutions. These are normative, rational choice, historical, empirical, international, sociological and that of interest representation. He examines each from the point of view of how institutions are defined, formed, change, relate to individuals, are limited in their explanation, and define what they mean by ‘good’ institutions. This rather formulaic approach is useful in identifying the many strands to institutional analysis and provides a comprehensive overview but is unduly restrictive in its partitioning while at the same time offering too diverse a platform from which to embark on any given piece of empirical research such as the Ethiopian coffee filiere. Many of the differences identified in Peters’ approach will be drawn on in what follows, but a more synthesised summary will provide a better starting point.

Such a summary is found in the review by Hall & Taylor on the ‘three new institutionalisms’ (Hall & Taylor, 1996), which they claim to be historical institutionalism, rational choice institutionalism (within which they include the New Institutional Economics) and sociological institutionalism. Let us consider each of these in turn. One of the defining characteristics of the first of them, historical institutionalism, is the effect of existing institutions on policy making at any time. At its
heart in one sense is the ‘structure-agency’ problem in that it addresses the institutional constraints on individual behaviour, while also investigating the degree of influence over institutional change that certain individuals may have. The approach therefore also addresses questions of power. To a large degree it lacks clear methodological rigour but its merit is in challenging the ahistorical nature of alternative theories such as those involving rational choice or a structuralist sociology. The constraints which it highlights are often attributed to ‘path dependency’. This is a concept to which we shall return in the section on institutional economics when issues of efficiency arise, but for the present we may note its broad meaning of predetermining the nature of the terrain over which later policy development will find a path. It is not a narrow or restrictive predetermination; rather a delimiting of likely alternatives that may follow, partly as a result of unintended consequences, and is therefore part of an evolutionary process. For Thelen and Steinmo one of the merits of this approach is its focus on intermediate level institutions, which allows differences between country experiences to be brought out and in so doing highlights the limitations of those theories which claim universal application (Thelen and Steinmo 1992). In the formation of institutions, their interrelationships with each other and in the scope which they allow for individual choice Hall and Taylor have emphasised the importance of asymmetric distribution of power in society, together with the often neglected role which ideas and beliefs can play. This latter is an interesting point worth exploring when we come to look at the nature of the various changes introduced during the long reign of Haile Sellassie in Ethiopia, and of their contemporary legacy.

There is clearly much here that can assist our understanding of Ethiopia. The way in which Hall and Taylor define institutions in the historical approach as “the formal or informal procedures, routines, norms and conventions embedded in the organizational structure of the polity or political economy” is clearly wide enough to embrace the structure and operations of a commodity filiere such as that of coffee. What is of particular interest in Ethiopia is whether the discontinuities of the revolutionary period (1974-91) have broken historical continuity sufficiently to render the historical embedness of institutions irrelevant, or, whether the collapse of that revolutionary government and a return to some degree of market liberalism has allowed the re-emergence of (certain) pre-revolutionary institutions, such as, for example, the auction system. In looking at an individual country’s experience, and in seeking its specificity, the idea of ‘path dependence’ which derives from prior institutional formation therefore has considerable relevance, as has the suggestion that cultural norms, ideas and beliefs combine with historical configurations of power in arriving at these formations.
As a methodological instrument, however, it is difficult to see how this ‘historical institutionalism’ differs from other approaches with the addition of a time element. Thus, to say that the present set of institutions in a given sector in a country like Ethiopia is distinct from that in neighbouring countries like Kenya or Sudan because of the different historical dimension and its related path dependence is only to beg the question of how other social, economic and political factors come in to play at each stage of the unfolding process. That is, there comes a point when our understanding of the various land tax changes introduced, say, by Haile Sellassie in the 1940s, may be explained by rational choice analysis rather than be seen as a sequence of historical cause and effect going back to the 1920s. Yet there are continuities over time which all approaches must take into account. This is perhaps more clearly evident in sociological institutionalism than in the rational choice arena.

The role of institutions in society was given great emphasis by the classical sociological writers such as Weber with his concept of ideal-type of rational-legal bureaucracy and Durkheim’s concern with organic solidarity, followed by the American tradition of structural functionalism associated with Talcott Parsons. The anthropologist, Karl Polanyi, writing in 1957, also perceived the economy as an “instituted process”, and in making the distinction between—what he termed “formal economics” and the real or “human economy” he observes that:

"the human economy, then, is embedded and enmeshed in institutions, economic and noneconomic. The inclusion of the non-economic is vital. For religion or government may be as important for the structure and functioning of the economy as monetary institutions ... The study of the shifting place occupied by the economy in society is therefore no other than the study of the manner in which the economic process is instituted at different times and places" (Dalton 1968: 148)

This clearly paves the way to the view, elaborated by Berger and Luckman (1966), that economic institutions, including markets and their regulation, are social constructs. From this early work two distinct strands of study developed, reflecting the distinction between the terms ‘organisation’ and ‘institution’. Reflecting the former there has been a stream of analysis linked to industrial organisation which has focussed on the internal structure and behaviour within organisations, while studies on the latter have looked more at the role of institutions in society in a broader sense, including their overt and latent functions, their capacity to adapt and survive, how they generate path dependency, and why they differ between societies. Frequently, however, the same
terminology is used for both. For instance, one of the most prolific writers on organisational theory has said, “Institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behaviour” (Scott 1995, reproduced in Peters: 1999) where he is principally concerned with the internal organisation of formal institutions. An additional point to note here, which is taken up later, is that, even on a wider interpretation, the role of power or exploitation is elusive in definitions of this kind and it is difficult to see how they might relate to the institutional forms prevalent in societies like pre-revolutionary Ethiopia where the imperial government, and the emperor in person, had so much control.

On the other hand, the notion of the social embeddedness or ‘sedimentation’ (Swedberg and Granovetter 1992) of economic institutions is crucial to our understanding of political and economic change in an Ethiopian context. In their view of sociological institutionalism Hall and Taylor adopt a more cultural approach, including in their definition “symbol systems, cognitive scripts and moral templates”. Thus, where the boundaries of any particular country include a collection of cultures amongst which some will dominate then the institutional framework and related procedures in the country will reflect this. In this somewhat more anthropological view the impact of intergenerational transmission of a hegemonic culture may survive and adapt through even quite radical change, where the mores, norms and allegiances which served a previous regime are transmuted into the rules which establish and define the institutions of a new one. There is some overlap here with historical institutionalism but with the addition of social theory. It is also akin to the economic sociology of writers like Granovetter (1985) in seeing economic behaviour and the formation of economic institutions as social action and in extending Polanyi’s theme of the embeddedness of economic institutions to a more inclusive social network approach, though one where path dependent constraints may produce results that are inimical to efficiency in the neo-classical economic sense, a point to which I return below. This is also similar in some respects to early ideas on ‘the moral economy’ of so-called traditional societies, in which the allocation and use of resources is presumed to be guided by cultural values and social need rather than exchange (Scott 1970), though the similarity tends to diminish when the effects of market exchange are introduced. In more recent analysis of peasant agriculture there has been an interest in the idea of ‘social capital’, an economist’s concept in which constraints on the productivity of physical capital are accounted for by failure to recognise the potential of social networks, as opposed to basic neoclassical economic incentives (Fine 1999, Shimeles & Bereket 1996, Bevan & Kebede 1996). This, however, constitutes an ‘adding on’ of an additional factor of
production rather a redefinition of concept, and tends to be discussed in the context of trying to reconcile observed peasant behaviour with the conventional economic notion of the ‘rational peasant’ in orthodox economic development theory. The latter has been an on-going debate at least since Schultz’s work in 1964 and takes us conveniently to Hall & Taylor’s third category, that of rational choice institutionalism.

Although much of the early application of rational choice theory has been in the workings of the political process, particularly in the United States, it has assumed a powerful position in the analysis of institutions in many other contexts and has a number of features in common with the premises of new institutional economics. It assumes a methodology of individual optimisation where the individual has a “fixed set of preferences or tastes... (and)... behave entirely instrumentally so as to maximize the attainment of these preferences, and do so in a highly strategic manner that presumes extensive calculation” (Hall & Taylor pp944-5). The basic principles are identified less succinctly but illuminatingly by Zey in the following manner:

“The fundamental core of RCT is that social interaction is basically an economic transaction that is guided in its course by the actor’s rational choices amongst alternative outcomes. An action is taken only after its benefits and costs have been weighed. The unit of analysis is the individual decision made by an individual decision maker. The individual is purposive and intentional; that is, actors have ends or goals toward which their actions are aimed........ Essentially, an actor will choose an action rationally, based on a hierarchy of preferences (values, utilities) that promises to maximise benefits and minimise costs ...... that promises the highest net benefit to the actor and the highest probability of its occurrence” (Zey 1998:2)

‘Rationality’ itself is usually defined implicitly, and rather circularly, by the process just described. The values which lie behind it are taken as given, as is the assumption that the individual’s calculation will be a maximising one of self interest. The application of this school of thought to institutional analysis follows from the recognition of the widespread role of institutions in social, economic and political life as mediators between individual and collective rationality. One stream of analysis has focussed on how individuals operate within the rules of institutions and why rules are accepted, while another has examined how rules themselves evolve as sets of incentives and constraints. In addition to this rules based approach other analysts have used principal-agent and game theoretic methodologies. Many of these approaches tend to have a weak historical perspective and pay little regard to the longer term formation of the institutions in question. Individual choice at a point in time provides the main focus of
interest, and. largely as a result of this, there is an inadequate appreciation of how institutions are also the setting for power structures in society. As Zey points out,

"the explanation of cause is at the heart of a social theory of power and cannot be reduced to the economic exchanges of rational choice theory" (Zey 1998:57).

A notable exception to this general lack of attention to wider social forces is found in the study by Bates of institutional formation in Kenyan agriculture from the period just before independence to the 1980s, in which he argues that a considerable body of regulation in the coffee and tea sectors appears to have facilitated the emergence of efficient markets (Bates 1989). I shall say more about this in section 2.4 below. As a rule, however, the activities of the state are seldom regarded benignly in this approach, where a close connection is often observed between the methodological individualism of RCT and anti-statist political ideologies.

There is clearly much in common between the assumptions of rational choice theory and those of neo-classical economics, from which indeed the former is largely derived. Thus, in the conventional neo-classical economic model preferences are usually taken to be to maximise utility by the individual consumer and to maximise profits or some other outcome by the individually conceptualised producer. In meeting these objectives an "efficient" allocation of resources is achieved and there is, in the pure model, no active role for government. These behavioural attributes are assumed to be universal to human nature and to be ultimately determinant across all sorts of cultural and social contexts. Given the highly quantitative nature of contemporary neoclassical economics the processes and solutions are frequently analysed by means of mathematical maximising models and game theoretic constructions. Mainstream economics therefore pays little regard to institutions as such, with even firms being principally regarded as unitary entities engaged in competitive market struggle.

Yet for many years there has been a minority interest in the institutional limitations of the mainstream approach and during the final quarter of the twentieth century a certain revival of interest arose in what has become known as the "new institutional economics". Although it remains very much in the domain of the neo-classical school a number of the writers in this area have recognised the importance of historical processes and of the cultural context of economic behaviour which offers a more subtle approach to our understanding of the formation, and likely directions of change, of institutions in a given economy. As this could be applied to the structure of the coffee filiere in
Ethiopia some time is spent in the next section in expanding on the origins and scope of the 'new institutional economics'. Such attention is also justified on the grounds that 'coffee production and marketing' is regarded in most policy circles as an 'economic' issue and hence that the exclusive nature of the 'economic' arguments must be critically addressed before any alternative approach which takes a more 'political economic' line can be introduced.

2.3 Institutional Economics

An awareness of the importance of institutions in economics is not new and their role in the workings and definition of boundaries of markets has been discussed since the early days of the foundation of classical political economy. As early as 1767, for instance, some ten years ahead of Adam Smith, Sir James Steuart, wrote:

"The great art therefore of political oeconomy is, first to adapt the different operations of it to the spirit, manners, habits, and customs of the people; and afterwards to model these circumstances so, as to be able to introduce a set of new and more useful institutions." (Steuart 1998:1.21)

He also expressed the opinion that "a government must be continually in action, and one principal object of its attention must be: the consequences and effects of new institutions." Similar references may be found in other works of the classical period. By the early twentieth century the neoclassical emphasis on mathematical analysis and quantification which had begun in the 1870s was beginning to take over and the older, more discursive forms of analysis increasingly sidelined. Nevertheless, during the early and middle decades of the twentieth century a number of notable contributions on the role of institutions in economic behaviour came from such as Veblen, Commons, Schumpeter, and Galbraith, all of whom brought in the political and social as much as the economic functions of business, and with a contextualisation that incorporated state, society and economic behaviour in an overlapping synthesis (Stein 1995). There is sufficient in common amongst this rather disparate group of writers, in the field of institutionalism, to have their contributions collectively labelled as the 'old institutional economics' (Rutherford 1997, Hodgson 1998).

Some indication of the approach, and variety, of this group is reflected in how they tended to define the concept of 'institution'. For instance, Commons refers to a "universal principle of collective action in control of individual action by different kinds
of sanctions" as the common feature of "all behaviour known as institutional"
(Commons 1959, p.69). Veblen, on the other hand, held that "the institutional scheme is
a matter of law and custom, politics and religion, taste and morals" with effects that
differ according to class (Veblen 1961 p.44). More recently James Stanfield has drawn
on Ayres to produce a definition where the term 'institution' refers to "clusters of moral
beliefs that configure power" (Stanfield 1999). However, with the increasing dominance
of the more systematised neoclassical approach to economic theory, supported by the
rigour of mathematical method, and with the increasing vocational orientation of
'economics' rather than 'political economy' as an academic discipline, this earlier
institutional approach stultified, being regarded as not quite 'scientific' or 'operational'
enough (Pratten 1997 JE1; Rutherford 1997; Rowlinson 1997:23) or even lacking a
theory (Coase 1988).

Having taken a route which focussed on the construction and characteristics of models
of markets the heart of neo-classical economics and its derivatives became a theory of
general equilibrium. This, under certain assumptions, shows that when market forces
are allowed to operate freely then markets will settle down to an equilibrium position.
The theory is summarised in one graduate textbook as follows:

"One thinks first of a free market economy in which goods do sell at some
prices, where consumers know these prices, and where consumers can buy and
sell commodities in whatever quantities they wish at the prevailing prices. If we
ever found consumers in such a situation, then we would have consumers who
are aware of the relative rates of exchange of each commodity for every other.
If all consumers take these rates of exchange as given , if all consumers face the
same rates of exchange, if all maximise their utility ..., and if all consumers are
in the end happy with the exchanges they have made, then we would necessarily
have a Walrasian [or general] equilibrium" (Kreps 1990:193)

In most textbooks this then leads on to a major theorem of welfare economics, that a
Walrasian equilibrium always yields a Pareto efficient allocation of "the social
endowment", where a Pareto efficient outcome exists if no further change can be made
without at least one player being worse off. It is impossible to go beyond this in the neo-
classical pantheon because that would involve inter-personal comparisons which lie
outwith the economist's purview. This may seem reasonable, and is the ground for
distinguishing between positive and normative economics. There are fundamental
methodological problems, however, arising from the closed nature of the deductivist
system that forms the subject of analysis. In other words, to proceed by deduction from
a set of initial assumptions, or even self evident 'axioms', upon which a superstructure
of behaviour that is defined in the form of mathematical equations is created, is to limit
the choice of outcome possibilities to a predetermined range (Lawson 1997, Schmid & Thompson 1999). As Lawson summarises it, “when a collection of agents and their interactions is the focus, the set-up is usually conceived of as an economy or game in its entirety, as some closed off, completely described and physically isolated system” (op. cit. 1997: 101)

These are criticisms of the neoclassical schema at the most fundamental level of method. The relevance to our present study here lies in the absence of realism in the models normally constructed, and from which policy conclusions tend to be drawn and to filter through to practitioners. The problem reappears in other forms, albeit at less rarified levels of abstraction. One example of interest to us here is in the treatment of the concept of ‘the firm’ in economic theory. Standard theory does not explain why firms (or other market institutions) exist and persist, treating them as agents that “rebound in atom-like fashion to external influences” (Lawson 1997: 101). This is not simply a question of opening up the ‘black box’ of the firm to examine its internal organisation, but of addressing the more basic question of how it is that one part of the economy is dominated by market exchange while another part is organised via administrative hierarchy. In response to this, which is essentially questioning what is meant by ‘market’, a significant body of work, associated with the names principally of Ronald Coase and Oliver Williamson (Coase 1937, 1988, Williamson 1985), has arisen which attempts to account for the presence of organised groups (firms, state agencies, trade associations) in markets as responses to certain real costs of transacting that have been assumed away in the general theory.

Thus, it is pointed out that only in an idealised world is market exchange costless, and the various forms of institution which can be observed affecting markets may be interpreted as serving to facilitate exchange in a context of uncertainty and risk. In brief, this could be to overcome problems of collective action, to counteract incomplete or asymmetric information (in a context of bounded rationality), or to enforce contracts. The pattern of institutional relationship which is most appropriate to a given society will also depend, inter alia, on the existing structure of property rights and how these encourage or inhibit the growth of an exchange economy. Other things being equal, the institutions which emerge, and survive, over time in any society are claimed to be those which improve the efficiency of market exchange.

It is this body of work that has collectively come to be known as the New Institutional Economics and now has a large literature (summarised in Eggertsson 1990, Hodgson et
al. 1994, Rutherford 1997) whose essence is summarised in the preceding paragraph. It is clear that the NIE is an extension of neo-classical economics to take account of transaction costs, to which other elements reduce (Williamson & Masten 1995, Furubotn & Richter 1997), and that it therefore continues to take as given the optimising objectives of individual players who will act in a pre-defined rational way (which will also underlie the motivations for collective or collusive action). A useful summary of these various strands is found in Bhardan (1989). The nature of the organisations and institutions that emerge, whether these be firms, professional associations, legal statutes, or government information offices, have thus been driven by the competitive environment and, it is argued, will tend to move the economy in which they operate closer to the efficiency levels of the idealised general model described above.

Evolutionary competitiveness will thus ensure that in time market institutions will only survive if they serve the aims of allocative efficiency. In much of the writing in this area time is a variable only in a systemic sense. The greater part of analysis tends to be ahistorical with an implied cultural neutrality and universal validity. Everything depends upon the assumption that human behaviour is guided by rules of rational choice as defined in a particular type of discourse.

There are, however, significant exceptions, in which some parallels with historical institutionalism can be discerned. Douglass North, for instance, has attempted to explain the distinctive emergence of capitalism in Europe in terms of the growth of external, long-distance trade which called forth ever more complex market institutions in a process of incremental change. The development of efficient institutions is seen by North as the product of “a polity that has built-in incentives to create and enforce efficient property rights” (North 1990: p140). At any given time, however, the institutional environment will tend to be conservative, leading to outcomes where organisations that are inefficient in neoclassical economic terms are able to emerge. Although these will be designed to serve the interests of powerful groups at these times they also create a path dependence in which inefficient institutions may become ‘locked in’ for extensive periods (North 1990 pp.98-9). North therefore recognises that “the path dependent pattern of history” may be conducive to either growth or stability or stagnation. Ultimately, however, changes in relative prices will render these ‘inefficient’ institutions unsustainable and they will be replaced, possibly accompanied by some form of social or civil upheaval, by more efficient ones.

A second example is found in the frequently cited book by Eggertsson (1990) in which the usual attention given to transaction costs and property rights dominates the
discussion, and where, in exploring the reasons for institutional change over time it is again the pressure of changing relative prices that is seen as the prime mover, illustrated on this occasion by an extended example from the middle ages in Iceland. As Stein points out, this is in contrast to the line of causation in the older forms of institutional economics where institutions influenced prices (Stein 1995: p129), reflecting the fact that NIE “uses the same theoretical precepts as the neoclassicals”. Despite an acknowledgment, therefore, in the final paragraph of his 1990 book of the additional potential significance of culturally derived norms of behaviour North’s account of institutional change retains its neo-classical moorings.

‘Efficiency’, throughout this discourse, is clearly being used in the neo-classical sense of the allocation of resources through market exchange until a Pareto optimum is reached. North’s methodology is to study the economic history of the USA and Western Europe from such a perspective, using evidence in a post hoc ergo propter hoc fashion. Elsewhere he talks about “integrating institutional analysis into economics and economic history” (North 1995) and this is consistent with other NIE writers. In essence, therefore, the new institutional economics is an extension of neoclassicism in that its rational choice and optimising underpinnings are unaltered. Given, that is, the presence of certain market lacuna such as imperfect or asymmetric information, or unallocated property rights, then the nature of the institutions which emerge to deal with them will be such as to maximise efficiency within these constraints. In other words, inefficient institutions will be driven out by efficient ones, with ‘efficiency’ continuing to be conceptualised in neo-classical terms.

Although the NIE is ultimately a project born in the neoclassical school there are occasions when its protagonists do look in the direction of wider social forces. North, for instance makes the distinction between ‘institution’ and ‘organisation’ with the former including “any form of constraint that human beings devise to shape human interaction” (North 1990 p.4) and the latter being bodies such as firms, trade unions, political parties etc. that are both derived from and in turn influence the wider institutional environment. (In practice it is common to find the terms used interchangeably and for the ‘institution’ to be used when, in North’s terms, it is ‘organisation’ that is meant). Oliver Williamson, too, makes use of this distinction, though somewhat more narrowly, with organisations operating in an “institutional environment” in which property rights, contract laws, norms, customs and “the like” are determined. Organisations themselves are an aspect of what he terms “governance” by which he is referring to alternative ways in which resources are managed. Feeding in
from a lower level are individual behavioural attributes which include opportunism or “self-interest seeking with guile” (Williamson 1985: 47). In this way the organisation is the forum in which structure and agency come together.

Interestingly, in later work Williamson uses the idea of layers in a way which unintentionally highlights the limitations of the NIE, and allows us to proceed to a more critical stance (Williamson 2000). The standard analysis of neo-classical economics he places at bottom of four “levels of social analysis”. His schema is reproduced below:

**Level 1**: Embeddedness: informal institutions, customs, traditions, norms, religion

**Level 2**: Institutional environment: formal rules of the game – esp. property (polity, judiciary, bureaucracy)

**Level 3**: Governance: play of the game – esp. contract (aligning governance structures with transactions)

**Level 4**: Resource allocation and employment (prices and quantities; incentive alignment)

At Level 1 change is slow, often spontaneous and “noncalculative”. At Levels 2-4 the purposes are, respectively, to get the institutional environment, governance structures and marginal conditions “right”. He calls this first, second and third order “economizing”. Thus, the motive to economize over-rides all else. He recognises that the New Institutional Economics has been concerned principally with Levels 2 and 3 but he also admits that the “institutions of embeddedness are an important but underdeveloped part of the story”(p.610) and he quotes with sympathy, but without reply, North’s query: “What is it about informal constraints that gives them such a pervasive influence upon the long-run character of economies?” (p.596).

I have quoted Williamson at length as he has been a key writer, and one extensively cited, in the fields of organisational economics, institutional economics, and transaction cost analysis. As such his views on power are of interest and perhaps help to explain his inability to come up with an answer to North’s query. Explanations based on concepts of power are seen as tautological because they depend upon ex post observation of a factual outcome. In place of power Williamson and many institutional economists argue that ‘efficiency’ provides a more rational explanation (Williamson 1997). This is
particularly the case in intermediate product markets where, he maintains, contracts are entered into with far sighted intentions. Where dependency may be a factor he argues that it has been deliberately incurred and supported with safeguards (p.14) and he quotes an extended example of the international diamond market in which the purchasing contracts imposed by De Beers are interpreted as devices to improve efficiency through the minimisation of search costs. He does not necessarily argue that "involuntary, uninformed and myopic" contracting does not exist but that its extent has been exaggerated.

Such examples illustrate (a) how difficult it can be to interpret the underlying meaning of market structures and (b) how this lends itself to readings which serve to support particular schools of thought in a wider agenda where methodological roots are unquestioned. This becomes apparent if we try and relate this theory, which has very largely evolved as a response to Western industrialised societies, to Ethiopia.

The production and marketing of coffee in Ethiopia would appear at first sight to be a long way removed from much of the literature referred to above. Yet, it is possible, within its frame of reference, to consider the extent to which the present institutional (i.e. organisational) structure of the coffee filiere in Ethiopia approximates to the 'efficiency' needs of the industry in a NIE sense, and to examine whether its evolution in that direction is being facilitated by present government policy. The contribution of the auction system, the absence of vertical integration, or the formation of the exporters' association may be analysed in such terms. So, too, may the exporter's need to compensate for asymmetry of information on the quality of coffee beans on purchasing them by further grading prior to export. Yet, clearly, the more political parameters of ethnicity, power and informal networks expressed through private and public channels will not be included. These raise a different set of questions, such as whether the structure of the filiere is rather the product of a number of historical forces, which, in serving the needs of powerful groups in the past, has laid down a pattern which new groups in power are now moulding to their own advantage? This question introduces the issue of power and control as social-political phenomena, hidden within, rather than deposed by, contractual arrangements. Behind these are supplementary questions about class and exploitation, areas and concepts about which the NIE has little to say. This moves us on to a more political economy based form of analysis.
Let us do this by first considering how the New Institutional Economists have approached the structure of agricultural markets, given that our interest here is in the Ethiopian coffee filiere.

### 2.4 NIE and Agricultural markets

In general the agricultural literature confirms the view that the New Institutional Economics is an extension of the neoclassical prospectus. Hubbard, for instance, concentrates on how uncertainty and the need for associated contracts generate transaction costs in agricultural markets to which there are various institutional responses, and follows North in assuming that trend changes in relative prices are the primary causes of institutional change (Hubbard 1997). Likewise, in a series of recent reviews with different co-authors Binswanger has blamed the poor growth performance of various developing countries, particularly those in Africa, on a combination of inappropriate institutions and price distortions. That is, the importance of the institutional role is recognised but experience in practice condemned for its overcentralisation and openness to political intervention (Binswanger & Deininger 1997, Binswanger & Townsend 2000). Others have focussed more on the problems of distribution in the emerging private sector, and its relative efficiency and ownership trends (Jaffee and Morton 1995), or on an NIE analysis of smallholder response to liberalization (Dorward et al. 1998). An early, though nicely nuanced, more general summary was provided by Bardhan in 1989, in which he places changes in relative prices in a wider social context. Drawing on Brenner’s analysis of the transition to capitalism in Europe he points out that while “changes in relative prices may at most change the costs and benefits of collective action on the part of different classes ……they cannot predetermine the balance of class forces or the outcome of social conflicts.” (Bardhan 1989:8). Relatedly, this more broadly based ‘political economy’ also allows debate on the persistence over time of what neoclassicals would regard as ‘inefficient’ institutions. On the other hand, in the same volume we have Stiglitz’s re-examination of sharecropping as a contractual arrangement to overcome principal-agent problems in circumstances of uncertainty and risk. The peasant is rational after all, if not fully informed. However, in accounting for the relative simplicity and similarity of sharecropping contracts from country to country and over time Stiglitz refers to custom and convention as means of coping with incomplete information and risk, and in this way draws in historical and socio-political factors whose absence in mainstream economic models limits the usefulness of their application.
The importance of history and the role of dominant political groups in accounting for how a given society has arrived at its present situation, in the NIE context, has been explored by Bates in his examination of the development of coffee, tea and dairy production in Kenya (Bates 1989). Starting with the Mau Mau rebellion in the 1950s Bates explores the subsequent political events which led to the introduction of the Highlands land settlement scheme, of how this land was apportioned between small and large farmers, and of how a detailed system of regulations ensured that the financial returns would satisfy the expectations of investors. In allocating land the Kenyan government, controlled by KANU, took account of the potential conflicting interests of ethnicity, wealth and poverty. The outcome, according to Bates, was a set of institutions which encouraged efficient agricultural production, through paying due recognition to the potential of scale economies and through the encouragement of contracts which minimised for farmers the risks involved in uncertainty and absence of information. An essential element of this process was how the creation of property rights added definition to the “structure of interests which sought advantages in the market place” (p.152). That is, the institutional reforms which accompanied the settlement scheme appear to have created the right environment for market efficiency to emerge. That some in the political and economic ruling circles were well placed to benefit from this is an additional historical factor of some interest, and is, as Bates says, “a dark side to the economic theory of institutions” (p.90), but at the end of the day allocative efficiency in the use of resources has been achieved. Furthermore, against the idea that what he calls ‘large interests’ will exert undue influence or extract disproportionate benefits there is the democratic process in which politicians can readily mobilise the small farmers. Large interests are also constrained by the immobility generated by their very size.

This study by Bates is interesting in that it fuses political history with the creation of a fruitful environment for efficient markets to emerge. The various obstacles which had prevented this from happening in the past, i.e. which had raised transaction costs to a prohibitive level, were displaced in the aftermath of the civil uprising known as Mau Mau, thus opening up the way for the stimulus of market incentives on the basis of clearly defined property rights. The distributional outcome was due to the balance of political factors at the time, but the economic outcome was Pareto efficient, and hence satisfactory from the NIE point of view. This study is important from the NIE perspective for two reasons: one is that it does incorporate a historical input, and is thereby grounded in a certain reality, and another is that it allows for a positive role for the state in defining and protecting property rights and in creating a sympathetic
regulative environment. It is this which lies behind a later remark by Bates that “behind every Pareto optimal there lies a previous act of coercion” (Bates 1995: 47); that is, the correct institutional conditions for market efficiency have to be established in the first place and this is only likely to happen by state intervention.

This is clearly a study that is of some relevance to Ethiopia and in Chapter 11 I consider how transaction cost analysis may be used to interpret the institutional structure of the coffee filiere, though the limitations of the approach are also demonstrated. Here, we may note two points. First, Bates’ presumption not only that the outcome in Kenya was efficient but also that it was meant to be, indeed that this was the driving force behind the changes, and second, that the class distribution of the outcome is of little consequence as the democratic process plus the opportunities provided by a functioning market will ensure some form of equity. There is some inconsistency here as in a later essay he quite forcefully makes the point that a major error of omission in the NIE is “the failure to recognise the centrality of politics” (1995:42), using as an example the way in which the comparative success of the Kenyan coffee industry arose from the vested interests of the top politicians and bureaucrats. Kenya, in other words, benefited from the politics of production rather than suffered from the politics of redistribution as had been the case in Tanzania (Bates 1995). On the other hand, the reduction of politics itself to analysis by rational choice theory is evident in his later co-authored book, Analytic Narratives (Bates et al. 1998) in which the chosen means for combining history, politics and economics is game theory, and in particular the establishment of Nash equilibria. (The latter being the situation where no further move by a strategist is worth while given the opponent’s expected choice of strategies.) This approach is then used by Bates in his contribution to the volume to analyse the establishment and collapse of the International Coffee Agreement where the strategies of the major players such as Brazil and Colombia are set off against those of smaller producers elsewhere in the world, and that of the USA which throughout that period was concerned with limiting the spread of communism (Bates 1998).

From the perspective of those who are not tied to a rational choice approach Bates’ work on Kenya has also been criticised for not departing sufficiently from neoclassical formalism (Stein & Wilson 1993) with its roots in individual choice, and as a result neglecting the importance of structural features of African society. To reduce such phenomena as tribalism, ethnic groupings, class and religion to “codes for material self interest, involves too much reductionism for most in the field of African studies” (op.cit.: 1049). Similarly, a failure to capture social processes marks his historical
account of Kenya in which the strength of rational choice is evident more in the analysis of a given situation where the institutional context and social location of the various players are taken as given (Peters 1993). It is not, says Peters, “a model to be looked to for help in social, historical or institutional analysis” (op.cit.:1074).

Despite these limitations in his approach I have discussed Bates at some length as he is a key figure in the attempt to incorporate political factors into the NIE with an application to agricultural commodities in the developing world. Others have had similar projects but focussing on the processing aspects of food in an industrialised context, as with chickens or strawberries in the collection by Goodman & Watts (1997). It is also worth noting at this point a number of studies of agricultural markets in developing countries which have more limited theoretical ambitions but which claim greater relevance through their attempt to understand the workings of ‘real markets’ (e.g. Harris-White 1996,1999; White 1993, and Olsen 1996). Here the complexity of market relations includes ethnic, class, caste, legal, historical, gender and cultural inputs from which prices, output and effort are but consequences. Institutions are defined widely and are sites of power rather than responses to market failures (though they may be that too). For Harris-White the NIE can provide useful insights of which mainstream neoclassical economic theory is incapable but it remains deficient in its ability to recognise and handle issues of power and institutional change (Harris-White 1999:14). When ‘real’ markets are examined in detail, through well-prepared field research, then the NIE method is shown to be constrained by its attachment to “what is conventionally accepted as economic” (Harris-White 1999:14). This leads Harris-White to consider a political economy of market exchange. Bates was moving in the same direction though putting different boundaries on the expression. This also forms the basis of the final section of this chapter.

2.5 Political Economy of Institutions

The last two sections have surveyed the main principles of the New Institutional Economics approach, both in general and as it may be applied to agriculture. Insofar as this approach represents an extension of the rational choice thematics of neoclassical economics it has both strengths and limitations. Amongst its strengths are an undoubted ability to analyse individual and institutional behaviour in terms of strategy. This can lead to interesting insights of a ‘realpolitik’ kind. Its principal limitations are a neglect of context and what it assumes as exogenous, leading, despite the attention to
institutions, to the same common criticism of neo-classical economics, and of other rational choice applications, of being apolitical and ahistorical. A major consequence is then a profound deficiency in the treatment and understanding of power relations (Rowlinson 1997, Holton 1990), particularly in accounting for the actual origins of institutions which, like the initial distribution of wealth, are usually taken as given, whether in the short or long run.

Consideration of power introduces a dimension that is often associated with problems of structure and agency and is covered in a literature too vast to be summarised here. My point is rather to note its omission as a factor, other than in passing reference, in much of the NIE literature, and to argue therefrom that only an approach which addresses the political economy of institutions can offer a comprehensive remedy. We need to be clear, of course, about what we mean by ‘political economy’ and to recognise the different usages, at least since the end of the nineteenth century between economists and, for example, political scientists. Thus it is not the contemporary version of the former that will be adopted here, as summarised by Alt & Shepsle where “positive political economy is the study of rational decisions in a context of political and economic institutions” (Alt & Shepsle 1990, p.2). It is rather the sort of definition of political economy suggested by Holton in which “economic life is constituted through networks of power involving dominant and subordinate social groups........embedded in a political framework”(Holton p104). It is the recognition of ‘power’ as a central ingredient, of who holds it and for what purpose, that marks out the more radical version of political economy. This version continues to draw on the original contribution of Marx, which, even when wrapped up in post-modernist packaging, still has what Daly considers a fundamental contribution to make in its “compelling insistence on the ineradicable nature of power” (Daly 1999:81)

Yet, if the concept of power, and its associated political manifestations, is not to be allowed to slip away, diffused into an individualised rational choice type of network theory, then the empirical basis of political economy needs to be secure. At this point it is useful to return to the notion of historical institutionalism. Where the field of investigation is social, political and economic change over time it is less easy to ignore issues of power and control, and of how individuals and groups seek to influence the outcome of events to their own advantage. This they do by means which are not confined either to voluntary contracting or to opportunism with guile by individuals in a given structural environment, as in the NIE literature. On the contrary, as is demonstrated by accounts of the transition to capitalism in Europe, such processes are
usually analysed in terms of the group motivations and characteristics of landlords, peasantry, merchants and aristocracy, all of whom, as groups, had distinctively different relations to property and other assets, and all of whom may be analysed as classes both in and for themselves in manoeuvring for superiority. Although the outcome was the rise to dominance of market based relationships this does not necessarily vindicate the primacy given by North to relative prices or long-run competitive forces. Such a reductionist conclusion is placed into context by Mann’s reminder that “the market is itself a form of social organisation, a mobilisation of collective and distributive power” (Mann 1986: 412). The truth of this is evident in the widely different institutional arrangements in which markets have functioned, ranging from the informal, cultural complexes of exchange and tribute of traditional communities to the highly regulated state involvement of industrialising nations like Korea with its chaebols, or large family owned state supported conglomerates. Social evolution cannot be assumed to be moving towards an idealised economic model where all of life can be reduced to contracts voluntarily entered into in exchange for mutually satisfactory gains; a model in which power and class interests are absent or can be reduced to a theory of asset specificity.

Such grounding in objective conditions which a historical approach permits also provides the basis for a Marxian response to post-modernist deconstruction. Although the latter has created powerful arguments against any contemporary ability to see past events objectively, and, taken further, to move beyond the subjective in any form of discourse the consequent intellectual paralysis which can follow from this mode of thought is of little help in understanding what Mann has called the “circuits of praxis” of economic organisation and its pinions of power (op.cit:25). The alternative is to maintain that social interaction, and hence conflict, exists in a real dimension independently of our attempts to analyse it, but to be aware of the cultural biases in theory as we construct our discourses, though, rather than discard them for this reason, we use this insight to challenge other dominant discourses (Marsh 1999:328ff). In the field of economic production and exchange, of which the international coffee market is relevant here, much has also been made of rapid changes towards the end of the twentieth century in communications technology as a facilitator of an accelerated process of globalisation. Here, too, the attempt to identify this so-called ‘time-space compression’ in economic affairs as an identifying feature of ‘post-modernity’ has been countered by those who take a longer historical view in which a materialist form of analysis remains relevant (Harvey 1989). This is echoed at a somewhat different level by Daly (op.cit) where he draws on the work of Laclau and Mouffe to show how the Marxist tradition can continue to provide a theory of the politics of context, even where
the post-modernists claim that there is only context (Daly 1999:81), that is, the contexts of the observer and of the observed. But, as Daly says, "contextualisation, as an act of delimitation, is always a hegemonic/power process of excluding alternatives ... of provisional frontiers which can always be challenged and displaced" (Daly 1999:81). In this way Marxist political economy retains a role.

2.6 Conclusion and Application to Ethiopia

This chapter began with a brief review of social science method, emphasising the importance of an awareness of cultural parochialism in the researcher and acknowledging the critique of much western thought by post-modernism. It then surveyed the literature on the characteristic features, functions, and formation over time of institutions as analysed in the 'new institutionalism' of political, historical and economic research. I paid particular attention to the third of these on account of its links via rational choice theory, with mainstream neoclassical economics, which in turn has had considerable influence on policy makers in fields such as commodity markets. The exclusion of any explicit treatment of power in the methodology of most of these approaches, together with the artificial nature of any distinction between historical, political and economic aspects of the functions and origins of institutions, led us to consider the advantages to be gained by the methods of political economy, particularly where they draw broadly on the Marxist tradition.

It is well at this stage to be reminded that the reason for such close examination of the nature, origins and function of institutions is to be able to appreciate their particular role in the structure and performance of a commodity filiere, as explained in Chapter 1. There we outlined a structure whereby a physical raw material, the green coffee bean, is initially commoditised in one country, processed to increasingly sophisticated degrees as it passes through a number of exchange relationships in several countries, and finally consumed in these and yet other countries. It may be stored and it can be priced in futures markets. There are thus spatial, financial, transformational and temporal aspects to its operations and although these may be broken down into 'stages', as in a chain, it is important to remember that the essential activity is the addition of value (in exchange) as it passes through the stages. An examination of any section alone misses the point that such stages are themselves social entities, usually with historical antecedents, and that the most important question is how the total value added between producer and final consumer is distributed amongst the various participants. One answer is provided
by neoclassical marginalist economic theory (and those institutionalist variants which emphasise transactions costs), but as we have seen, this is based on a particularly restrictive set of assumptions regarding choice, denying any significance to cultural plurality. It also fails to address the contemporary significance of the fact that institutions are embedded in the past political and social life of a country and that they provide opportunities, often deliberately, for the aggrandisement of elite groups.

A useful alternative is found in Mann’s comprehensive study of the origins of social power in Europe. From extensive historical empirical research he identifies four key sources of social power, the ideological, economic, military and political, each of which manifests itself in appropriate organisational form (ibid:22ff) at different times in different countries. As we move towards a more detailed study of Ethiopia the relevance of Mann’s approach will become apparent in setting the context for the emergence of the coffee filière. Thus, in the history of the country up to 1974 the role of all four sources of power was evident. In brief, Haile Sellassie, as Emperor, continued the ideological practice of his predecessors in claiming a line of descent from the Solomonic dynasty of the Old Testament, as one of the non-coercive bases for his authority at popular level. This biblical link was reinforced by the dominance of the Orthodox Church in state religious matters. Second, the acquisition and maintenance of political power by the emperor and by many others from the aristocracy of the period, was derived from the economic resources of land based tribute and rent. The latter in turn had been legitimised by customary practice and enforced by feudal authority, though latterly these methods had been transformed into a system of formal land registration and taxation (to which I return later). Third, throughout the period the military was crucial in keeping one particular fraction of the ruling class in power, namely the Shewan Amhara line, and indeed was the source of many titles and office holders around the monarchy, reflecting the very close historical links between the army and the court. And fourth, the legitimacy of the entire process was established by a degree of constitutional and parliamentary reform at the national level. Although the revolution of 1974 removed many elements of this superstructure (such as private land ownership, the privileged status of an imperial class, an emerging private property rights regime) much has also prevailed into the present, including the centrality of state power, extensive state bureaucracy, the institutions of the orthodox church, the dominant supportive role of the military and, clearly, the many cultural and motivational norms peculiar to any society. Above all, with the exception of Eritrea, the geographic boundaries of the nation state forged by Haile Sellassie’s predecessors and consolidated in the course of
his reign are to date, and with all their problems, a continuing legacy of the lengthy imperial period.

It is therefore from within such an institutional framework, and the power structures which it upholds, that the domestic coffee filiere has emerged. This is the phenomenon for which a theoretical understanding is being sought, and to which the discussion of the present chapter must be brought to bear. This requires a greater understanding of the details of the Ethiopian case, which is the subject of the following chapters. The essential details are that of the total coffee produced annually in the country a portion is consumed directly by the grower; in the past some was paid as tribute and today most is sold for cash. To that extent a market may be said to exist and exchange takes place through selling. But, by state decree, the farmer may sell only to specified outlets, and these in turn may only sell to auction. Some exchange may be in return for credit. Only certain defined grades may be exported and all foreign currency earned is strictly controlled. Different participants benefit to different degrees. One view would be to declare the entire process to be a highly regulated and institutionalised market. This is to give primacy to the market as the central core. Another would be to regard the phenomenon essentially as a polity within which certain aspects are atomised and exchange takes place through individual transfer. It then becomes clear that ‘the market’ is only a part of the social construction of the whole commodity chain. An important element of that construction is its institutional cohesion, or the nature of the institutions which hold the various stages together and which guarantee continuity of control. As indicated in Chapter 1, the role of institutions is central to any understanding of commodity chains whether it is the GCC or the French filiere approach that has been adopted.

Within a milieu of church, state, class, ethnic and commercial interests the coffee filiere is set, therefore, not as a self-standing series of mechanically operating markets, but as a political economic structure which channels the export of coffee along a route controlled by a series of institutions which have themselves emerged from political intervention over many years by autocratic, centralised government rather than by ‘natural’ evolution driven by economic incentive. It is this history to which I now turn.
Chapter 3

The Rise of Coffee: Production and Exports before 1952

3.1 Introduction

In this chapter I shall show how coffee came to acquire increasing importance in the political economy of the country from the mid to late 19th century onwards, how it gradually replaced ivory as the major export commodity, and how it was a product of the southern expansion by Menelik and his Shoan predecessors. We shall see how its significance as a source of foreign exchange was recognised at an early stage by Haile Sellassie, but also that consolidation of the growth which had taken place by the mid-1930s was interrupted by Italian invasion and occupation between 1936 and 1941. I conclude the Chapter by observing how the subsequent recovery throughout the 1940s led to a position of ever increasing dependency on a world market which itself was requiring higher standards of quality and consistency. The consequences of this are taken up in the following chapter which explores the introduction of a series of regulations affecting the production, distribution and export of coffee which appeared during the 1950s and 1960s. The cumulative impact of these were to establish a particular institutional setting for the coffee filiere in Ethiopia, which in many respects survived the revolutionary period from 1974 to 1991, and provide an interesting example of long term path dependence affecting the present marketing structure. The details, evidence and analysis of this long-term view are examined further as we go through subsequent chapters.

3.2 Early History of Coffee in Ethiopia

Although coffee appears to have been an important crop since at least the 16th century (Merid Aregay 1988, Pankhurst 1997, Tuscherer 1998) its widespread consumption in present day Ethiopia is a relatively recent phenomenon, as indeed is the ‘coffee ceremony’ so alluringly described in tourist literature of the country (see Pankhurst, Rita 1997). The reason for the slow early growth in domestic consumption is that the principal coffee growing areas are found in parts of the southern regions which were incorporated into the northern Abyssinian empire only in the later 19th century, as part of the rise to regional hegemony of the Shoan dynasty principally under Menelik but
commenced by his grandfather, Sahle Sellassie. Until that time coffee consumption seems to have been regarded by the Christian priesthood of the northern Orthodox church as a habit associated with Islam, this being the religion not only of many of the southern farmers who grew coffee but also of the major consumers in the Red Sea littoral and Arabian peninsula who purchased it. (Pankhurst 1997).

The latter applied particularly to the primary production area of Harar and surrounding district, to the south and east of the highlands, from whence considerable volumes were being exported to Arabia by the middle of the 19th century, stimulated by increasing demand from Egypt and Turkey (Lapidus 1988). During the Egyptian occupation of Harar between 1875-85 additional production was also encouraged as means of raising the local tax base (McLellan 1980). At this time, to the south and west of what was to become Menelik’s new capital of Addis Ababa, in the interior regions coffee was grown more for local consumption than for export. However, McCann has shown that local kings had first rights to the crop and that its consumption was restricted to notables and others who had earned some distinction, perhaps in battle (McCann 1995). In his geographical area of study, Gera district in the northern part of Kaffa province, he quotes early Italian travellers’ reports that forest grown coffee was common even to the extent that some was unharvested during the late 1850s, possibly reflecting poor transport communications. It was not therefore at this time a major cash crop in these inland areas. With the growth of the Red Sea trade, however, some of the more powerful kingdoms in neighbouring Jimma and Gomma began to grow specifically for the market and by the second half of the century were exporting fairly substantial quantities. All this in what is now regarded as Western Oromia region.

The income from coffee production at this time does not appear to have been a significant factor in Menelik’s southern expansion, though it is mentioned along with ivory, gold and civet by his contemporary, Tekle Haimanot of Gojjam and may have been a factor in his grandfather’s earlier expansion from Manz into Shoa (both examples quoted in Holcomb and Ibssa 1990). When looking for economic motivations it seems that the revenue from the ivory trade was at that time considerably more important. However, so intensively was this exploited in the closing decades of the 19th century that the supply almost disappeared and attention was diverted to alternatives such as coffee. The initial effects of the expansion were even highly destructive in certain areas, as McCann demonstrates in Gera where cultivated agricultural production, including coffee harvesting, virtually ceased in the wake of marauding armed forces passing through on their way to the ivory producing regions. Depopulation of the same regions
also followed as farmers were either captured for slavery or fled to nearby Oromo strongholds, making any subsequent recovery slow. Nevertheless, the subsequent consolidation of control over the southern, western and eastern provinces allowed Menelik and his regional governors, gradually to take advantage of a growing trade in coffee from Illubabor, Kaffa, Sidamo and Hararge, a trade which by this time was extending beyond Arabia, Turkey and Egypt, and was derived from the demand in the industrialised societies of Europe and North America, and which for the powerful families of Ethiopia provided a timely replacement for declining ivory supplies.

As might be expected in a conquered region, the pattern of cultivation and exploitation which then emerged is complex. There was, on the one hand, the granting of guilt rights to regional governors appointed from the Shoan Amharic conquerors, who then appointed balabats (from amongst the colonised) and nefegna (from invading settlers) who had been given land rights, and who were authorised to collect tribute in kind or cash, part of which in one way or another found its way back to the regional lord or governor. To a certain extent settlers from the north also seemed to have displaced a number of indigenous farmers who began cultivating marginal land which incorporated forest coffee trees. Harvesting and growing coffee gained some stimulus through the need to pay tax and other tribute in a form acceptable to landlords and officials. As northerners the incomers were not prepared to take the traditional southern crop, ensete, as payment in kind whereas coffee as a more widely tradeable commodity was more desirable, thus creating a demand and prompting expansion in its production (McClellan 1986, p.181). The variety of land tenure forms and their evolution in these southern constituencies became extremely complex and space is not available here to reproduce it in full (see, for example, Tsegaye Tegenu 1996, Shiferaw Bekele 1995 and bibliographies therein for further references). What is clear is that by the first decade of the 20th century a considerable expansion of coffee tree planting had occurred and that as much as 22% of tax and tribute payment in kind in an area such as Gedeo could consist of coffee (McClellan 1980:75; 1986:181).

Most of what was exported eventually passed through Djibouti, though during the early part of the period much also, of all commodities grown in the southern provinces, was exported via Sudan, particularly during the first World War period when coffee imports to neighbouring countries from Latin America were adversely affected. This trend was actively promoted by the British authorities in Sudan who were granted trading facilities at Gambella on Ethiopia’s western borders with Sudan. The extension of the railway from Dire Dawa to Addis Ababa in 1916 made the latter a more attractive route,
however, while at the same time facilitating central control, to the benefit at a later stage of the tax coffers and foreign exchange reserves of Haile Sellassie’s government. Coffee thus began to take on a key role in generating the foreign exchange that was essential for the import of armaments as well as luxury items, where the former were essential in any form of power struggle. The institutional structure which emerged during the closing decades of the 19th century in the southern conquered regions ensured that revenue in the form of tribute and taxation was channelled to those Dejasmatches and Rases who were governors of the territories. An additional source of power likewise associated with land tenure was that of the obligation of service, or serit (Shiferaw 1995: 78 ff.) which strengthened the ability of various contenders for national power to raise an effective army, and which may incidentally have encouraged land fragmentation as a means of increasing not only the intensity of production but the number of men for service that could called upon. It is significant therefore not only that the family of Teferi Makonnen (i.e. of Haile Sellassie) could call on the resources of coffee rich lands in the Harar district but that two of the main challengers to his rise to absolute power during the second and third decades of the 20th century, Dejasmatch Balcha and Ras Gugsa Wale were able to draw on the cash potential of coffee growing areas of Sidamo and, at that time, some of the hillsides around Lake Tana in the north. Pankhurst notes that most farmers “had been obliged by Ras Wale to put a certain amount of land under coffee” (Pankhurst 1968, p.203). For Dejasmatch Balcha the process was not straightforward, however, as potential coffee wealth appears to have caused divisions amongst his military units which significantly weakened his economic power (McClellan 1986, p.178 – in Donham & James).

It is notable, too, that after his conquest of Harar in 1887 Menelik had given tax concessions to encourage the growth and trade in coffee from other parts of his empire (McClellan 1980). This highlights the fact that revenue from the production of coffee, and other cash crops, through various mechanisms of land control was not the only source of funds arising from the crop as it made its way to export depots. A long tradition of taxing trade en route through the country existed (Pankhurst 1968, Tegenu 1996) with a number of customs posts even within each province. McClellan points out that a Sidamo merchant might be taxed several times on the way to Addis Ababa. This would be in addition to market dues which are likely to have been payable as commodities first entered provincial markets (McClellan 1980 p.78, Tegenu 1996, p.145). Long distance traders were also, traditionally, foreigners operating under concessions for which they had paid the emperor or local monarch (Tegenu 1996, p.228). With the establishment and growth of Addis Ababa as the principal city it
became the focal point through which most export trade passed, and indeed this was encouraged by regulation, thus making it easier to centralise the collection of revenues from taxes and excises (Tegenu 1996, p219) and hence to consolidate the position of the emperor, who in this way was able to outmanoeuvre, in economic terms, rivals to his throne (McClellan 1986, p.177).

Although coffee production has always been dominated by small scale peasant production, it is also important to note that in the early decades of the 20th century a number of concessions were granted, some to foreigners, for the establishment of commercial plantations to grow fruit, vegetables and coffee, with several of these granted by Menelik in the opening years of the century. Two examples are illustrative: in 1927 Teferi Mekonnen established a large estate farm at Erer in the Harar region which was growing some 60,000 coffee trees by 1929, and in 1936 the Societe Belge des Plantations d’Abyssinie whose concession dated from 1913 was employing some 2,000 workers to harvest around 1.7 million coffee plants (Pankhurst 1968, Larebo 1994, p.230n)

Such growing dependence on a cash crop for export brought the economy of the country closer to international capitalist markets, where the major demand lay, in a more direct fashion than had the previous dependence on ivory. With this particular crop there were also the ramifications of a global market where one major producer, Brazil, could significantly influence the market. During the period currently under discussion, from about 1908 through to the 1930s the Brazilian coffee producing states operated various forms of ‘valorisation’ schemes in which price maintenance was a key objective (Greenhill 1995). This unavoidably affected international prices, as the Brazilian crop continues to do to this day (as shown in Chapter 10), and accounts for the evidence reported by McClellan of Addis Ababa prices rising from MTS2.25 per farasula in 1899 to MTS10.00 per farasula by 1926 (where MTS refers to Maria Teresa dollar and a farasula is about 17 kg.;McClellan 1980, Greenhill 1995). The increasing significance of coffee, both to the national economy in conventional economic terms and indirectly to the revenues over which the Emperor Haile Sellassie, the name taken by Ras Teferi Mekonnen on his coronation in 1930, had control, is shown in Table 3.1 taken from Pankhurst, where the substantial increase from the interior (then known as ‘Abyssinian coffee’), in effect over only 14 years, both demonstrates the importance of coffee as a target for centralised control and Teferi Mekonnen’s success in achieving this end.
Table 3.1 Coffee Exports via Djibouti (th. kg)

<table>
<thead>
<tr>
<th>Year</th>
<th>Harari</th>
<th>Abyssinian</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910</td>
<td>2,924</td>
<td>245</td>
<td>3,169</td>
</tr>
<tr>
<td>1920</td>
<td>2,745</td>
<td>71</td>
<td>2,816</td>
</tr>
<tr>
<td>1934</td>
<td>7,835</td>
<td>9,408</td>
<td>17,243</td>
</tr>
</tbody>
</table>

Source: Pankhurst 1968, p.431

It is clear that by the early 1930s a substantial transition was under way with increased monetisation and incorporation of what was becoming known as Ethiopia (rather than Abyssinia) into elements of the global industrialised economy, where a key role was played by the production and export of coffee. Earnings from this crop, at all stages as it proceeded from forest and field to consumers at home and abroad, formed the principal resource base over which traditional and modernising elements in the evolving polity of the country contested control. To the degree that Haile Sellassie succeeded in engineering this change without significant instability, albeit to his own advantage, and that by the 1930s the country was served by a railway to the coast, by a centralised administration, by a national bank (the Bank of Ethiopia, founded in 1931), and was revealing some potential for future economic prosperity it attracted the attention of that foreign power which had long nurtured colonial ambitions over the entire Horn of Africa, namely, Italy. The potential of the country, seemingly, could only be fully realised by the superior administrative and economic skills of a more industrially advanced colonising power such as Italy. The economic motivations for the colonial annexation of 1936 were a combination of access to the economic gains that were perceived to be possible and an outlet for excess population pressure, particularly amongst poor rural Italians who were encouraged to settle in the conquered land and who would exploit the wealth of the country to the advantage of the colonial power (Larebo 1994, pp.65, 284).

The significance of coffee in this enterprise is apparent in the ban on exports of cash crops to Italy itself, in the interests of earning hard currency in other markets. Despite such objectives, by the later 1930s the production of most crops, including coffee, was considerably less than it had been during the early 1930s. This is shown in Table 3.2 which brings together the available data for the entire period using a number of sources. To some extent this collapse seems to have due to adverse weather and pest problems during the years of occupation, but to a considerable extent also to inadequate planning,
to bureaucratic mismanagement and to shortage of labour resulting from the colonial expansion of employment in public works (Quaranta 1939, Larebo 1994, Bahru 1991).

At one point at the end of 1936 the country actually imported coffee from Brazil (Larebo 1994, p. 192)! Although a number of large farms were created under concession during the five years of occupation many of these were founded on earlier private estates and were rarely as productive under settler ownership as they had been previously. Some recovery did follow and in 1938 exports had risen again to 4,500 tons. This was still considerably less than before the occupation and by 1939 actual production had fallen again to an estimated 2,000 tons (all figures from Larebo 1994:192), though a different source put production at around 6 thousand tons for 1939 and 1940 (Mitchell 1995:226). Despite this poor performance coffee remained the prime source of foreign exchange for the colonial government, and its declining contribution through a combination of passive resistance, the disruption to the gebbir system of tax and tribute, and the diversion of rural labour to other activities, was an important factor in rendering the colony a drain on the Italian exchequer and hastening its defeat by the Ethiopian resistance and Allied powers in 1941.

Although these internal factors were undoubtedly critical in accounting for the irregular production of the Italian period it should also be noted that international factors were not entirely favourable over most of the period. A world surplus dating from the late 1920s had brought the price down from an average of 20 US cents per lb (for Brazilian Santos 4) between 1924-9 to between 9 and 11 cents per lb between then and 1937, and then to as low as 7 cents per lb until 1940, when the problem of oversupply was compounded by the collapse of demand in Europe (Rowe 1963:13).

Nevertheless, following the end of the Italian occupation in 1941 the production and export of Ethiopian coffee gradually increased once more, aided by an improved road system and the return of political stability. Other commodity exports also increased at this time as a response to war related demand in the Middle East and elsewhere (Eshetu Chole 1995, McLellan 1980). By the end of the 1940s, as shown in Table 3.2, the volume of coffee exported had recovered to the levels of the early 1930s and Ethiopia's share of the world market had recovered from a low of 0.74% between 1935 and 1940 to a new high level of 1.11% (McLellan 1980:79), despite a State Bank observation in 1949 that by 1948 the post-war boom had ceased (quoted in Eshetu Chole 1995, p. 198).

International prices had also risen. As early as 1940 the US and the major Latin American producers agreed to support an official price of 13.4 cents per lb which then
remained until 1946. After that it rose gradually to 33 cents by 1949 and to 50.5 cents per lb in 1950 (Rowe 1963:14). In Ethiopia the impact of this international price rise is only partially evident, however. Certainly production appears to have increased, more than tripling during the six years from 1943 to 1949 (Table 3.2), but export volume rose only by 78% over the same period (that is, less than doubling). This may mean that export price elasticity during this period was tempered by a rise in domestic demand which had been suppressed during the occupation, but there is a danger in reading too much into figures which can only be 'best guesses'.

The same may be said about any estimates of the value of coffee exports. The quality of trade data improved after 1945 (Luther 1958:92) and if we take that as a base year then the increase between then and 1949, was only from E$17,014 to E$22,139, an increase of just over 30%. This appears to be inconsistent with the much greater percentage increases, already noted, in both volume of exports and the international price over the same period. There may, of course, have been heavy price discounting of Ethiopian coffee in international markets if standards were low and unreliable, a possibility heightened by an apparent increase in picking of wild coffee (Ministry of Commerce and Industry 1955). Care is needed in reading too much into these figures, however, which come from different sources at a time when the country's statistical services were poorly advanced. Further work is clearly needed in this area. In general, the economic history of this period has not yet been deeply investigated with most commentators concentrating on the period from the early 1950s when the first national development plans were being formulated. For example, much of the content of the volume edited by Shiferaw Bekele (1995) mentions the 1940s only briefly, if at all, despite the indication in the title that the period to be covered is 1941 to 1974. Statistical records are sparse and of variable reliability but data from several sources are summarised for the period in Table 3.2.

The quality of data collection was gradually improving however and by the mid-1950s we can be fairly safe in observing that production had increased by a further 50% to an estimated 54 thousand tons. Meanwhile the substantial rise in commodity prices, including coffee, sparked off by the Korean war in 1952, raised earnings from coffee exports from E$22.1m in 1949 to E$100.3m in 1953, to E$99.5m in 1954 and remaining at over E$80m for each of the following two years. The potential profits created by this expansion also began to draw in increasing numbers of landlords and larger landowners, often on an absentee basis, in a phenomenon noted in other literature, discussed further below (see, for example, Shiferaw 1995:113-4, Guluma 1986:93, 1994:725ff, Bahru
It also attracted a certain amount of foreign capital, such as the Kaffa Plantation Company and the Ethiopian-American Coffee Company, both of which drew on private capital from the USA (Lipsky 1962:320).

Table 3.2 Production and Export of Coffee 1910–56, volume (th.t) and value

<table>
<thead>
<tr>
<th>Year</th>
<th>'Output'</th>
<th>Exports</th>
<th>Value of Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>1910</td>
<td>3.1</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1912</td>
<td>3.6</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1914</td>
<td>3.4</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1916</td>
<td>4.2</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1918</td>
<td>...</td>
<td>...</td>
<td>...</td>
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<tr>
<td>1920</td>
<td>3.0</td>
<td>...</td>
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<tr>
<td>1922</td>
<td>6.7</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>1924</td>
<td>11.2</td>
<td>12.0</td>
<td>...</td>
</tr>
<tr>
<td>1926</td>
<td>11.5</td>
<td>12.3</td>
<td>...</td>
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<tr>
<td>1928</td>
<td>13.2</td>
<td>12.7</td>
<td>...</td>
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<tr>
<td>1930</td>
<td>14.1</td>
<td>14.4</td>
<td>...</td>
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<tr>
<td>1931</td>
<td>18.1</td>
<td>16.1</td>
<td>...</td>
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<td>1932</td>
<td>22.1</td>
<td>...</td>
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<td>1933</td>
<td>22.8</td>
<td>...</td>
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<td>11.9</td>
<td>...</td>
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<td>14.0</td>
<td>13.3</td>
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<td>15.8</td>
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<td>15.1</td>
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<td>...</td>
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<td>36.0</td>
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<td>22.3</td>
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<td>25.5</td>
<td>30.3</td>
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<td>36.2</td>
<td>21.6</td>
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<td>40.0</td>
<td>37.2</td>
<td>43.8</td>
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<tr>
<td>1954</td>
<td>46.0</td>
<td>38.6</td>
<td>31.6</td>
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<tr>
<td>1955</td>
<td>54.0</td>
<td>32.9</td>
<td>...</td>
</tr>
<tr>
<td>1956</td>
<td>52.0</td>
<td>49.2</td>
<td>...</td>
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</tbody>
</table>
Although the United States had taken little Ethiopian coffee before the war it became the single most important outlet after 1941, a position reinforced by closer political ties. The latter stemmed from a strong desire by the reinstalled government of Haile Sellassie to break free from the considerable British control which followed liberation from Italian domination (See especially Spencer 1984: 96 ff; also Marcus 1995. Bahru 1991). Relationships suffered at a very early stage when British military forces requisitioned and dismantled about 80% of Italian industrial plant and other movable assets for 'the war effort' (Pankhurst 1995), treating Ethiopia as ‘conquered enemy territory’ rather than a restored independent state (Spencer 1984). As the decade progressed it became increasingly evident that British influence in Ethiopia was in decline, augmented by additional perceptions of declining British industrial efficiency and a diminished British influence in the world. Such factors, combined with wider Ethiopian fears of being drawn too far under the sphere of influence of Britain and France in the greater Horn of Africa prompted Haile Sellassie to cultivate closer connections with the USA, at one point in 1945 even meeting with President Roosevelt for private discussions (Marcus 1995). American interest was slow to emerge, but was eventually drawn in to the geopolitical manoeuvreing over the future of Eritrea, with the potential of Massawa as a naval base and the northern highlands for an international communications base (established at Kagnew in 1955). The UN agreement, which created a federation between Eritrea and Ethiopia in 1952, also greatly reduced Ethiopia’s dependency on the ports of Djibouti and Aden which were then French and British colonies. Trading relationships with the US were therefore part of a wider spectrum which also involved aid programmes as a quid pro quo for political concessions in the Red Sea area. As far as coffee was concerned, the major direct effect of this was through the US government Point 4 assistance programme for agriculture which began in 1952 and included a Joint Coffee Development Project running between 1954 and 1960.
In avoiding being drawn in to the older colonial empires of Britain or France the country also naturally excluded itself from their protected markets, particularly the imperial preference enjoyed by competing suppliers in ‘British East Africa’ (Pankhurst 1957) whereby for instance 79% of exports from Kenya and Uganda in 1947 went to either the United Kingdom or other British territories (Samuels 1951, Table II). On the other hand, these markets were also tied in to the sterling area which was not always to their advantage. Ethiopian exports, too, for as long as they had to pass through Djibouti and then on to Aden tended to be priced in sterling and hence to generate sterling foreign exchange. This was felt to be unduly restrictive, particularly after the devaluation of sterling against the US dollar in 1949, and was a further factor in the Ethiopian demands for what was seen as the return of the Eritrean ports.

Ethiopian preference for payment for exports in hard currency especially the US dollar, caused some consternation in British circles, particularly in November 1951 when the State Bank of Ethiopia issued a regulation to this effect in the case of coffee (FO371/96773 1952). This, it seems, had been partly prompted by the belief that foreign buyers, having purchased their coffee in sterling, were selling it on for dollars, and presumably making additional profits thereby. The intention of the Ethiopian administration at this time seems to have been to pay for imports in sterling while earning dollars from exports. This seems to have worked during 1951 when the Korean crisis raised international commodity prices substantially and coffee export earnings for Ethiopia virtually doubled, but their subsequent decline in 1952, combined with the introduction of the new regulation, produced a sterling shortage within the National Bank. Other regulations at the time, affecting import licencing and repatriation of export earnings, helped to raise domestic prices and alarm many traders (FO371/96773 1952). The policy was an affront to British prestige and some consideration was given as to how best to retaliate. Other interests prevailed, however, particularly contemporaneous negotiations on the hand over of Eritrea, which, the British felt, should not be compromised by any argument about general exchange regulations for coffee, and the crisis appears to have passed without further protest.

What the incident illustrates, however, is the important relationship between coffee exports and the Ethiopian government’s need for ‘hard’ foreign currency. Part of the political backcloth to the tensions of this period was the very recent memory of French refusal to allow arms to have been imported in 1935/36 on the French section of the Djibouti railway line, and of the difficulty which the reinstalled government of Haile Sellassie had had throughout the 1940s of obtaining assistance, such as lines of credit.
for the purchase of military arms and equipment, necessary, in his view, to stabilise the
country. The political significance of this link between coffee exports, foreign exchange
and essential imports continued throughout the rest of the century and is a point to
which I shall return in Chapter 11.

The preference for the ‘hard currency’ of the US dollar in payment for exports would
clearly tend to encourage more direct trade with the United States. This would, in turn,
intensify Ethiopian dependency on the American market for its major export crop. In the
1955 report, ‘Economic Progress of Ethiopia’ (Ministry of Commerce and Industry,
1955) the government expressed its awareness of having “a dangerous dependence
upon a single crop”, which in 1954 accounted for as much as 62% of the total value of
exports. The United States was at that time buying around 60% of global coffee
production and some 75% of Ethiopian coffee shipments (Luther 1958:95). The
dangers of such dependence were highlighted by the rejection in the 1955-6 season of a
number of shipments to the USA which were refused on account of unsatisfactory
quality (Hufnagel 1961:226; FO371/131264 1958). This led to highly discounted prices
for subsequent shipments. It was also the period when the alternative ‘wet processing’
method became more widely used elsewhere and when the need to satisfy international
standards of quality became more pressing (EO 1956). As we shall see in the next
chapter, all this prompted much subsequent legislation, including the establishment of
the National Coffee Board in 1957 and other measures which laid the foundations for
the system that is in place today. Given this, it is useful to have some impression of the
way in which coffee was marketed and distributed at that time, as it was in response to
this that the later legislation emerged.

3.3 Marketing Methods and Quality

The general situation at the beginning of the 1930s was summarised by a contemporary
expert as follows:

“The coffee grown in Abyssinia is classified commercially into two varieties; Harari, which is grown principally in the district around Harar, and Abyssinian, produced mainly in the provinces of Kaffa, Sidamo, and Guma. Harari coffee is the fruit of cultivated trees, while Abyssinian comes from wild trees...Good grades of Harari have cup characteristics resembling Mocha...The Abyssinian coffee is considered much inferior to Harari, and chops (sic) generally contain many imperfections. The bean is dark gray in color. Little Abyssinian coffee comes to the United States” (Ukers 1930:97)
Methods of collection, grading and transporting appear to have altered little during the first half of the century. Consider, for instance, the following description written in 1935.

"The broker came along to the office and produced, generally from among his loin cloth, a sample, about two big handfuls, of the coffee he was selling. The coffee was sniffed at for mustiness, and a bean here and there picked out and bitten between the teeth, and then the coffee was carefully examined so as to arrive at an estimate of 'dechef' (dirt, pebbles, husks, broken beans, etc)...All the cleaning, grading, mixing and preparation of coffee for shipment was done at Djibouti." (Dunckley 1935:149)

The latter was confirmed by an Italian observer in 1939 though also noting that coffee grown in plantations tended to be graded before transport (Quaranta 1939:22). Eight years later little had changed and in 1947 an FAO sponsored report commented:

"...methods are quite summary; instead of picking the berries from the branches, they gather them from the ground when practically the whole crop has fallen. So the coffee has often an earthy taste, which is to its disadvantage" (International Institute of Agriculture 1947:323)

Most coffee at this time also at least began its journey on mule-back in sheepskin bags. A later survey in 1961-2 in Limu also note that "mule and coolie provide the major means of transport from the farms to the market" (Central Statistical Office 1962:20). By the mid 1950s, it was being observed that tasters in the US market, which was then dominant, readily condemned coffee which was dried on the ground as tasting 'groundy', or which had been packed in skin bags or transported next to dried animal skins as 'hidy' (Pankhurst 1956:327). The same observer noted that

"Until recently the quality of the coffee was judged mainly by the outer appearance of the beans...The exacting market of today will not tolerate the mixing of ripe and unripe coffee cherries" (Pankhurst 1956:327)

This 'exacting market', as we have seen, was principally that of the United States where the green coffee trade was then dominated by three trade associations which set uniform contracts and specified exact grading criteria (Federal Trade Commission 1954:132). The latter in fact dated from the 1920s when it had interesting effects on the structure of supply within a number of Latin American countries (Roseberry et al. 1995). When combined with cup tasting, the insistence on standardised qualities presented considerable problems for Ethiopian coffees grown and harvested in traditional fashion by smallholders, in contrast to the estate coffees of suppliers in many competing
countries. The implications of this were that it prompted an intensive period of domestic regulation beginning in 1952, with important consequences for the structure of the coffee supply chain, and the status of its various participants. As we shall see in forthcoming chapters the legacy of this period is substantial, and highlights the significance of path dependence in the long-run social embedding of a filiere.

Before moving on to consider the introduction of regulation in more detail (because of its significance to the present), it is important to relate it to a wider domestic context, that of the ‘modernising’ theme associated with Haile Sellassie’s earlier period of government, and in particular with the changes to taxation and land tenure during the 1940s and the consequences of this.

3.4 Coffee Production and Land Rights

Many institutional changes of the immediate post war period were not specifically directed at coffee but would have an impact on the sector. Amongst these were measures taken to alter the obligations of tithes and the formal nature of land tenure. This is an area of considerable complexity with significant variation occurring over time and around the country, both in practice and in use of terminology. Since such changes per se are not the principal focus of this thesis I do not intend to reproduce them in detail, and for present purposes, I shall highlight only the key aspects as they affected coffee in a generalised institutional sense. At the heart of that process of change which was instigated from the early 1930s under Haile Sellassie was the conversion of tribute payments by farmers to payment of tax in cash form directly to the government. The Italian occupation appears to have created scope for an acceleration of the process after liberation in 1941. Thus Proclamation Number 8 of 1942 established a land tax to be paid to the tax collectors of the Ministry of Finance who were to be salaried civil servants. This was intended to replace a complex system of tithes, tributes and service linking the peasant farmer (or gebbar in many areas) with local agents, landlords and gut holders. At this point church lands were exempted from the changes but their situation was nevertheless formalised in a separate Decree (No.2, 1941). At the same time, the process of transformation of temporary rights granted over certain lands, known as maderiya, into more permanent inheritable rights akin to rist continued informally as before, while the nature of rist itself was fundamentally altered in Proclamation No.70 of 1944 which required all obligations henceforth to be in cash and
to the government. With regard to *gulti*, legislation proceeded more gradually but a series of amending laws culminated in its abolition by March 1966.

Although the actual implementation of these changes was often flawed and imperfect (Bahru 1991, Cohen & Weintraub 1975, p.39) the net result was an “acceleration in the process of privatisation” (Bahru 1991, see also Shiferaw 1995, p.113, Pausewang 1983, p.47) and thus a great increase in the extent of freehold property (Hufnagel 1961). Parallel to this was an expansion in the volume of land sales and a concomitant growth in tenancy arrangements (Bahru 1991, Shiferaw 1995). We thus have institutional changes aimed at centralising the collection of taxes and which entailed reform of land holding rights and obligations, leading directly to the development of a land market, particularly in the profitable coffee growing areas, and especially during the later 1950s and 1960s. There has not yet been any systematic or comprehensive analysis of the latter but local examples have been recorded by a number of observers. For instance, McCann (1995) has shown how in the Gera district land titles were readily for sale as freehold from the 1940s (p.176) and that there were “massive purchases of tax-defluent land for new coffee plantations” in the post-war era (p.174). Likewise, Shiferaw Bekele (1995), while noting that no detailed study had yet been undertaken, observed “increasing land transactions, particularly in coffee and tea producing provinces” (p.113) during 1941-74, and that in the 1960s there was a scramble to buy coffee land in Kefa, Sidamo and the Harar region (p.114). This has also been highlighted by Pausewang (1983) in a short case study on Kaffa, and in other parts of the south and west of the country by a number of other observers (e.g., Cohen & Weintraub 1975, p.56, Markakis 1974 p.118 f/n, Tareke 1991, p.132, Bahru 1991, p.218, Ayana 1996).

Much of the land acquired appears to have been purchased by officials taking advantage of government appropriation of so-called ‘excess land’ and land from small farmers accused of defaulting on tax payments (Guluma Gemeda 1986, ICO 1967). Not all land for private estates was acquired by purchase. This period also saw members of the aristocracy, such as *Fitawrari* Gebre Kristos Mekonnen and *Lij* Abate Mulate, converting inherited land into coffee plantations (Guluma Gemeda 1994). This gradual commercialisation of coffee production was driven by capital from urban business interests, by official manipulation for personal ends and by an aristocracy bridging the transition from ‘feudal’ to ‘capitalist’ agriculture (assuming for the moment an unproblematic use of these terms).
Not all land acquisitions were with the objective of conversion to estates. In many cases a more traditional landlord-tenant form of relationship prevailed (Daniel Ayana 1986, McClellan 1995 – in Donham & James). Shiferaw (1995, Table 4) produced figures demonstrating how tenancy arrangements were predominant in most of the southern provinces by 1969, a situation supported by earlier surveys of the CSO which showed that in five awrajas in Kefa (or Kaffa) province in 1963/4 some 59% of holdings were rented (CSO 1968a). A similar study in Sidamo, however, produced a lower average of only 37%, though with considerable variation between awrajas (CSO 1968b). In all cases the predominant mode of payment of rent was by cash. On reading the implications of all this certain qualifications have to be borne in mind. One is that a large number of tenancies may have been informal arrangements between peasants themselves while another reminds us that landlord holdings were often geographically fragmented (Shiferaw 1995). Not all tenancy agreements and not all landlord-tenant arrangements, in other words, were steps on the road to a fully modernised capitalist agriculture. More research is needed on this period.

Although the paucity of comparative data means that it is difficult to discern trends the accumulation of individual surveys, observations and personal accounts indicates a significant expansion in formal commercialisation of coffee production and its distribution that is consistent with wider macroeconomic changes of the time such as growth of GDP and aggregate money supply. It also, to a great extent, lay behind the growth of coffee production and exports noted throughout previous sections of this chapter. This was also a period when ‘modernisation’ of the state, or processes of government, entailed increased state regulation in many sectors, including that of coffee, which is the subject of the Chapter 4.

3.5 Summary

In this historical Chapter I have traced the rise of coffee as an important export crop from the late 19th century through to the early 1950s. I have shown how taxation and foreign exchange from the crop became a key resource to the government, and of how Haile Sellassie, through his programmes of modernisation, particularly in the administration and collection of taxes, created a centralisation of fiscal powers which, as we shall see, provided the bedrock in which the coffee filiere later came to be entrenched. The process was neither continuous nor straightforward, with recurring opposition from rivals to power within the country, and being subject to distraction and
displacement by the international geopolitics of neighbouring colonial powers. Nevertheless, the end of the Italian occupation of 1936-41 introduced a decade in which considerable changes to land legislation, and to control over the incomes generated from the use of the land, began to appear. These also paved the way for increasing privatisation of land ownership, particularly in the southern parts of the country where profits from coffee production and exports could be increasingly earned from an expanding world market. To take full advantage of the latter, however, standards of quality had to be raised and maintained.

Chapter 4 takes this historical review forward by showing how a spate of legislation from 1952 onwards had the combined effect of maintaining a centralising momentum in the development of the filiere while ensuring the maximisation of foreign exchange earnings (and export taxes) by a series of controls intended to raise the quality of the exported product. The latter, indeed, also had the more neutral aim of bringing out the intrinsic qualities of Ethiopian coffees to an increasingly sophisticated world market, being a matter of ‘national pride’, but the manner of doing so was obviously dictated by the government.
Chapter 4

Regulation of the Coffee Market, 1952-91

4.1 Introduction

As we have seen the period from the late 1940s to 1974 may be regarded as a continuation of trends whose beginnings can be detected in the 1920s and 1930s, with the Italian intervention viewed as an interruption. On the other hand, the post-war scene was set in a quite different international environment, one in which the government of Ethiopia courted, with some success, greater US support. This was also a time when, by the 1950s, decolonisation elsewhere coincided with the rise of what may be termed 'developmentalism' as a dominant political, economic and intellectual paradigm stemming from the industrialised West. The greater degree of global incorporation which this implied was manifested in the case of coffee by the emergence in 1963 of the International Coffee Agreement, of which more below, and in the pervasiveness of pro-capitalistic policy advice to accompany aid programmes. An example of the latter, indicated previously, was the Point Four programme of the United States which commenced in Ethiopia as early as May 1952 but which was itself only one of a series of loans, grants and technical assistance which began with the British in 1941 (Luther 1958). The post-war government of Haile Sellassie had the difficulty of balancing such pressures of 'modernisation', which in general appeared to be considered desirable as long term objectives, with the still significant remnants of a 'traditional polity' (in the phrase used by Markakis 1974) pre-dating the Italian invasion. I showed in the concluding section of the preceding chapter how a gradual, but distinct, transition from a peasant based production mode to a more capitalistic one in the production of coffee was being facilitated by institutional changes to land use rights and obligations. From 1952 the institutional framework of the coffee sector itself began to change through regulation, taxation and an increasingly centralised marketing structure. How this was done is the subject of the present chapter.
4.2 Early Regulations

In retrospect, it is evident that the twenty years between 1952 and 1972 were crucial in shaping a marketing process which in many ways still prevails today, and an understanding of what happened during these years, and why, is therefore essential to any analysis of subsequent periods up to the present time. Even in considering options for change at the beginning of the 21st century it is important to be aware of how the boundaries came to be defined by past decisions and why these were taken.

It was in 1952 that the government issued the first proclamation to prohibit the export of uncleaned and ungraded coffee. Henceforth, all coffee for export had to be certified as cleaned and graded according to specified criteria, and conducted by licensed cleaners and graders (Coffee (Cleaning and Grading) Proclamation No. 121, 1952; Coffee Cleaning and Grading Regulations 1952, Legal Notice No. 161). The intention was “to raise the quality of Ethiopian Coffee and increase the demand thereof”. Initial fees for licences were E$50.00 and the fine for not observing the regulation was E$1,000 plus the seizure of coffee. It did not exclude the use of “traditional methods” provided that they satisfied the criteria. The responsibility for issuing licences and ensuring that regulations were observed was given to the Ministry of Commerce and Industry.

Coffee Cleaning and Grading Regulations (Legal Notice No. 196 of 1955) amended the 1952 Regulations to declare that specified moisture content should be no greater than 11.5% by weight, there should be a maximum defect level of 101 defects in a 300 gm sample, and certified coffee should be free of “mould, noxious fermentation and the effects thereof”. A list of defects was produced, including empty cherry skins, pieces of wood of a given length, pieces of earth of given diameters, red beans and broken beans, each with a point weighting. Five grades were specified according to the number of defects with grade five having no more than 100. Any coffee having more than 100 defects was classified as “uncleaned” and hence unsuitable for export. This Notice also made a requirement for proper designation of coffee with regard to origin within the different growing regions of the country, following “the usages of the trade”: namely, “Harrar”, “Sidamo”, “Jimma”, or “Lekemti”. Certification with standard required wording was also produced.

It is also worth noting at this point that export duties also began in 1951 and by November 1953, for instance, Harar coffee was subject to a duty of E$20 per 100 kg plus a surtax of E$15 per 100 kg. In 1954 the general surtax was raised to E$40 and an
Additional Surtax based on the international price was introduced. In 1958 a cess of E$1 per quintal appeared, which was raised to E$1.50 in 1961 and E$2.00 in 1967. Taxation on exports had become increasingly feasible as the marketing structure had by then ensured that the bulk of exports passed through identifiable channels (as we shall see below). It was also a means of guaranteeing that a significant part of the surplus generated by coffee would continue to accrue to central government as traditional land tenure arrangements, with their hierarchies of tribute and service, were gradually replaced by legislation which allowed for the expansion of private ownership, as we saw in the final section of Chapter 3.

In 1957 the initial fee for a cleaning and grading licence was raised substantially to E$1,000 for processors based in Addis Ababa and to E$500 elsewhere.

In 1959 the Legal Notices 161 of 1952 and 196 of 1955 were replaced by new “Coffee (Cleaning and Grading) Regulations” (Legal Notice No. 219 of 1959) in which export documentation was amended to require Export Certificates in sextuplicate for every separate lot of coffee cleaned and graded, and Domestic Certificates in duplicate, with precise instructions for the distribution of the various copies amongst the various parties to a transaction and to relevant government departments. Coffee of exportable quality but not yet under consignment to a purchaser abroad was to be placed in a bonded warehouse. In these ways a much closer tag was kept on coffee lots as they made their way through the export process.

In the same Legal Notice (Schedule A) the specifications for cleaning and grading were tightened up, with the standard trade expression ‘Usual Good Quality’ being permitted to apply only to the first five grades of eight that were now defined. The list of defects in terms of stones, pieces of earth and wood was also slightly revised.

4.3. The National Coffee Board

The emergence of this series of regulations and the need to supervise their implementation made new demands on the administration of the Ministry of Commerce and Industry. The problem of quality was also brought home by the rejection of several shipments in New York in 1955-6, as noted already. The solution chosen was to create a National Coffee Board which would take responsibility for ensuring that regulations were followed and would encourage the development of the coffee sector. Thus, the
preamble to the decree which set up the National Coffee Board (Decree No. 28, 1957) stressed the importance of the quality of Ethiopian coffee in world markets, the increase of production of “coffee of first quality for export”, and the effective enforcement of regulations. These purposes, the Decree confirmed, “can best be achieved by the creation of a National Coffee Board”. Power was then passed from the Ministry of Commerce and Industry to the Board which had six members: one each from the Ministries of Commerce and Industry, Agriculture, Finance, and the Interior, together with the President of the Chamber of Commerce of Addis Ababa and the Chairman of the Development Bank of Ethiopia. The Emperor appointed the Board’s Chairman and decided on each member’s term of appointment.

It is interesting to note that the NCB did not go as far as the Marketing Boards which were introduced then and later in many colonial and ex-colonial territories, particularly those with a history of British control. These usually engaged in the purchase and export of physical coffee, often on a compulsory basis. The Ethiopian system was more like the caisses de stabilisation found in many of the former francophone countries, such as Madagascar, Cameroon and Cote d’Ivoire, which tended to have a regulatory role and rarely handled coffee themselves (LMC 1999). On the other hand the caisse de stabilisation would also tend to set export prices, marketing margins and growers’ prices in a bareme for a forthcoming season, and where the international price rose above this then the differences was repaid by exporters to the caisse for investment in a stabilisation fund. This fund, in theory, would compensate exporters for instances where the international price fell below the bareme price. In Ethiopia there was no such attempt at official price stabilisation, and the trade remained entirely in the hands of private exporters, merchants and producers, with the Board intervening only with regulatory, licensing and quality control powers.

In these areas, nevertheless, the remit of the Board was wide. It took over the powers contained in existing regulations regarding cleaning and grading, it could construct, operate and lease warehouse and processing plants, it was to “designate, establish, operate and control coffee markets”, it was empowered to establish a Coffee Exchange at Addis Ababa, and it could make recommendations to impose a cess (to cover its own costs) on all coffee produced and exported (this was fixed at E$1 per quintal in 1958). A somewhat later report summarised the main functions of the Board as to
“conduct research on all aspects of coffee growing, processing and marketing, to encourage and ensure the production of quality coffee, issue licenses for coffee cleaning, marketing, storage and export, and supervise and control the orderly functioning of the industry” (National Coffee Plan 1969:20).

The duties of the Board were more finely defined in Legal Notice No.218 of 1959, known as the “National Coffee Board Regulations, 1959”, in which various terminology of dealers and processes was defined. This included a definition of a “grower” as a “land owner, tenant or sub-tenant on whose land coffee is growing”, clearly indicating that by this time no traditional forms of land holding had legal recognition. The Regulations also contained a schedule of physical coffee markets designating where coffee could be bought and sold. It also defined several types of license for dealers, pulpers, graders, etc, in each of which the Board had the power to delimit the area in which the licence holder could operate. Farmers were also affected. In an effort to improve quality at farm level the Regulations declared that no person was allowed to “pick or permit the picking of coffee which is unripe” or to “dry coffee on the ground”. Coffee was to be dried only on raised tables or trays or on clean cement floors.

Article X of the 1959 Regulations also allowed the Board to “direct that all or any coffee, having been sold to a licensed dealer, shall be delivered to” any stated address for inspection and treatment. This, in theory, gave the Board power to ensure either that hindrances to the movement of coffee through the chain towards export would be minimised or that stocks could be monitored.

Other changes of the period included the establishment in 1959 of a central delivery depot at Makanissa in Addis Ababa where all coffee delivered to the city could be more easily inspected and monitored. The Inspection Report issued from this centre also served as authorisation for the coffee to be sold to an exporter, with a copy retained by the Coffee Board for subsequent monitoring and statistics purposes.

Taken together, the various Decrees and Notices introduced during this period represented an unprecedented degree of regulation which impacted on the filiere at all stages, from the issuance of licences to trade only in certain markets and districts, through inspection of trucks on departure from the interior, to a series of tests and certified documentation attached to the purchase and sale overseas by exporters. Responsibility for setting up appropriate bureaucratic mechanisms and their enforcement lay primarily with the Ministry of Trade and Commerce and the Coffee
Board. The Ministry of Agriculture and its extension services played only a marginal role mainly at the pre-harvest production stage.

These various changes were not always welcomed by those in the trade and frequently met with some resistance from farmers and traders.

4.4 Traders’ and Producers’ Responses

The actual implementation of efforts to raise standards of quality was not easy. For instance, the Regulations introduced in 1959 (Legal Notice No. 219) which raised the standards for cleaning and grading and also prohibited the export of any coffee equal to or above Grade 6 was met with active protest by a number of the larger exporters who argued that Grade 6 was virtually on a level with the Brazilian coffee Santos 4 (i.e. grade 4 on the Brazilian scale), which had an established international market. The protests were vigorous and indeed violent (International Coffee Organisation 1964: Annex p.10).

Likewise the regulations affecting harvesting were also widely unpopular (Legal Notice No. 218, January 1959). The ICO Technical Mission of January 1964 was forced to curtail some of its work in the field because of farmers’ and traders’ protests at government controls and regulations, including being told by agents of the Coffee Board when they could begin picking coffee berries according to rainfall. The strength of feeling is evident in the following extract:

“In Agaro…..popular feeling became very heated, complaints from farmers being no less bitter than those from traders. The same feelings were experienced in Limn. Everywhere was violent criticism directed against the National Coffee Board of Ethiopia, as it was felt that the Board was responsible for the accumulation of stocks in the coffee producing areas as it had stopped issuing licences for shipping coffee from the interior” (International Coffee Organisation 1964, Annex p.3)

The knock-on effects of the latter were fewer purchases from farmers and, unless rising prices compensated, reduced farm incomes This visit was in connection with the establishment of realistic quotas under the recently signed International Coffee Agreement, (of which more below) and appeared to come up against problems related to a rapid expansion of production in the preceding few years. This in turn seems to have
been partly a response to a recent period of rapid rural road improvement and partly to delayed reaction to earlier price rises.

Comments at the time highlight other underlying reasons for farmer resentment. The dependence on migrant labour for harvesting in those parts of the country where forest production was important (parts of Kaffa, Illubabor and West Wollega) produced a number of problems. Wages were traditionally earned on a crop-share basis, which made it difficult to control stripping of trees regardless of the proportion of red cherries actually ready to be picked (UNDP-FAO 1969:5). A study in 1962 in Limu showed that some 60% of households in these areas hired pickers to harvest coffee, with total numbers equivalent to those already in the households (Central Statistical Organisation 1962:18). Considerable ‘management’ (and income) problems would therefore face any change to established routines, especially where yields per hectare from forest coffee trees were low. At the initial marketing and processing stage the dominance of Arab merchants and their need for a degree of social and political security in their areas of operation was also thought to have encouraged a certain technological conservatism (UNDP-FAO 1969, p.5). That is, they would be reluctant to be seen to be accepting changes which were unpopular amongst the local community on whose goodwill they depended. This report also, however, remarked that many traders themselves were prone to adulterate good stocks with stones and wanza seed.

Although an outside perception, it is worth noting the same report’s comment that “the Board’s emphasis on the need for improvement in the quality of coffee for export has never gained general acceptance, and that the Board has never been able to overcome trade opposition to its policy.” (UNDP-FAO 1969, p.8). There was, of course, often a wider political context to farmers’ and traders’ grievances and this is picked up in Chapter 7 (Section 7.7) when the broader role of the state is examined at greater length.

4.5 Effect of the Regulations

Whether as a consequence of these regulatory changes or not it is hard to say but, despite resistance, the volume of coffee inspected by the National Coffee Board did tend to rise clearly though irregularly during the decade of the 1960s, as shown in Table 4.1. The extent to which this represented a net increase in production or a combination of such an increase and more efficient centralisation of the marketing chain (and diversion from informal routes) is impossible to say. However, taking the figures at face value, at
the beginning of the decade, in the season 1961/2, the volume of coffee inspected for
export was already over twice the volume actually exported ten years earlier while
earnings from exports were 71% higher. By this time, too, the vast bulk of exports.
97%, was of grade 5 as poorer grades were prohibited. At the end of the 1960s, as Table
4.1 shows, the volume of coffee arriving at inspection stations had increased a further
38% and the value of exports by 69%, though the latter had had a much more varied
path through the decade as international prices had fluctuated fairly widely.

Table 4.1 Volume of Coffee Inspected and Value of Coffee Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Inspected (m.tons)</th>
<th>Output (m.tons)</th>
<th>Exports (EBm)</th>
<th>Coffee Prices (US c/lb)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961/2</td>
<td>75,180</td>
<td>132.1</td>
<td>197.2</td>
<td>34.11</td>
</tr>
<tr>
<td>1962/3</td>
<td>81,575</td>
<td>139</td>
<td>110.9</td>
<td>33.35</td>
</tr>
<tr>
<td>1963/4</td>
<td>82,551</td>
<td>170</td>
<td>158.9</td>
<td>44.19</td>
</tr>
<tr>
<td>1964/5</td>
<td>92,908</td>
<td>140</td>
<td>188.4</td>
<td>45.42</td>
</tr>
<tr>
<td>1965/6</td>
<td>77,719</td>
<td>155</td>
<td>156.0</td>
<td>41.79</td>
</tr>
<tr>
<td>1966/7</td>
<td>99,223</td>
<td>160</td>
<td>139.5</td>
<td>38.57</td>
</tr>
<tr>
<td>1967/8</td>
<td>94,226</td>
<td>165</td>
<td>153.3</td>
<td>37.18</td>
</tr>
<tr>
<td>1968/9</td>
<td>97,988</td>
<td>170</td>
<td>174.0</td>
<td>38.14</td>
</tr>
<tr>
<td>1969/0</td>
<td>103,744</td>
<td>170</td>
<td>181.3</td>
<td>52.57</td>
</tr>
</tbody>
</table>

Note 1: Figures are for 1962
Source: Column (1) CSO, Statistical Abstract 1970
(2) International Financial Statistics Yearbook 1990
(3) Mitchell 1995

The measures also appear to have successfully raised the general level of export quality.
The average discount of Jimma UGQ against Brazil Santos 4 between 1953 and 1958
was 8.68%. This had fallen to an average of only 4.05% between 1959, when inspection
at the NCB Coffee Centre started, and 1965 (calculated from UNDP/FAO, Table 2
1969). Such a comparison can only be indicative, of course, as other factors may also
have been at work and much would also depend upon the state of the world market and
changing tastes. It is important to note however, that the Additional Surtax introduced in
1954, revised in 1964, and the cess introduced in 1958, increased twice by 1967, in
effect clawed back most of the reduced differential for the benefit of the government.
One other effect, seldom commented upon, was on employment. The requirement to meet better quality standards entailed more intensive sorting which was, and remains, largely a manual process. This created employment for large numbers of urban women. One of the largest trading companies, A. Besse and Co, was employing as many as 3,000 women in this way in the height of the 1956-7 season (Ethiopia Observer 1957:170). This company at that time was the fourth largest coffee exporter out of some thirty-three. Preliminary sorting would also take place by merchants in the interior and there would also have been an increase in government employees involved in inspection, weighing and certification throughout the coffee growing areas. A growth in the number of milling, cleaning and washing stations in the countryside would also add to employment while introducing new investment.

4.6 The International Coffee Agreement

Another major source of regulation came from the international arena when the International Coffee Agreement came into force in 1963. One effect of the Agreement on its signatories was the requirement to have structures in place to control the movement, storage and export of coffee, in order to comply with regulations regarding the monitoring of quotas. In this connection the absence of accurate records of production in Ethiopia meant that initially the quota of 850,000 bags (51,000 tons) allocated to Ethiopia at the U.N. Coffee Conference in 1962 was disputed as being too low in relation to national production by the Ethiopian government. This resulted in the visit of a technical mission to the country to determine the size at that time of Ethiopian exportable production (their report incidentally contains the first reference to the belief that 25% of the population depends on coffee), a visit which highlighted continued problems of transport and quality at the immediate post-harvest stage (International Coffee Organisation 1964). The figure subsequently arrived at for the quota was 1,036,700 bags (62,200 tons). Although it was still less than what the government was demanding this figure did recognise that there had been a substantial increase in production during the immediately preceding years and that there had been a number of distributional bottlenecks. Actual exports had not therefore reflected production levels during these years.

Having agreed to abide by quotas the government then had the problem of translating this into an acceptable internal system. As already noted in Section 4.2 a number of regulations to ensure that the flow of coffee through the filiere could be monitored and
controlled had already been introduced, but there still remained the problem of how to spread the effects of the quota fairly amongst exporters and dealers. After some experimentation involving registration of contracts for sale or giving the Exporters’ Association a block quota, the procedure which had evolved by the late 1960s was to allocate quotas to exporters on the basis of purchases, as verified by the copy of the Inspection Report (mentioned above) received by the exporter from the seller. The exporter entered into an obligation to export to a quota market within a specified period. One problem with this system was that in entering into forward sales the exporter would not know in advance whether a quota would be available. There does not appear to have been any attempt to ration the total exportable volumes by region of origin so that the impact of the quota system would be evenly spread.

In the season 1965-66 the country failed to export its full quota despite there being sufficient production. The reason appeared to be the unwillingness of traders to sell at lower prices than they expected and to prefer to stockpile (National Coffee Plan 1969, p.15). In response to this in December 1966 the Council of Ministers agreed that “exceptional circumstances exist which require that the National Coffee Board should actively participate in the coffee trade” and gave the Board all the powers in this regard that were in the 1961 proclamation. This then led to an Amendment to the 1959 Regulations which, amongst other things, allowed the board to “direct that any or all coffee in the possession of a grower, a licensed dealer, or a warehouseman shall be delivered to any stated address for the purpose of inspection, treatment and or sale”. A system of licensing and reporting for warehousing operators was also introduced.

An additional Legal Notice of 1965 laid down regulations regarding certificates of origin while in 1967 the cess was raised to E$2 per quintal.

The International Coffee Agreement therefore had the effect within a country such as Ethiopia of increasing bureaucratic costs, increasing the extent of internal regulation, reinforcing centralisation, and raising the level of uncertainty faced by exporters and reducing any incentive to engage in forward dealing. It also served to underline the importance of the role played by the Coffee Board and, in the wake of the uncertainty caused by the dollar crisis of 1971-2, the Board was reconstituted in 1973 with additional and specific powers (Order No.84 and Proclamation 310 of 1973). On the other hand, these regulatory costs appear to have been offset to some degree by higher and more stable international prices for coffee as the agreements took effect (Bates

4.7 The Coffee Auction

The Proclamation setting up the Coffee Board in 1957 had also allowed for the establishment of a 'coffee exchange', and this began to come under serious consideration by the late 1960s (e.g., UNDP-FAO 1969:16ff). In 1969 The National Coffee Plan of Ethiopia declared that

"the board is in the process of establishing a Coffee Exchange Centre in Addis Ababa whose main function will be the control of the quality of coffee flowing into the market. The centre would conduct auctions, construct storage facilities, and assist growers and merchants in obtaining loans from banks." (National Coffee Plan 1969:22)

The US dollar crisis of 1971 and the adverse effect of its subsequent devaluation on international commodity prices persuaded the Ethiopian authorities to postpone the introduction of such a radical change and it was therefore June 1972 before the first auctions began, initially on a voluntary basis. That is, merchants could choose whether to sell through the auction or directly to an exporter as before. The rationale for the auction was summarised as follows in the Annual Report for that year of what was then known as the National Coffee Board of Ethiopia:

"The auction system of coffee marketing is equally beneficial to exporters. All high quality coffee grown in the country will be available to all exporters who bid for individual lots in open competition with each other. This offering of good quality coffee to the exporters will help adopt better export standards, improve international prices for Ethiopian coffee and enable the exporters to obtain a premium price for their coffee in the world markets" (National Coffee Board of Ethiopia 1972:22)

and

"By setting a price incentive the Board feels that it is still possible to goad farmers to improve on their past performances" (NCBE 1972:22).

In an article by a senior staff member of the Board similarly it is claimed that

"The raison d'etre for establishing the Coffee Exchange, the auction system of marketing, is to promote good quality coffee by fixing a premium price for it;
money which it is thought would flow to the producer” (Araya Sileshi, 1972:11).

It is not altogether clear from these statements that the main intention was to improve the buying process for exporters, raise the average quality for export, or give farmers a better price, or all of these. It is interesting to note that the initiative to introduce the auction at this time appears to have come as much from the exporters as the government (Ethiopian Coffee Review 1973:10; Wetherell, 1999). The number of exporters was reported variously as 31 in Addis Ababa (and 8 in Dire Dawa) in 1957 (Hufnagel:220), 28 in 1964 (International Coffee Organisation 1964:13), the year after the formation of the Coffee Exporters’ Association, and had risen to 45 by 1969. By this time many of the larger exporters were becoming increasingly dissatisfied with the existing arrangements whereby merchants would take samples from one exporter to another, involving extensive negotiation, occasional refusal to sell, and minimal dissemination of information (Wetherall 1999), being in its essence a system that had changed little over the years (see, e.g., Dunckley 1935:148ff). The main functions of the exchange were therefore

"to receive and inspect all coffee coming in to Addis Ababa from the growing regions ... and to auction this coffee on behalf of the owners to the Licensed Buyers – exporters and merchants dealing with local consumption” (Asrat Tsegaye 1973:69-70)."

This sounds fairly innocuous, but the introduction and implementation was not without problems.

Coming at the end of two decades in which regulation and control, ostensibly with the aim of improving quality but, as we have seen, regarded with irritation by many in the production and marketing chain, had increased substantially, the introduction of an auction system seemed to a number of non-exporting traders to be yet another obstacle and was regarded with considerable suspicion. Only after some thirty-one very heated meetings between the Exporters Association and the traders who would bring coffee to the auction, and after the exporters as a group refused to buy any coffee outside the auction, did the traders eventually agree to its introduction (Ethiopian Coffee Review 1973:10). Even then they managed to retain the right not to sell if they didn’t like the price, though after three days they would incur storage charges. In what seems to have been a further concession to traders a system of Reserve Pricing was introduced whereby a committee drawn from the Coffee Board and the Exporters Association set
minimum prices. From the government’s point of view this would also be sending positive signals to farmers and encouraging production for export.

4.8 Impact of the Auction

That it was the needs of exporters and government rather than those of traders in the interior and farmers, that were the true motivating force in the introduction of the coffee auction is also supported when the available evidence on the producer’s share of the price is examined. This is shown in a detailed analysis conducted by Teshome Mulat in the late 1970s, though it has to be pointed out that farm-gate prices were arrived at by calculation as no actual records existed. That is, farm gate prices were arrived at by deducting estimated costs of distribution and processing from known fob export values. His results are nevertheless interesting and are reproduced in Table 4.2. There it can be seen that the introduction of the coffee auction in June 1972 appears to have produced no evident improvement in farmers’ shares, and, if anything, a deterioration. It is not clear whether the author made any attempt to incorporate the likely effect of the auction during these years. Nevertheless, in the coffee year 1972-73, which would be the first full year of the coffee auction, the percentage share assumed to be going to the producer was, at 59%, lower than at any point during the preceding decade. It then varied fairly widely between 45% and 66% before falling to just over 30% in the 1976/7 season and to 34% in 1977/78. Although these later years covered the most troublesome period of the revolution it is not clear how this would have affected the share of export price going to coffee growers, unless the various ‘middlemen’ used whatever market power they had to maximise short term gains. At this distance from events it is now difficult to explore the precise mechanisms at work. However, it is worth noting that these years were also before the creation of the Ethiopian Coffee Marketing Corporation (see Section 4.9 below) which was only established in 1978 (General Notice No.57, 1978).
Table 4.2 Producers' Share of FOB Export Value of Coffee

<table>
<thead>
<tr>
<th>Year</th>
<th>Producer Price</th>
<th>Export Value</th>
<th>Producer Share</th>
<th>Government Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Birr/ton</td>
<td>Birr/ton</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>1961-2</td>
<td>1040</td>
<td>1709.92</td>
<td>61</td>
<td>16</td>
</tr>
<tr>
<td>1962-3</td>
<td>1004</td>
<td>1658.96</td>
<td>61</td>
<td>16</td>
</tr>
<tr>
<td>1963-4</td>
<td>1353</td>
<td>2213.04</td>
<td>61</td>
<td>17</td>
</tr>
<tr>
<td>1964-5</td>
<td>1376</td>
<td>2153.90</td>
<td>64</td>
<td>18</td>
</tr>
<tr>
<td>1965-6</td>
<td>1394</td>
<td>2119.61</td>
<td>66</td>
<td>17</td>
</tr>
<tr>
<td>1966-7</td>
<td>1234</td>
<td>1935.60</td>
<td>64</td>
<td>17</td>
</tr>
<tr>
<td>1967-8</td>
<td>1271</td>
<td>1903.74</td>
<td>67</td>
<td>16</td>
</tr>
<tr>
<td>1968-9</td>
<td>1209</td>
<td>1962.96</td>
<td>62</td>
<td>16</td>
</tr>
<tr>
<td>1969-0</td>
<td>1690</td>
<td>2463.60</td>
<td>69</td>
<td>20</td>
</tr>
<tr>
<td>1970-1</td>
<td>1378</td>
<td>2218.70</td>
<td>62</td>
<td>19</td>
</tr>
<tr>
<td>1971-2</td>
<td>1409</td>
<td>2204.52</td>
<td>64</td>
<td>19</td>
</tr>
<tr>
<td>1972-3</td>
<td>1463</td>
<td>2460.16</td>
<td>59</td>
<td>28</td>
</tr>
<tr>
<td>1973-4</td>
<td>1692</td>
<td>2686.70</td>
<td>63</td>
<td>29</td>
</tr>
<tr>
<td>1974-5</td>
<td>1203</td>
<td>2657.60</td>
<td>45</td>
<td>30</td>
</tr>
<tr>
<td>1975-6</td>
<td>3010</td>
<td>4582.39</td>
<td>66</td>
<td>32</td>
</tr>
<tr>
<td>1976-7</td>
<td>3567</td>
<td>11001.00</td>
<td>32</td>
<td>56</td>
</tr>
<tr>
<td>1977-8</td>
<td>2826</td>
<td>8314.00</td>
<td>34</td>
<td>...</td>
</tr>
</tbody>
</table>


These results are consistent with other opinions that the position of small growers in the marketing chain were virtually unaltered by the introduction of the auction (Asrat 1973, p.84) with any benefits accruing to various middlemen (though this appeared to be based upon impression rather than hard evidence). The opinion of one dealer at the time is instructive:

"...I usually buy coffee from small dealers as well as producers and after mixing all, I then process it using the same machine and bring it to the Exchange centre using two trucks...What surprised me a lot is that my coffee which I load on the two trucks usually fetch different prices ....This makes me suspect that a higher grade coffee doesn’t necessarily fetch a higher price" (quoted in Asrat 1973:80)

If this impression was typical then incentives to improve quality at harvest level would have been weak. However, this is not to say that the various views on the expected benefits of the auction for farmers, traders and exporters, were misguided or deviously promoted. Before the event they were no doubt genuinely held and the introduction of the auction appears to have been widely regarded, at least by exporters and the National
Coffee Board as a desirable mechanism for raising standards of marketing in the country. It is worth noting, however, that it was also considered to be of benefit to the government. The anonymous author of the article “Coffee Auctioning Comes of Age” declares that

“the conduct of auctions at a specified place makes it easier for the National Coffee Board to control the movements of coffee and prevent it from flowing into the domestic market” (Ethiopian Coffee Review 1973:11)

Another study of the working of the auction expresses the argument that it would lead to maximisation of export earnings in the end (Asrat 1973:75). In this connection it is also interesting to note (Table 4.2, Column 4) that the government share of the export price rose considerably at the same time as the auction came into effect, rising to 28% from an average of under 20% for most of the previous decade, and reaching even 56% in the 1976-77 season. The reasons for this are not clear but are unlikely to be connected with the auction. International prices increased by more than five-fold between 1971 and 1977 and it is evident that latterly much of this was creamed off for the government by way of higher taxes, particularly via the progressively implemented export surtax. The auction would, however, enable government to keep a closer tag than hitherto on all coffee destined for export. From this perspective it is relatively easy to argue that the auction was introduced more in the interests of government and exporters than of others at earlier stages of the filiere.

Further development of the auction as the principal channel for the country’s coffee exports was cut short by the revolution of 1974. As we shall see in the next section it remained as a channel for the residual market permitted for private traders and exporters, but it was very largely displaced between 1978 and 1991 by the para-statal Ethiopian Coffee Marketing Corporation. It is important, therefore to say something of that period before summing up and moving on (in Chapter 5) to the contemporary period.

4.9 Coffee Marketing in the Revolutionary Period: 1974-92

4.9.1 Extension of State Regulation and Control

The political history of the revolution of 1974 has been extensively, if not yet comprehensively, discussed and analysed elsewhere, and is reviewed in this thesis in
Chapter 7. Likewise, there has been considerable discussion and analysis of the agricultural sector since the land reform legislation of 1975, though for the most part this discussion has concentrated on food production and on the famine prone regions of the country (see, for example, Ghose 1985, Alula & Fasil 1983, Hussein 1997, Dessalegn 1993a, 1993b, Cohen & Isaksson 1988, Saith 1985, Alemayehu 1993). I shall concentrate here only on those aspects which most directly impinged on the production and marketing of coffee.

As far as growers were concerned the most significant, and major, institutional change from the past was the nationalisation of land and abolition of private tenancy (Proclamation No. 31, 1975). Larger commercial farms were taken over as state farms. This was closely followed by legislation to establish Peasant Associations (Proclamation No.71, 1975). In the same year the powers of the National Coffee Board were extended to allow it direct involvement in the marketing of coffee, as opposed to merely regulating it (Proclamation No. 57, 1975). This was a foretaste of its conversion into a full scale marketing board in 1978 as noted below.

Any effect of these changes on production or exports of coffee is difficult to ascertain. In the short run they may even have been negative because of the uncertainties created by the prospect of land redistribution, the impact of the Zemacha programme (when students took the message of the revolution to the countryside), or perhaps collectors and merchants attempting to maximise short-term profits to cover their own suddenly increased risks. This was also a period when international prices had risen dramatically. The data in Table 4.3 reflects such uncertainties in showing a rather mixed message regarding the responses of farmers and exporters. Certainly, from 1976 to the end of the decade production exceeded 3m bags after a period from 1973 when it was below that figure. But between 1975 and 1976 for instance, when both production and the international price rose, export volume actually fell dramatically. There are a number of possible reasons for this: smuggling may be one (a possibility examined further below), there may simply have been hoarding of stocks in expectation of further rising prices, or the collection of data may have been badly disrupted. There is no clear pattern over the decade though it is notable perhaps that the greatest annual export figures were for the relatively stable political period of 1970-72.
Table 4.3: Coffee Production, Exports and International Prices, 1970-80

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (1)</th>
<th>Exports (2)</th>
<th>International Price (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3,036 (th. bags)</td>
<td>1,532 (th. bags)</td>
<td>52.01 (USc/lb)</td>
</tr>
<tr>
<td>1971</td>
<td>2,725</td>
<td>1,626</td>
<td>44.99</td>
</tr>
<tr>
<td>1972</td>
<td>3,014</td>
<td>1,593</td>
<td>50.33</td>
</tr>
<tr>
<td>1973</td>
<td>2,559</td>
<td>1,132</td>
<td>62.30</td>
</tr>
<tr>
<td>1974</td>
<td>2,851</td>
<td>1,167</td>
<td>65.84</td>
</tr>
<tr>
<td>1975</td>
<td>2,978</td>
<td>1,463</td>
<td>65.41</td>
</tr>
<tr>
<td>1976</td>
<td>3,215</td>
<td>1,016</td>
<td>142.75</td>
</tr>
<tr>
<td>1977</td>
<td>3,169</td>
<td>1,498</td>
<td>234.67</td>
</tr>
<tr>
<td>1978</td>
<td>3,150</td>
<td>1,515</td>
<td>162.82</td>
</tr>
<tr>
<td>1979</td>
<td>3,120</td>
<td>1,308</td>
<td>173.53</td>
</tr>
<tr>
<td>1980</td>
<td>3,304</td>
<td>1,465</td>
<td>154.20</td>
</tr>
</tbody>
</table>

Sources: Columns (1) and (2) – ITC/DPMD/88/84
Column (3) FO Licht International Coffee Directory and Yearbook 1998/99: G8 (Mild Arabicas)

By 1978 the major political disruptions of the intermediate years since 1974 had been resolved, at least after a fashion, with the emergence of Mengistu Haile Mariam as undisputed leader of the new régime, and a number of other legislative changes began to appear which ensured greater state control over each stage of the marketing chain. In the rural areas it became mandatory for farmers to form cooperatives, of which there were two types: producer and service (Proclamation No. 138, 1978). The National Coffee Board was replaced by a new Coffee and Tea Development and Marketing Authority (Proclamation No.134. 1978), which was later to become the Ministry of Coffee and Tea Development. The main vehicle for translating these changes into practice was the Ethiopian Coffee Marketing Corporation (ECMC) established in the same year (General Notice No.57, 1978, Legal Notice No.59, 1978) with, as Tesfaye puts it, “the responsibilities to purchase, store, process, possess, transport, sell and export coffee”. (Teshome 1979, Solomon Tesfaye 1996). It was somewhat paradoxical that this socialist enterprise brought the operations of the former Coffee Board closer to those of the marketing boards which had been a feature of so many other African economies of a wide variety of ideological stance since the 1950s. Nevertheless, when taken together all these changes indicated the importance being given to control over the coffee chain by the incoming regime.
An indication of the degree to which the state had by this time penetrated every stage of the filière is evident in the number of government agencies involved in one way or another. These included the Planning Department of the Ministry of Trade which issued International Coffee Agreement certificates; the Trade Control Department of the Ministry which was responsible for the control of quality and the movement of coffee; the National Bank of Ethiopia which oversaw price control and authorised exports; the Customs Department which collected export duty; and the Treasury which collected surtax. (ITC/DPMD/93:28). There was then the Ministry of Coffee and Tea Development, responsible for administering the auction and calculating prices, and the Ethiopian Coffee Marketing Corporation (ECMC) which purchased, processed, sold at auction, bought at auction, processed again and exported coffee. The Ministry of Agriculture focussed on technical and extension services and was marginal to the marketing stages, while at the broader political level Peasant Associations were the primary channel of communication with both the state at local level and the party (COPWE - Commission for Organising the Party of the Working People of Ethiopia which later became the WPE - Workers' Party of Ethiopia).

Although growers could still legally sell to service co-operatives and akrabies (the merchant middlemen), the system which emerged from this new raft of legislation since 1975 ensured that the bulk of coffee produced was being handled by the ECMC, which by the mid 1980s had 53 buying posts throughout the growing areas, and to which hulleries were generally attached. Akrabies were not permitted to own hulleries. In 1982/83 around 34% of sun-dried coffee was still being handled by the private sector but this had dropped to only 10% by 1986/87 (ULG 1988:G5). A UN mission in 1988 reported that more than 90% of all exportable coffee was then being handled by the ECMC. This included buying and partly processing in the interior, and final processing for export in the Corporation’s warehouses and sorting plants in Addis Ababa and Dire Dawa (ITC 1988: 17). The same mission also reported that 92-93% of coffee from all sources brought to Addis Ababa was bought and exported by the ECMC at that time (ibid:6). This included 100% of washed coffees, much of which would have been from state plantations, implying that a slightly lower percentage of peasant produced sun-dried coffee would have passed through the ECMC. Taking these semi-official figures at face value, much of the remaining 8-10% would have been handled by the few remaining private traders and exporters who were allowed to continue in operation. An unknown quantity over and above this would also have been smuggled through unofficial channels (see below).
4.9.2 The Private Periphery

Although private collectors (sebsabies) and merchants (akrabies) were therefore permitted to continue during the revolutionary period their scope of operation and numbers were severely restricted. Proclamation No. 263 of 1984 redefined the terms of licences to trade in coffee in such a way that prices were fixed by the MCTD, local geographic boundaries were imposed, and buying and selling could only be with specified agents for each type of licence. At the same time akrabies licence fees were increased to 10,000 Birr for first issuance and 1,500 Birr for annual renewal (i.e. up from 100 Birr and 30 Birr respectively), together with specified capital requirements (5,000 Birr and 100,000 Birr for sebsabies and akrabies respectively) (Solomon Tesfay 1996:60). In addition the sebsabie was not allowed to hold any stock overnight but had to sell his purchases on either to an akrabies, to a service cooperative or to the ECMC on the same day of purchase. The farmer also had to come to the sebsabie (ITC:15).

The activities of akrabies were also limited to the volumes of coffee left over after farmers had satisfied the quota requirements of the ECMC, and were also in competition with service co-operatives. Akrabies could then either sell any coffee which they purchased to the ECMC or take it to the terminal market for auction. The price they could offer was therefore less than that offered by the ECMC as they had still to cover subsequent delivery costs to the ECMC or commercial rate transport to the Addis market. In 1987/88 there were 1,229 sebsabies and 137 akrabies licenced (ULG 1988:G2) and, possibly as a result of some liberalisation, by 1991-92 this had risen to 1,559 and 173 respectively (ITC/DPM/93:26). A time series is not available but a ‘snapshot’ portrait of the situation in the mid-1980s is reproduced in a major consultancy report of the time, summarised here as Table 4.4. Of a total tonnage of clean coffee equivalent of 69,373 tons in 1985/86 some 9,997 tons, or 14.4%, was retained by akrabies for direct sale to the auction, which only involved akrabies and private exporters and was confined to sun-dried coffees. A further 8,036 tons were sold by akrabies to the ECMC. This was in addition to the 25,296 tons purchased by the ECMC from farmers and 26,875 tons purchased by the ECMC from sebsabies. Farmers’ sales were largely of jenfal or unprocessed sun-dried beans while those of the sebsabies and service co-operatives were more a mix of marbush and washed coffee.
Table 4.4 Purchases by ECMC by Seller and Deliveries to Auction, 1978/79 EFY (1985/86)

<table>
<thead>
<tr>
<th>ECMC Purchases</th>
<th>Type of Coffee (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>from</td>
<td>Jenfal</td>
</tr>
<tr>
<td>Farmers</td>
<td>22,144</td>
</tr>
<tr>
<td>Sebsabies</td>
<td>6,326</td>
</tr>
<tr>
<td>Akrabies</td>
<td>0</td>
</tr>
<tr>
<td>SCOOPS'</td>
<td>6,887</td>
</tr>
<tr>
<td>Others</td>
<td>1,510</td>
</tr>
<tr>
<td><strong>Total ECMC</strong></td>
<td><strong>36,867</strong></td>
</tr>
<tr>
<td>Clean coffee Equivalent</td>
<td>17,327</td>
</tr>
<tr>
<td>Akraby to Auction</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total clean coffee equivalent</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Adapted from Tables 2.4, 2.6, ULG Consultants, Appendix G. October 1988

Note 1: Service Cooperatives

Private exporters were in a similar position. Initially they were often outbidding the ECMC at auction, frequently because of forward selling (i.e. to foreign buyers) in a rising market and thus being able to cover slightly higher prices in the local market. But in 1977 a system of price fixing and quota allocation was introduced by the government, which had the effect of considerably restricting the scope of the private exporters. Prices then became strictly controlled throughout the filiere. Beginning with the international price, either FOB sales of Jimma 5 to the USA or a New York indicator price, a domestic administered price was arrived at by deducting export taxes and estimated transport, storage and grading costs. From this the Ministry of Coffee and Tea Development set a maximum ‘auction’ price (ULG:G4). Further deductions were made in order to reach an “ex interior buying station” price. These prices were then announced daily on the national radio so that farmers and others would know what to expect (ITC 1988, CFC/ICO 1999), though a later survey in 1992/93 showed that only 35% of farmers had access to radio information (Yoseph Abdissa 1994:40). The formula was rigidly applied and did not allow for local variations in numbers and types of operators or in different distances to local markets. Thus, in practice there could be different local prices for similar types and qualities of coffee, while for those producers
who were more distant from a market the temptation to smuggle through unofficial channels offered a strong alternative (ibid:11), though it should be noted that the parallel market in general drew on supplies at all stages of the filiere (Tesfaye p.54).

The quotas applied to private exporters were determined by the individual exporter's existing capacity and record of arrivals and throughput. Although the quality offered to exporters was often inferior, if the quota was not fully utilised then it would be reduced. Clearly, the effect of quotas would have consequences further back in the filiere where the merchants and traders in the interior had little choice but to sell most of their stock to ECMC centres. Private dealers were also only allowed to deal in sun-dried coffee. By 1988 there were only fourteen private exporters left: they could only buy at the auction and by then, as we have already seen, were dealing with only 8-10% of the total export volume (ITC:25). As we shall see, however, their survival was significant in preserving the structure which was revived in the 1990s.

4.9.3 Taxation and Production

Although the ECMC could in theory cut out some of 'middlemen' profits, this is not how it worked in practice. Table 4.2 above showed that in 1976/7 and 1977/8 the share of the export price received by farmers fell to 32% and 34% compared with an average of over 60% throughout the 1960s. The reasons for the very low levels of these years are difficult to determine, though a major contributory factor would have been the introduction of an export surtax in 1976 in response to the rapid increase in international prices of the two preceding years (Befekadu 1992:30 - ITC/DPMD/93). Thus, when the ECMC was established in 1978 any potential savings through reducing the number of steps in the marketing chain would have been eliminated by the surtax. The lower share of the FOB price accruing to the farmer, as compared with the 1960s, then continued throughout the 1980s. Hamza & Azanew (1995) calculated that the average share to farmers during the entire Derg period was 42%. For much of the period the surtax was only partly to blame as farmers also regularly suffered from low administered prices being offered by the ECMC (ITC/DPMD/88/84:13).

Even by the late 1990s, when the export taxes were consolidated into a single rate, there were four separate taxes levied on coffee exports, all dating from earlier periods. These were a basic export duty based on volume, a cess tax also calculated on volume, a transaction tax of 2% of FOB value, and the surtax based upon ICO indicator prices. The cess tax had been introduced in 1958 to pay for the administrative expenses of the
National Coffee Board. In addition to these taxes at the export stage there were also municipality taxes applied to the movement of coffee in the interior (ITC/DPMD/93:30). Detailed calculations on the overall impact of taxes are scarce but Teshome Mulat, using figures from the mid 1980s, estimated that between 37% and 44% of the FOB price, depending on whether it was sundried or washed, consisted of taxes. The major part was the surtax, amounting to some 33-39% (Teshome 1992). This is consistent with the MCTD’s own estimate in 1987 of 40-50%, quoted in Tesfaye (1996:11). Another estimate, this time for 1983-4 for Jimma 5 is that 44.03% of the FOB price was paid in taxes (Tarekegne 1985:92) while the prevailing belief that the high level of surtax was acting as a disincentive to farmers was supported by a visiting UN mission (ITC: 17). A more recent retrospective estimate by a group of consultants is that during this period the implicit tax rate (i.e., including the profits of the ECMC) from all sources was almost 45% of the FOB value (LMC 1999:17).

Such estimates go a long way towards accounting for the low prices received by farmers throughout this period, estimated even by the MCTD itself at about 40% of the FOB price (Tesfaye 1996:11). Tarekegne went on to calculate the return to farmers as being only Birr 0.91 per kg from an average annual yield of about 94 kg of cleaned coffee worked on an average holding of 0.31 hectare. Without the surtax he estimated that this would almost triple to Birr 265 (Tarekegne 1985:95). State farms were actually incurring a loss of Birr 0.97 per kg, which would have been a slight profit of Birr 0.95 per kg without the surtax. It should also be remembered that farmers who grew coffee were also subject to all the general repressive measures of the regime at that time and the estimate by Dessalegn Rahmato that between “a third and a half of the annual cash income of a middling and poor peasant respectively” was syphoned off in the form of taxes, ‘contributions’ and other state exactions (Dessalegne 1993:43) should be noted.

Although the effect on production was not immediately negative, as it remained at over 3 million bags per annum between 1976 and 1983 by which time it was, at 3,888 thousand bags, more than 50% greater than ten years previously, it then dropped in 1984 by 1,566 thousand bags and stayed at well below 3 million for the rest of that decade (ITC/DPMD/88/84: Table p.14), being at its lowest of 1.149m bags in 1984/85. It has been frequently suggested that the disincentives in the official market encouraged substantial smuggling across the borders of Kenya, Sudan, Somalia and Djibouti, and that this is reflected in the low official statistics during the second part of the 1980s. The argument is theoretically convincing though there is, as might be expected, little evidence available to substantiate it and what there is is not conclusive. In a somewhat
tortuous statistical exercise based on dubious extrapolation of estimated farm gate prices
Dercon & Lulseged conclude that “the black market may not have been as large as is
sometimes thought” with the share being no more than 10-15% of production during
production and actual deliveries to the Addis Ababa and Dire Dawa terminal markets
also failed to show a substantial difference that could not be accounted for by local
consumption or illegal sales within the country. It even showed that deliveries from
Kaffa exceeded the estimate of production for that year (ULG 1988:G7). Other
complicating factors are that there is no data on stocks around the country and that inter-
regional smuggling within the country also takes place to take advantage of internal
price differences. Nevertheless, the same study (ULG 1998) believed that substantial
quantities of coffee were being smuggled out of Harar region and although it perhaps
occurred on a smaller scale elsewhere its incidence was probably fairly widespread.
Alemayehu refers to the abuse of Service Cooperative funds in Limu (now in Western
Oromia) to finance illicit trade in coffee (Alemayehu 1993:11).

Paradoxically, the response of the authorities to the belief that a substantial parallel
market existed would be to increase the institutional surveillance and other controls
which the farmers were finding so repressive, and which in turn would encourage other
observers to deduce that where there are controls there must be smuggling, all of which
would contribute to the general belief that smuggling was a significant problem.

By the late 1980s the government was finding it increasingly difficult to cope with the
combined political, military, economic and financial crises with which it was faced (See
Chapter 7 final section). This also coincided with radical changes underway in the
Soviet Union which had been the government’s principal overseas backer. On
Mengistu’s visit to Moscow in July 1988 he was told that future aid would not be at the
same level as in the past, and that it would be subject to a liberalisation of the political
and economic regime and a real attempt to reach a peaceful solution to the war in the
north with the Eritrean Liberation Front (Andargachew 1993). This produced a gradual
relaxation in the number of regulations in the wider economy together with an attempt
to improve incentives in the coffee sector. The rate of surtax was halved, ECMC
purchase prices were raised by 10-12% and a system of price subsidies based on a
threshold level was introduced. Interestingly, at this time the visiting ITC team believed
that unrecorded exports of coffee were insignificant (ITC90:3).
Eventually, in a sign of things to come, Mengistu was forced in March 1990 to formally abandon Marxism-Leninism as the basis for government policy, but it was too late. The predominantly Eritrean and Tigrean forces of opposition in the north had by then allied with other dissident groups and were gradually pushing through to Addis Ababa. The resulting collapse of the Mengistu government in May 1991 introduced a new period of economic liberalisation, in which many controls were dismantled or eased. Although the dominant party in the new government, the TPLF, had a socialist ideological background, it turned to the west for aid to rehabilitate the national economy and in so doing accepted the principles of IMF adjustment policy, particularly at the macroeconomic level. The details of this and of its impact on the coffee sector are examined in Chapter 8 where I discuss the role of the contemporary state in Ethiopia.

4.10 Summary and Conclusion

Over a short seven year period between 1952 and 1959 the coffee filiere became highly regulated in terms of inspection, certification, grading and licensing of all coffee destined for export. During the following decade the controls for enforcing the regulations were refined and extended, partly in response to the requirements of the International Coffee Agreement, which came into being in 1963, and culminated in the introduction of the coffee auctions in 1972. How the industry may have evolved after that was disrupted by the revolution of 1974 but it is important to note that many of the features of the structure as it had evolved up to that time were allowed to continue alongside the state marketing system which was then imposed, for the benefit of the small residual private sector. These were still in place when the military regime collapsed in 1991 and formed the basis of the more liberal system which then took over. There is thus a stronger degree of continuity with the past than may appear at first sight, when the importance of the revolutionary years as a break from the past can be exaggerated and the continuity of the small private sector overlooked. In so far as present structures have roots traceable to that earlier period then it becomes important to understand the processes of institutionalisation which have determined the present outcome, as I have done in this chapter.

Another way of expressing this is through the concept of path dependence, and there are other signs too of such links with the past. One important example lies with the continued dominance in production of a mixture of semi-forest and garden coffee plants which was also the predominant pattern of the period discussed in the last two chapters,
as is the overwhelming reliance on sun-dried initial processing. This reflects the smallholding nature of production which is in turn the product of a complex history of customary land tenure, custom with its roots in the pre-revolutionary political structure. There was also an absence of effective quality control in rural harvesting procedures. Another example is that by the mid-1930s the bulk of the crop for export was diverted through only two central terminals, Addis Ababa or Dire Dawa, as it is today. A third, in direct descent from a longer historical tradition, is the foreign origin of many traders and merchants, and the fact that all traders can only operate under licence.

Before assessing the real significance of these examples of historical continuity it is important to have a fuller understanding of the operations of the contemporary filiere in some detail. That is the purpose of the following two chapters, to which I now turn.
Chapter 5

Contemporary Structure of the Coffee Filiere I: From Grower to Auction

5.1 Introduction

The previous two chapters outlined in some detail the growth of coffee as Ethiopia’s most important export crop. The detail was essential to an understanding of how the channels of trade, through which the coffee harvest from a multitude of peasant farmers reached its export market, evolved as a series of historical steps. Only through studying the historical antecedents peculiar to the polity and economy of the nation state that was itself in many respects going through a prolonged period of transformation (see Chapters 7-9) can a proper understanding be reached of how the institutions of the coffee filiere in Ethiopia evolved. To the extent that this evolution is mirrored in the structure of the filiere that we see today we shall gain insight into the causes of contemporary constraints, modes of behaviour, structures of prices and how the local filiere interacts with its international counterparts. First, we need to complement the historical account with a detailed review of the contemporary filiere. This is the object of this chapter and the next.

In the present chapter the early stages of the filiere are explored in more detail. We are not here concerned with production aspects of coffee or the use of inputs, but rather with how it reaches its first point of sale in the rural areas and how it then proceeds to the terminal markets in Addis Ababa and Dire Dawa. The principal focus of the chapter is on farmers’ links with local markets and with the role and nature of primary collectors and merchants. The formal structure of these links, as we shall see, is a vehicle whereby various concerns related to risk, uncertainty, price volatility, the provision of credit and land security are managed in ways which do not necessarily advantage each participant equally. The Chapter begins with a review of the main characteristics of coffee farmers in a sample of key growing areas. The role of traders in local markets is then discussed, and this is followed by a more quantitative assessment of the share of the FOB export price received by growers during the mid to late 1990s and its volatility. This then leads on to a discussion of the role of credit and the chapter concludes with a section on land and security of tenure.
5.2 Coffee Growers: Characteristics and Income Levels

The main emphasis here is on the small peasant farmers who produce about 95% of national coffee output. Unfortunately, production and marketing data at farm level is not collected routinely by the authorities and most information depends upon periodic sample surveys. These have frequently been on a relatively small scale, often conducted by academics with modest research grants. However, during the later months of 1999 the Coffee Improvement Project (funded by the European Union), working within the Coffee and Tea Authority, conducted a major field exercise to gather wide-ranging information on socio-economic variables affecting coffee farmers. While the objective was to assess the impact of the EU sponsored Coffee Improvement Project, after some twenty years of operation, by comparing those areas in which it had been implemented with those where it had not, it also provided an array of useful information on the practices of coffee farmers in late 1999. I was able to submit requests to the consultants (EDE) who supervised the survey for specific questions to be included, and the Coffee and Tea Authority kindly allowed me access to the results of this survey. The main points of relevance to the marketing chain are highlighted below.

A total of 1,200 households was chosen from a sampling frame which distinguished between coffee and cereal producers within the CIP (Coffee Improvement Project) and non-CIP areas. The Zones and *Weredas* covered were as shown in Table 5.1.

<table>
<thead>
<tr>
<th>Region</th>
<th>Zone</th>
<th>Wereda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oromia</td>
<td>West Wollega</td>
<td>Haru, Airaguliso</td>
</tr>
<tr>
<td></td>
<td>West Haraghe</td>
<td>Darelebu, Mesela</td>
</tr>
<tr>
<td></td>
<td>Illubabor</td>
<td>Metu, Gachi, Gomma</td>
</tr>
<tr>
<td></td>
<td>Jimma</td>
<td>Sekacheko</td>
</tr>
<tr>
<td>SNNPS</td>
<td>Sidama</td>
<td>Dale</td>
</tr>
<tr>
<td></td>
<td>Gedeo</td>
<td>Bensa, Yirgachefe, Bulie</td>
</tr>
</tbody>
</table>

Table 5.1: Coverage of CIP Survey
In each *Wereda* four *Kebele* Administrations were chosen (two from coffee growing and two from cereal growing areas) and a sample of 25 households per *Kebele* drawn. It is important to note that these are areas where garden coffee dominates and that certain aspects of forest and semi-forest grown coffees, such as the employment of hired labour, will not feature.

A wide range of questions on various aspects of production and marketing, and on the socio-economic characteristics of respondents was included. Table 5.2 highlights some initial basic facts from the survey results. They are unavoidably in terms of CIP and non-CIP areas though this is not of direct interest to my own study.

**Table 5.2: Household size and Land Utilisation**

<table>
<thead>
<tr>
<th>Household Feature</th>
<th>CIP</th>
<th>Non-CIP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household size (no. of people)</td>
<td>6.50</td>
<td>6.65</td>
</tr>
<tr>
<td>Total land (mean area)</td>
<td>1.2 ha.</td>
<td>1.3 ha.</td>
</tr>
<tr>
<td>Perennial crop area (mean for coffee producers)</td>
<td>0.64 ha</td>
<td>0.55 ha</td>
</tr>
<tr>
<td>Old coffee stands</td>
<td>71.6%</td>
<td>61.6%</td>
</tr>
<tr>
<td>New coffee stands</td>
<td>28.4%</td>
<td>38.4%</td>
</tr>
</tbody>
</table>

Source: CTA-EDE *Socio-Economic and Farming System Study in Major Coffee Growing Regions*, Tables 1. 10, 14

A typical coffee growing household, therefore, consists of around 6.5 people deriving a livelihood from about 1.25 hectares of land, of which some 42-53% is given over to coffee. Around a third of coffee stands are new (i.e. within the current CIP project period). Additional information, not reproduced in Table 5.2, reveals, interestingly, that coffee growers have a greater proportion of adults, male and female, in the age range 14-64 than do cereal growers, and, correspondingly, a smaller proportion in the dependent age range of under 13.

There have been many criticisms over the years of the methods used by farmers in harvesting and storing coffee, with the frequent observation that quality is adversely affected. Some indication of current practice is shown in Table 5.3. Thus, most farmers collect beans that have fallen to the ground as well as those ripe on the tree. The next stage of laying beans out to dry in the sun takes place mostly at ground level rather than
on raised structures, with fewer than 1% use a cemented floor and between 4-6% continuing to use ground plastered with animal dung. If they make use of washing stations then over 30% transport their red cherries in plastic bags (a practice which encourages condensation, humidity and the process of fermentation to begin). On the other hand, the majority, over 80%, follow recommended practice in keeping stored (dried) coffee beans in sacks.

Table 5.3: Selected post-harvest practices

<table>
<thead>
<tr>
<th>Activity</th>
<th>CIP (%)</th>
<th>Non-CIP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harvest from tree and ground</td>
<td>90.2</td>
<td>70.7</td>
</tr>
<tr>
<td>Red cherries to washing station</td>
<td>69.6</td>
<td>58.1</td>
</tr>
<tr>
<td>By jute bag</td>
<td>17.4</td>
<td>8.7</td>
</tr>
<tr>
<td>By plastic bag</td>
<td>30.8</td>
<td>31.5</td>
</tr>
<tr>
<td>Drying on raised structure</td>
<td>30.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Storage in sacks</td>
<td>82.8</td>
<td>82.9</td>
</tr>
</tbody>
</table>

Source: op.cit. Tables 22, 23, 24

Problems related to these practices have often been noted by other observers. Thus, unripe as well as ripe berries are frequently picked and gathered together. Freshly picked cherries are often stored in sacks until the following day (hence increasing the likelihood of fermentation) before spreading out to dry, and cherries are frequently sold when still too wet (Illycaffe 1995), all of which affects the final quality and raises subsequent costs of grading and sorting. No information was collected on the time between harvesting, washing, laying out to dry, and taking to market, but of the total 'production' in CIP areas in the season 1998/99 47.3% appears to have been 'old jenfel'—that is, dried beans from the previous season. Farmers will not necessarily, therefore, sell their total crop during the season in which it is harvested, and will often sell in small amounts as money is needed.

Although practices have in general improved on those of the past there clearly remains considerable scope for deteriorating quality to set in during these various stages. It has to be remembered, too, that at the first point of purchase, usually the sebsaby, beans from all sources are thrown together as one lot for onward selling to the larger merchant, and that the poor practices of even a very small number of farmers can have effects on the quality of the whole. The sebsaby will of course examine the batch
offered by each farmer before buying it but the test is only by sight, feel and smell and allows considerable variation in quality and content.

That time can be crucial is evident from the distance that many farmers are from roads and facilities. Table 5.4 shows that for most households the nearest market is more than one hour's journey time away, that for around half the nearest all weather road is over an hour away and even the nearest grinding mill involves at least a two hour round trip for just under half of all households. These figures indicate the nature of the geographic dispersion of the many small producers of coffee and the problems inherent in getting perishable cash crops to market.

Table 5.4: Travelling time to nearest facilities

<table>
<thead>
<tr>
<th>Facility</th>
<th>Percentage of households greater than 1 hour away</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CIP households</td>
</tr>
<tr>
<td>Market</td>
<td>56.9</td>
</tr>
<tr>
<td>All weather road</td>
<td>49.2</td>
</tr>
<tr>
<td>Grinding mill</td>
<td>46.6</td>
</tr>
</tbody>
</table>


These various problems tend to be reflected in the level of cash income received by coffee farmers as summarised in Table 5.5. Thus, even where the CIP had been in operation, almost 80% of coffee growing households received less than EB1,999 cash income during the year preceding the survey and 50.9% less than EB999. The latter comes to EB83 per month or EB19.23 per week. With an average household size of 6.5 this comes to just under EB3.00 per person per week. On the other hand coffee sales do allow these farmers to have cash incomes which are considerably higher than those of cereal farmers in the area. Of the latter almost all, 98.6%, even in areas where the CIP had operated received cash incomes of under EB1,999 per annum, and 75.2% had less than EB999 per household. As these were cereal growers in the CIP area they might have been expected to be able to benefit from the more generalised effects of the CIP, but in fact this appears to have made little difference as only a slightly higher proportion, 78.1%, of cereal growers in non-CIP areas had similarly low incomes.
The figures reproduced in Table 5.5 refer to cash income from all sources. How important are coffee sales themselves? For sales of coffee alone, over half the sales in CIP areas, 54.5%, brought in less than EB600, though a sizeable minority, 11.6%, were of over EB2,000 from this single commodity. It is not clear from the survey whether these were the same farmers who did relatively well from other income raising activities. A further indicator of the relatively better off position of coffee farmers comes from data on type of housing, particularly roofing. Thus, in the CIP areas 39.5% of coffee growers and 10.9% of cereal growers had corrugated iron roofs, compared with 27.3% and 7.7% respectively in the non-CIP areas. These figures alone may be as good as any more sophisticated calculations in assessing the effects of the EU’s CIP project!

5.3 Major Problems of Coffee Growers from Recent Surveys

To complete the picture of the average coffee farmer it is useful to know what problems are perceived to be important, and whether these impinge in any way on marketing activities. Table 5.6 reproduces the main problems experienced by coffee farmers in areas in which the CIP has operated. The principal problem is clearly Coffee Berry Disease (CBD), followed by high prices of inputs, low prices of coffee, and then, less importantly, shortage of labour at harvest. In non-CIP areas (data not reproduced here) the ranking is similar though the incidence of CBD is slightly higher, cost of inputs less of a concern, lower prices of coffee slightly less important, and shortage of labour affecting fewer households.
Table 5.6: Major Problems in Coffee Production in CIP areas.

<table>
<thead>
<tr>
<th>Type of problem</th>
<th>Serious/very serious</th>
<th>Not a problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee Berry Disease</td>
<td>72.8</td>
<td>19.4</td>
</tr>
<tr>
<td>High price of inputs</td>
<td>60.8</td>
<td>21.7</td>
</tr>
<tr>
<td>Low price of coffee</td>
<td>44.2</td>
<td>27.0</td>
</tr>
<tr>
<td>Shortage of labour at harvest</td>
<td>19.3</td>
<td>55.3</td>
</tr>
</tbody>
</table>

Source: CTA/CIP Socio-Economic Survey 1999, Table 25

Other problems mentioned were theft, weeds and other diseases. It is not clear whether the problem with low prices is a reference to the (internationally led) fall in prices during the latter part of 1999 or to a general problem of low prices due to their position in the marketing chain. I shall return to this in Section 5.8 below. It is clear that some of these problems do affect other parts of the coffee filiere. The widespread prevalence of CBD is bound to mean a greater proportion of diseased beans getting into harvests, intentionally or otherwise, leading to lower average prices at first point of sale and greater grading and sorting costs at later stages. Likewise, even though only a small number of households seem to be affected by labour shortages this is likely to deflect these households from completing their harvest at the optimal time, once again affecting the general quality of bean brought to market. A certain circularity can then be encouraged by the existing institutional structure. For as long as there is little encouragement to discriminate at the first point of sale there will be correspondingly less effort to control quality of harvests.

The problems listed in Table 5.6 are those of farmers in the sample Woredas, which, although all coffee growing, were taken from a wide cross section across the country, with samples drawn from twelve Woredas in Oromia and SNNPS. A somewhat more specific view is available from a rather smaller survey of farmers in the single Woreda of Limu Kossa early in 1999. This was undertaken by Tegegne Gebre Egziabher and covered 88 households (Tegegne 1999). Although this is still in a coffee producing area it cannot be assumed that all farmers interviewed were primarily coffee growers. With this in mind, farmers were invited to indicate their “major agricultural problems” with the results as shown in Table 5.7.
Table 5.7: Major Agricultural Problems as Perceived by Farmers in Limu Kossa

<table>
<thead>
<tr>
<th>Type of problem</th>
<th>Per cent of farmers</th>
<th>Number of farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of capital</td>
<td>73.9</td>
<td>65</td>
</tr>
<tr>
<td>Land shortage</td>
<td>42.0</td>
<td>37</td>
</tr>
<tr>
<td>Manpower shortage</td>
<td>28.4</td>
<td>25</td>
</tr>
<tr>
<td>Pests</td>
<td>37.5</td>
<td>33</td>
</tr>
<tr>
<td>Weeds</td>
<td>33.0</td>
<td>29</td>
</tr>
<tr>
<td>Lack of transport</td>
<td>3.4</td>
<td>3</td>
</tr>
<tr>
<td>Lack of market</td>
<td>0.0</td>
<td>0</td>
</tr>
<tr>
<td>Sample size</td>
<td></td>
<td>88</td>
</tr>
</tbody>
</table>

Source: Tegegne 1999, Table 3.9

It is interesting to note that despite the high average distances to all-weather roads and markets recorded in Table 5.4 above and which would be expected to be a factor in most Woredas, lack of transport and access to markets is not perceived to be a problem by these farmers. This is perhaps an indication of low opportunity cost of farmers’ time in travelling to markets, and possibly of the social aspects. Where Table 5.7 is markedly different from Table 5.6 is in the inclusion of capital and land shortages which are perceived to be serious problems in the former but are not mentioned in the latter. This may be a reflection of the wider mix of farm types in the second survey. When the CIP project survey questioned those who were primarily cereal growers in areas where the CIP had been operating they discovered that land shortage did become a serious or very serious problem for 53.3% of farmers though lack of credit was only a problem for 16.8%. In non-CIP areas 65.5% of cereal producers indicated land shortage as a serious/very serious problem, but still only 15.5% mentioned lack of credit.

There is quite a clear difference therefore in the CTA-EDE survey between the main problems listed by coffee growers and those mentioned by cereal growers. Of course, where the latter refer to the availability of credit as not being a major problem this does not necessarily mean the same thing as capital shortage in Tegegne’s survey of Limu Kossa, and care should therefore be taken in comparing the results of the two surveys. Interestingly, when asked about problems of diversifying into other areas the availability of capital does get mentioned as a major problem by 36.7% of coffee producing respondents in the CIP areas, second only to lack of skills (Table 93). The
way in which questions are phrased can also account for differences between survey results. The issue of capital and credit is taken up again in Section 5.7 below.

5.4 Washed Coffees

In some parts of the country, such as Sidamo and Harar the bulk of the coffee harvest is processed by washing rather than sun-drying. This entails a rapid transfer from harvest to pulpery, before the flesh of the ripe berry begins to decompose. Much of this is done through producer co-operatives which own pulping machinery though much, too, is via private pulping stations. Although the premium for washed coffee is considerable (around 40% for the best washed Sidamo at auction compared with average sun-dried from the same origin) the supply of fresh berries to washing stations is very uneven throughout the country. For a number of farmers it is the incentive of, or need for, ready cash in exchange for freshly picked beans that is the attraction, and may reflect, therefore, the farmer’s current liquidity status rather than a regularised post-harvest procedure. Whatever, the motivation, once washed, the beans can be delivered directly to the auctions in parchment form, subject to similar processes of certification, testing and examination described in Chapter 4 as for sun-dried beans, and hence for final cleaning and grading.

5.5 Gender

In looking at the institutional construction of the market, clearly the ‘household’ as used in discussion so far is one such institution, and although there are gender aspects of the entire marketing chain it is only at the level of household production that women take on a role of any significance and influence. It should first be noted that the number of female headed households is small in rural Ethiopia (in contrast to parts of Southern Africa, for instance). Thus, in the EDE-CTA survey, of the 1,694 households surveyed only 48, or 4.2% were classed as “female headed”. In what follows, therefore, we shall be talking largely about households containing at least one adult male and female member, and usually married to each other. Before moving on, it is worth noting that the female heads of household had a considerably higher level of illiteracy than the figure of 57.3% for all households in the survey. In terms of division of household tasks, including those related to agricultural production, a fairly conventional division of labour was found, though it is significant that 30.3% of male household members (which would include children) engaged in fetching water, and 36.3% in collecting...
firewood. Fewer than 10% were involved with cooking, however. On the other hand, over 90% of males did ploughing, land clearing and sowing or planting, compared with under 10% of female household members. Interestingly, just over 90% of males also did weeding compared with only 28.6% of females.

This pattern is supported, though less extremely, by a small sample of 24 coffee growing households in Gomma Woreda, some 50 km north of Jimma, by Tessema Chekun and Yohannes Abebe of the CTA in the late 1990s (Tessema & Yohannes 1998). Although their sample is small their results are directly related to coffee production, in contrast to the EDE survey which was aimed at the total activities of coffee producing households. Their data is presented, slightly differently, as the proportion of given tasks carried out by different household members. In this smaller sample 66% of coffee seedling production was conducted by adult males, and 19% by adult females. Here, 47% of “land management” tasks were undertaken by adult males compared with 31% by adult females, though a further 13% was done by male children. One difference between this study and the larger scale EDE-CTA survey is that figures for the latter include all household members and not just adults. According to the smaller Gomma survey, harvesting of red cherries seems to be a predominantly female activity, with 61% of the work being carried out by females of all ages, while as much as 62% of subsequent processing on the farm was done by females and children of both sexes.

Interestingly, more women than men were reported as involved in marketing, though this does not mean that the men do not attend markets. In the EDE-CTA survey only 36.4% of male members of coffee growing households in the CIP area were responsible for marketing (of all products), though this rose to 53.1% for cereal growing households. By contrast, the figures for female members were 92.0% and 88.4% respectively. In the smaller, but more specific, study by Tessema & Yohannes adult females were responsible for 43% of the sales of red cherries (presumably to pulping stations) compared with 33% by adult males. Equal proportions, 45%, of sales of *jenfel* or the dried bean were conducted by men and women, while women had more responsibility for sales of *merbush* than men at 47% and 33% respectively.

The mean responsibility over the various stages of coffee growing, harvesting and marketing tasks was that 54% was conducted by males and 46% by females, of all ages in each case. Clearly, female members of the household have a major input overall, and appear to be significantly more involved in the marketing stage. This observation tends
to be reflected in the responses to the use of income received from coffee sales, which the EDE-CTA survey showed to be a joint activity in 94.3% of households in the CIP area (Table 65), a figure that is similar to that for the use of income from other sources too. However, this is somewhat inconsistent with the answers to a similar question in Table 87 in which only 63.6% of CIP households made joint decisions on the use of coffee money, with the husband dominating in 21.7% of households. Moreover, in response to a question about responsibility for management of household expenses on specific items, it appeared that in 59.1% of cases overall it was the husband who made the decision (Table 69). Such differences may arise, as indicated below, for reasons connected with different ways in which questions are phrased, in particular, and indicate the problems in collecting accurate intrahousehold data.

Comparison with control over cash incomes elsewhere indicate that where women have the major input into the production of farm produce such as eggs, chickens or garden-grown beans, or certain types of handicraft, which tend to be sold in small volumes then they are more likely to be recognised as ‘owning’ the cash earned, though its expenditure is likely to be on household needs (Pankhurst 1992, Picard 1995, Crehan 1992), but where a major cash crop such as coffee or cocoa is concerned then control largely passes over to adult male members of the household (Leach 1991, Asare 1995). In many instances the link between input into the production process and subsequent benefit received is determined by complex arrangements in which gendered power relationships inherent in social norms, mediated by the specifics of particular households, are critical. In Ethiopia, this is apparent, for example, in Pankhurst’s account of the wool economy in Menz (Pankhurst 1992), but its ubiquity is reflected in a variety of instances elsewhere, such as crop sales in rural Nigeria (Elabor-Idemudia 1994), seaweed production in Zanzibar (Ako 1995), rice production in Malaysia (Ng 1991) or the fishery economy of Nova Scotia in Canada (MacDonald 1995). Such studies indicate that in order to see behind the figures of the preceding paragraphs, and thus to assess more critically their apparent inconsistencies, a more nuanced understanding of intrahousehold bargaining strengths, their interaction with externally determined cultural norms and the value attached to specific divisions of labour in coffee growing areas would be required. In doing so, the broader Ethiopian context where peasant women are engaged in marketing a wide variety of goods (Dicks and Bogale 1995) would inform an interpretation in which some negotiation of activity, including participation in decision-making, is possible within a generalised structure of subordination (Pankhurst 1992). The data quoted in the previous paragraphs of this section, particularly with regard to uses of cash income from coffee sales, must
therefore be treated circumspectly. Much depends not only upon who the respondent is, but on how questions are understood, on what response may be thought to be desired, on how honestly responses are made, and on losses of nuance in translation. At best, in the form in which they are presented here, they can be no more than indicative.

On the other hand, once the beans are sold to a sebsaby, akraby or cooperative, and effectively leave the household domain, they enter a very largely male dominated commercial and entrepreneurial world, which I now examine.

5.6 Traders and Merchants

Until November 1999 peasant producers of dried coffee beans had to sell in the first instance to sebsabies, or primary collectors, who would then sell on in bulk to intermediate merchants, those called akrabies, who in turn are responsible for dehulling and preliminary grading before transporting to the terminal auctions in Addis Ababa and Dire Dawa. From the end of 1999 farmers have been able to sell directly to akrabies. Though this will not have meant the end of the role of the sebsaby as a local collector it makes it easier for the sebsaby to act as an agent, or even employee, of an akraby. Some insight into the scale of operation and interrelations amongst these rural traders is available from the survey by Tegegne mentioned above. The objective of that survey was to investigate the nature of the links between rural and urban relations in coffee and non-coffee growing regions. Although not directly concerned with marketing structures some interesting observations on sebsabies and akrabies were included. As mentioned above, the coffee growing area of study was Limu Kossa woreda which has a population of some 182,160 people. The principal town is Limu Genet, some 60km north of Jimma, with around 9,000 residents. At the time of the survey there were 122 primary coffee collectors (the sebsabies), 13 merchants (akrabies) and 6 coffee cleaning businesses in the town. At the collection stage farmers will compare the prices offered by different sebsabies.

Of a sample of five primary collectors all were privately owned and dependent almost entirely upon family labour at busy periods. Three purchased their coffee from farmers who came into town while two purchased from surrounding farmers and farmer traders. None engaged in coffee processing and all re-sold their coffee within about five days to merchants in the same town. During the week of the survey the average amount
purchased ranged from a value of EB68,000 to EB197,000. At an approximate price of EB5.00 per kilo at that time this implies volumes ranging from 13.6 tons to 39.4 tons which are substantial quantities. (Tegegne 1999, Table 3.19)

A sample of five merchants (akrabies) showed the average amounts handled in the week of the survey to be worth EB258,000, with a range from EB150,000 to EB450,000. All purchases were from primary collectors (sebsabies). All five engaged in processing of the coffee bean and all five sold on to the central coffee market in Addis Ababa, usually within about ten days. In each case family labour was augmented by hired labour on both market and non-market days. This is confirmed by my own observation of an akraby in Jimma whose substantial premises included a large warehouse for manual and partly mechanical sorting and storage, and a spacious concreted area for delivery trucks. Sorting to grade 8 was usually achieved for all beans destined for the Addis markets.

At the time of the survey farmers were obliged to sell sun-dried beans only to sebsabies and this is borne out in Tegegne Table 4.5 where the great majority of farmers in the sample sold to coffee agents or town traders. Sebsabies are licensed to operate only in a given geographic market and are obliged to sell only to licenced akrabies, who are likewise confined in the areas where they can operate, usually the woreda in which they are based. The akrabies are obliged to keep records of purchases from different sebsabies thus making it possible to trace the origin, in a locality sense, of any given batch of beans, for reasons of either good or poor quality. These are the formal institutional connections. The numbers of akrabies licensed in a town like Limu Genet would appear to allow a degree of competition both to farmers and sebsabies.

Nationally, therefore, the system consists of many small operators, often with as little as a single truck in use, and even the largest will send only around one hundred ten ton trucks to the terminal markets in a season.

In terms of the time lag between buying and selling it is the akrabies who carry the greatest risk from changing prices. There can be a lag of anything between ten days to four weeks between delivery to an akraby and that coffee’s appearance at the auction. The akraby must therefore make an estimate of the price expected to be obtained at an auction which may take place some three or four weeks after he has purchased the coffee from the farmers or sebsabies. The information on which the akraby’s decision is based is a combination of daily radio reports provided by the government information service and informal feedback from agents in Addis Ababa. The former tend to be regarded by the akrabies as adequate but lacking in detail. Akrabies are therefore likely
to be reasonably well informed about the domestic market situation but less well so on international price trends. One major akrapy in Jimma was aware of the Reuters service but unsure as to how to obtain it and reluctant to pay for it, being dubious about the benefits. Furthermore, the barrier that the central auction places between buyers and sellers means that scope for closer co-operation between exporters, who are more aware of international trends, and akramies is limited, though one way round this is through collusion or the establishment of subsidiary companies so that back-to-back contracts can in effect be practiced. In this way the risk to the exporting and akrapy companies involved is shared (LMC International 1999).

Another common way in which merchants traditionally minimise risk is by extending credit to their suppliers. This not only stabilises the flow of purchases but also gives the merchant power in effect to control the price offered to farmers or sesabies either directly or indirectly via interest payments. In practice, however, as I show in the next section, this does not appear to have been happening as extensively as one might have expected, though it must be remembered that the period surveyed was one of comparatively high prices when farmers’ recourse to credit would have been reduced.

5.7 The Extent and Impact of Credit

There is a tendency to presume that indebtedness is widespread in peasant communities, particularly to moneylenders and traders. This is assumed to arise when low prices co-exist with a high risk environment. Let us consider the latter first. The extensive sources of risk experienced by peasant farmers is well documented in the agricultural economics literature. In the case of tree crops such as coffee this is compounded by the longer time taken for newly planted seedlings to mature and bear fruit, and for the longer periods in which they are exposed to disease. Within any season there are also risks involved in deciding whether to use chemical aids, to prune, to thin, to intercrop and in deciding precisely how and when to harvest. Between seasons there may also be an option to expand or reduce the area managed by destumping, leasing or share-cropping. Whether to invest in more efficient drying and sorting methods for sun-dried coffee is also influenced by price risk. In most cases the farmer will then have to negotiate with the local sesaby who will be working closely with the akrapy. All parties have access to the government’s radio dissemination of coffee auction information, but the farmers, being large numbers of small sellers, are likely to be at a disadvantage in price negotiation. This is likely to be compounded by the variable levels of quality and
relatively poor standards of sorting that prevail on small farms, which will be reflected in the average price offered by akrabies, via the sebsabies.

In such a context it would be expected that many farmers fall into debt and that once in it becomes difficult to break out. As we shall see below, however, such a pattern is not borne out by the evidence available in Ethiopia in the late 1990s. This may in part have been due to the availability of savings from the high prices of the mid-1990s and in part from the greater degree of competition emerging from an increase in the number of sebsabies, akrabies, exporters and other dealers following liberalisation which in theory should offer the farmer a greater share of the eventual export price. I shall look at the latter below but first let us examine the available evidence on the extent of indebtedness.

In the EU-CIP survey mentioned above, only some sixteen percent of food deficit households reported that they frequently had to borrow money, while 55.3% never used borrowing. Less surprisingly, however, borrowing was only the third most common means of coping after sales of coffee and drawing on previous saving. As already indicated, of course, it may be that this pattern was influenced by the recent history at the time of the survey of historically high prices. Several officials to whom I spoke, in Addis Ababa, were of the opinion that mortgaging of coffee (or selling it in flower) was a common means of raising money, but the responses to a question on coping mechanisms from food deficit households (in the CIP SE Survey) do not substantiate this. As many as 88.3% of respondents in CIP areas (and 76% in non-CIP areas) claimed never to indulge in mortgaging of coffee. That is, they never sold it in advance while the plant was still in flower. Only seven of 349 households (and 16 of 229 non-CIP households) reported that they did this frequently (recent high prices thus being irrelevant to the question).

Where capital was needed to set up a non-farm activity the main source was previous saving, even amongst cereal growers in non-CIP areas. This was the case for 59.2% of coffee growing households seeking to expand into non-farm activities. Of some 600 coffee growing households in the sample frame only 48 were actually borrowing for this purpose. Of these, 56.3% of loans were from a friend or relative and 17.2% (or eleven) from a local money lender. Two loans were provided by the Service Co-operative, two from a bank and four from NGO sources. None appeared to be from traders.

This general pattern is borne out by Tegegne's survey of Limu Kossa in which 23 farmers (or 26.1% of those surveyed) had taken out a total of 31 loans. Of these 24 were
from friends or relatives, two from Service Co-operatives and three from money lenders. None appeared to be from traders. One was from a bank. (Tegegne 1999. Table 4.11). Purposes were mixed, ranging from educational and medical reasons, through purchase of agricultural inputs to purchase of consumables.

In the urban world of trading, however, the situation changes somewhat. Small coffee traders, the primary collectors, are often indebted to their larger buyers. Thus the main source of capital for three of the five collectors interviewed by Tegegne was an advance from akribies. This will clearly tie any such collector to the lending merchant. Akribies themselves, who operate on a much larger and more sophisticated scale, are more dependent on banks as sources of capital. There was no indication in this, admittedly small, sample, therefore, of any lines of credit between akribies and exporters or wholesalers in Addis Ababa. The suggestion in Teketel (1973) that credit ran from exporters all the way through the marketing chain down to the peasant producer in a series of connected links is unsupported, perhaps (though bearing in mind the smallness of the sample of traders) due to the combined influence of the auction, greater competition amongst merchants and traders, high prices in the mid 1990s and a greater degree of land security. On the other hand, more recent impressions of stronger links between exporters and akribies (extending in some cases to joint ownership) indicates that the situation may be reverting to that of the earlier period.

On the evidence available in the mid to late 1990s, nevertheless, the extent of credit at that time seemed to be confined to discrete sections of the filiere. The agricultural community, the rural traders and the post-auction exporters appeared, on the whole, to be independent from one another’s credit networks, though the situation may change as exporters and akribies find it easier to enter into formal and informal agreements. Even so, the extent of credit obligations being experienced by coffee farmers (in the large EU-EDE survey) during 1999 appeared not to be widespread. Could this be because of the share of the export price received by farmers, which the Coffee & Tea Authority claims to be around 73%? It is time to take a closer look at how price varies across the filiere.
5.8 The Share and Volatility of Export Price Accruing to Coffee Farmers

5.8.1 Share of Export Price

A number of attempts have been made in the past to estimate the farmer's share of the FOB price of coffee exports from Ethiopia. This has been, and remains, particularly difficult in Ethiopia for a number of reasons. One is that there is no regular measurement of farm gate prices (though as we shall see below, a close approximation is available). Another arises from the fact that coffee from different regions of the country tend to command different prices and the available statistics do not make it easy to follow a specific provenance through from growing to export. Consequently, previous estimates have depended on the infrequent attempts by planners, field workers and researchers using a variety of assumptions. Yet there are several official sources available which enable a more systematic estimate to be arrived at. These include:

♦ The monthly survey by the Central Statistical Authority, “Average Producers’ Price of Agricultural Products in Rural Areas”. This series started in January 1992 but a twenty month gap between August 1992 and March 1994 while the Household Consumption and Expenditure Survey was being conducted, plus another break between June and October 1994, means that it is effectively useful only from November 1994 onwards
♦ The CTA publication, “Coffee Bulletin” which contains monthly auction prices by region of origin from July 1996 onwards.
♦ The annual IMF report on the Ethiopian economy which tabulates average auction, unit export value and international indicator prices. This series began in January 1992.

The first two of these are not readily available as a complete series and only through persistent archive work have I been able to compile a useful data set. This is reproduced for Jimma and Sidamo coffees in Appendix Table 1. To my knowledge these sources had not been used for the purpose of estimating farmer’s share by any other researcher.

At its simplest one could, of course, compare the price received by the farmer for selling one kilogram of coffee with the export price, or the export unit value per kilogram. However, in most cases the farmer is selling sun-dried red bean while it is the processed
export quality green bean that reaches the port. Like is not being compared with like. In practice, for each kilogram exported the farmer will have to have sold almost two and a half kilograms of dried bean. A further complication is that prices to farmers vary according to region whereas the unit export value is an average of all coffees. Several recent studies by consultants have asked exporters what their average mark-up is, but the replies appear to be understated when compared with unit export values. For these reasons the actual calculation of the farmer's share becomes complex and rather than reproduce their details here they are explained in Appendix 1 (See also Love 2000b). The results are discussed in the following paragraphs.

Over the three year period July 1996 to June 1999 the price received by farmers in local markets for Jimma and Sidamo coffees averaged about 63.5% of the subsequent Addis Ababa auction prices for these coffees. Adjusting for further grading by the exporter brings this up to 69.9% after adjustments to compare like with like. It is interesting to note that this is below, though not too far off, the peasant share of the wholesale price of teff which in the early 1990s was averaging 77.8% (Teshome Negussie 1997).

During the same period the average mark-up between auction and unit export value for all coffees, before export tax, was 48.9%. Putting these two figures together gives an average farmer's share of the implied FOB value of 46.9%. This is considerably lower than the CTA's own estimate of 73% (ICO 1998). It is also lower than the estimates of two consultants during the second half of the 1990s of about 60% and 56% (Muir 1997, LMC 1999). Interestingly however, as long ago as 1975 and 1976 the then Coffee Production and Processing Agency produced estimates of 40% and 48% (Teshome 1979). We saw in Table 4.2 that Teshome Mulat's calculations for the period 1961-2 and 1971-72 produced a share of FOB export value going to farmers that ranged between 61% and 69%, though for 1976/7 and 1977/8 it fell to as low as 32-34%. Note too that this was before the creation of the Coffee Marketing Board at a time when the marketing structure was in many respects similar to the liberalised version of the 1990s.

How does the estimate above of 46.9% of the export unit value compare with what farmers receive in other countries? During the 1980s Kenyan farmers were said to be obtaining as much as 90% of the FOB price (Hamza and Azanaw 1995) but whether this referred to estate output or to small family producers is not clear. Payment is also made in instalments as all coffee passes through the Coffee Board of Kenya to be auctioned. In Uganda in 1996 the share was stated to be around 60% (ICO 1997) of the FOB price at Kampala railhead. It would clearly be less if an FOB Nairobi equivalent had been used.
used. Much depends upon the quality at farm gate, access to transport and good communications between growing areas and markets, and the degree of competition amongst buyers. It has been pointed out, for instance, that growers in the more inaccessible areas of Madagascar receive around 40-50% of the export price compared with between 60% and 70% for those nearer to principal roads or the major towns (LMC 1999). In Ethiopia coffee production is also widely dispersed with. as shown in Table 5.4 of the present chapter, around half of all households more than an hour’s travel away from the nearest market, all weather road or even grinding mill. From the local market, in due course, it is then often a twenty hour truck drive to Addis Ababa.

In looking at the various estimates for Ethiopia, my own, at 46.9%, falls within the lower bound of the range which is found internationally, and this would be consistent with other impressions of low productivity and often poor quality of the marketed surplus, due to inadequate grading, in small Ethiopian peasant farms. ‘Exploitation’ by merchants, traders and exporters is difficult to prove, but by issuing licences to operate only within specified areas and at specified markets the authorities will also have limited the degree of competition over the years and allowed scope for informal collusion. This is likely to have improved in recent years following a relaxation of licencing requirement in the late 1990s. It is clear, nevertheless, that the share of export price that accrues to the different agents in the marketing process will depend as much, if not more so, on the institutional structure of the process, on the institutions of the filiere, as on the free interplay of market forces which have rarely been present in any country. I shall return to the implications of this in Chapter 11.

5.8.2 Volatility of prices

Although the actual price received by the farmer is important, so too is the range and frequency of variability experienced in price movements. In Appendix 1 I have used the same source material as before in order to measure price volatility at different stages in the filiere. Two measures have been used: one is the simple coefficient of variation (standard deviation divided by the mean), and the other is the mean absolute percentage error (MAPE) from a linear trend. For the almost forty five month period November 1994 to July 1998, covering four seasons, the results for the coefficient of variation are summarised in Table 5.8. The higher the value of the coefficient, the greater the degree of variability.
The first thing to note is that the greatest degree of variability in each region is experienced in the prices paid for dried red beans, regardless of their origin. This, it should be remembered, is the principal form of sale for most small farmers. Thus, for Jimma coffees the dried bean fluctuated on average by just over a third of its mean value over the period. Although some of the variability will arise from regular seasonal patterns the fact that the coefficient for Jimma dried bean, at 0.3426, is some 63% higher than that for Sidamo green (or washed) bean, at 0.2102, indicates that there is more to it than this, and implies a high degree of uncertainty for the seller of jenfel or dried red bean. Second, it is evident that Jimma coffees experienced a greater degree of fluctuation over this period than did those from Sidamo. In general, Sidamo coffees are of a higher quality and a greater proportion are washed. This may lead to more price stability. Third, it is interesting that that NY price varied more than either the unit export value or the AA average auction price. All three are an average of coffees from a variety of sources and would thus be expected to show rather less volatility than prices for a single source. The slightly higher figure for the NY indicator price may be a reflection of speculative activity, a point which I take up as a general issue in Chapter 10.

As a measure of instability the coefficient of variation has a number of limitations, particularly if taken over a fairly long period in which there was a secular rise or fall in prices. An alternative is to fit a trend model and examine the behaviour of residuals around the trend. There are difficulties with this for the period November 1994 to April 1999 because of a small number of gaps in the data, but if these are ‘bridged’ by averaging then a mean absolute percentage error (MAPE) from a simple linear trend may be calculated. The result shows little difference in the rankings. Coffees originating in Jimma, for instance, continue to have the highest average deviation from trend (at

## Table 5.8 Variability of prices to farmers, November 1994 – July 1998

<table>
<thead>
<tr>
<th>Type of Coffee and Place in Chain</th>
<th>Coefficient of Variation of Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm gate: Jimma: Green bean</td>
<td>0.2733</td>
</tr>
<tr>
<td></td>
<td>Dried red cherry</td>
</tr>
<tr>
<td>Sidama: Green bean</td>
<td>0.2102</td>
</tr>
<tr>
<td></td>
<td>Dried red cherry</td>
</tr>
<tr>
<td>Addis Ababa auction (all origins)</td>
<td>0.2176</td>
</tr>
<tr>
<td>Unit export value (all origins)</td>
<td>0.1831</td>
</tr>
<tr>
<td>New York Arabica</td>
<td>0.2428</td>
</tr>
</tbody>
</table>

Source: Calculated from data described at beginning of Section 5.8.1
22.53%), while the generalised unit export value, of all coffees leaving Ethiopia, has the lowest (at 15.74%). If the New York price, previously in cents per pound, is converted to Birr per kilogram then the MAPE takes an intermediate value of 19.2%. In this case, declining international prices during the later part of the period were offset by the gradual depreciation of the Birr which also marked the period.

In either type of calculation the degree of price variability experienced by farmers at the local point of sale tends to be higher than at other stages in the filiere, with the possible exception of green beans from Sidamo. The implications of this are serious. In a farming household for which coffee is the principal source of cash income an average monthly variation of between 20% and 30% of the mean price, or even a variation of over 20% around recent trends, introduces a level of unpredictability that is bound to affect investment intentions adversely, and to encourage short-term consumptionism.

For reasons given at the beginning of this section usable data on prices received by farmers goes back only to November 1994, but a longer series, from January 1992, on the average AA auction price, unit export value, and the NY indicator price, has been compiled in regular IMF country reports. Because this extended time period includes the earlier part of 1994 when international coffee prices rose substantially over a very short period of a few months the measures of variability are considerably higher, as shown in Table 5.9.

Table 5.9: Auction and post-auction price variation, January 1992 – February 1999

<table>
<thead>
<tr>
<th>Place in chain</th>
<th>Coefficient of Variation</th>
<th>MAPE' %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Addis Ababa auction price</td>
<td>0.4320</td>
<td>36.38</td>
</tr>
<tr>
<td>Unite export price</td>
<td>0.3992</td>
<td>24.28</td>
</tr>
<tr>
<td>NY indicator price</td>
<td>0.3924</td>
<td>27.44</td>
</tr>
</tbody>
</table>

Source: Calculated from IMF, Report on the Ethiopian Economy (various annual issues)

Note: 1. MAPE refers to mean absolute percentage error.

Although we are not comparing like with like, in formula terms, it is worth noting, with this reservation, that when trend is taken into account the measure of instability is consistently lower. In each case the Addis Ababa auction price comes out with the greatest variability. The difference between this ranking and that of Table 5.8 may possibly be the result of over-reaction, followed by over-adjustment, to the very sudden
price changes of the early part of 1994 (not covered in Table 5.8). If so, then the immediate impact would be on those who sell and buy at the auction, underlining a point to be made in Chapter 6 that the uncertainty, and consequent risk, attendant upon the presence of the auction will be covered by merchants by incorporating a discount into the prices which they offer to primary collectors and farmers at local level, particularly in the absence of hedging possibilities. Unfortunately, data on prices paid to farmers during that period of rapidly rising prices is not available and hence the impact at farm gate level cannot be assessed.

I shall return to the wider aspects of these results in Chapters 10, where the role of the international market is studied in detail, and in Chapter 11 in which an overall analysis is presented. Chapter 11 also takes account of other factors which affect the position of coffee growing households in the filiere. Amongst these are security of land rights, and in anticipation of this later discussion it is useful to conclude the present chapter with a short review of the situation in Ethiopia in this respect as it stands at the beginning of the 21st century.

5.9 Land and Production

Amongst the most important of the various stages in a commodity filiere are those relating to the use, control and ownership of land. Some aspects of this, particularly production methods and use, were discussed in the opening section of the present chapter but little has been said so far about the way in which land is commoditised, registered, transferred, alienated and exploited. The degree of private access to, and control over, land, and state control over the income it generates are central points of debate in the political economy of agriculture. Such issues also relate to the nature of property rights in the New Institutional Economics literature, a point to which we shall return at a later stage (Chapter 11).

The present position in Ethiopia is directly derived from the land reform proclamation (Public Ownership of Rural Lands Proclamation No. 31/1975) of 1975 which nationalised all land, reallocating it via Peasant Associations, with a maximum of ten hectares to each household. The state ownership of all rural and urban land is also enshrined in Article 40, Paragraph 3 of the 1994 Constitution, which states that land "shall not be subject to sale or other means of transfer" (Transitional Government 1994). Despite considerable internal and external pressure to return to private ownership
the present regime in Ethiopia does not appear ready to repeal the 1975 Proclamation or amend the Constitution in this respect. Although there is evidence of wide variation in farm size between and within Peasant Association areas (Yibeltal 1995, p.47) it would appear that the system at present is effective in preventing the emergence of a politically significant group of large farmers, landowners or others with the same powerful land rights that existed during the pre-revolutionary period. There is, therefore, at the present time no major struggle between peasants and landlords, say, over distribution of the wealth produced by coffee which appears therefore to be widely dispersed at the early stages of production.

This situation may change gradually, however, if a growing number of those holding land rights are able to sub-lease, either formally or informally, thus allowing a richer peasant or capitalist class of external lessees to emerge that will be ready to take advantage of any change in ownership legislation that subsequently appears. The Rural Land Administration Proclamation, No. 89/1997 defined holding rights to include the use of land for “agricultural purposes as well as to lease” (Art.2 Sub.Art.3 quoted in Yigremew 1998) and empowers Regional Governments to administer such arrangements. The Government’s Medium Term Policy Framework Paper drawn up in 1998 for presentation to the IMF declared that “the adoption of the recent measure enacted in the Oromia region to increase the allowable lease period to 15 years should be encouraged throughout the country” in order “to facilitate access to land held by smallholders for commercial farming” (IMF 1998/89). By 1999 legislation allowed for leases of 5, 15 or 50 years in Oromia depending on intended use and with guarantees against appropriation. The price is determined by market negotiation rather than by administrative decree as in Addis Ababa.

Relatedly, there are clear indications that since 1991 there has been a significant reappearance of share-cropping in many parts of the countryside, though the evidence suggests that it has as yet had limited impact on permanent crops such as coffee (Bereket & Croppenstedt 1995). On the other hand, there was some indication in the first half of the 1990s of leasing and mortgaging in the coffee growing Gomma woreda to the north of Jimma (Tessema 1994). This is also one of those areas where insecurity of tenure has been experienced as a consequence of repeated redistribution of common areas. The latter was a fairly regular occurrence throughout the entire country during the 1990s, in part to readjust to local demographic changes over time and in part to rectify what were often widely viewed at the local level to have been injustices in the allocation of land during the Derg period. There has thus been a strong political element in many
of the post-revolutionary redistribution exercises of the 1990s, rather than a concern primarily with equity (Yigremew 1997). Whatever the reason, the fear of future redistribution introduces a reluctance to invest in the improvement of any land that is likely to be affected, and would indeed put a premium on short-term returns. A common strategy is to mortgage the land both to access its future value and to make its subsequent reallocation more difficult.

There is also anecdotal evidence that significant amounts of informal sub-leasing and sharecropping activities are taking place, as a reflection of unequal distribution of assets and access to the most productive land. This will also occur in response to changes in the developmental cycle of households. It is unclear as yet how such changes will affect the distribution of coffee wealth and rural class formation but these are institutional developments with significant implications for class restructuring in the countryside and which may, in the long run, impinge on other stages of the filiere (See further comment in Chapter I). Although, therefore, there is no market in land this is true only the simplest of senses and certain forms of contractual exchange agreements appear to be emerging, both formally and informally, which may well have a permanence that is unanticipated, as poorer peasants, for instance, are unable to repay mortgaged debts.

Evidence is scarce, however. The 1999 survey by the EU-CIP under the auspices of the CTA, which I drew on in the early part of the present chapter, revealed few signs of such practices. Although no direct question on sharecropping or mortgaging was included there was no indication of their presence in answer to other questions on size of holding, sources of income and of credit, or main problems experienced. The survey did come, of course, towards the end of a period of high coffee prices which may have minimised the recourse to such alternatives.

Finally, there appear to be substantial, though scattered and less fertile, areas of land which have not been formally allocated. Most of this state owned land has become available for lease for commercial farming on a larger scale and a number of private coffee estates have appeared in this way, to add to the estate production from state owned farms. The volume at present is not significant in national terms, and will be constrained by the suitability of soil conditions and climate on the available land.
5.10 Summary

In this chapter I have moved away from the broad historical sweep of the previous two chapters in order to examine the nature of the coffee filiere in more detail as it existed in the late 1990s. From a close study of one of the major garden coffee growing areas we saw that the average coffee farm holding was 1.25 ha, with about half of this put down to coffee. Methods of harvesting, drying and transport to the nearest market do not generally lead to optimum quality, with over 50% of farmers more than an hour away from the nearest market while both quality and quantity is widely affected by coffee berry disease. The annual cash income of coffee growing households was less than EB2,000 for 80% of households. This seems to have been sufficient, however, to prevent many farmers from getting into debt by selling their harvest in advance. On the other hand, there is evidence from other parts of the country that fear of periodic land redistribution can counteract the intended effect of enhanced security of tenure which nationalisation of land ownership was aimed at providing.

For most farmers the main point of sale for their coffee crop is the sebsaby in the local market who then is obliged to sell on to an akraby who in turn will wash and dehull the dried bean prior to despatch to the auction in Addis Ababa. Akrabies can deal in substantial quantities and carry considerable risk from sudden price movements between purchase and sale. Partly reflecting this, the share of the auction price accruing to farmers is estimated to be about 63.5% while only some 46.9% of the eventual export price is received by farmers. Farmers also appear to experience a greater degree of price volatility than do akrabies.

In summary, there are only three market outlets possible for the smallholder’s coffee crop: the sebsaby or the akraby, a local co-operative, or in the local market directly to consumers. Merchants and co-operatives can then only sell on through the terminal auctions in Addis Ababa or Dire Dawa, whether the crop is intended for export or to supply other parts of the country. The system of licensing and certification ensures that these centralised channels are the only feasible legal routes. In these ways the coffee filiere in Ethiopia is embedded in an institutional structure which begins by dictating the average size of holding and goes on to determine the routes taken and, as a consequence, the price received by the farmer. The evolution of this system was explored in the previous chapter, but before returning to the wider political economic context let us clarify what happens at the auctioning and exporting stages. This takes us to the next chapter.
Chapter 6

Contemporary Structure of the Coffee Filiere II: From Auction to Export

6.1 Introduction

In this chapter the later elements of the national filiere are examined in more detail. The presentation remains at the level of description but enhances our understanding of the mechanics of the filiere and serves to introduce the role of institutional forms, prior to later analysis. The topics which follow are therefore

i. The Auction
ii. Exporters
iii. Price Determination
iv. Risk and its management
v. The Domestic market

6.2. The Auction System

All coffee arriving in Addis Ababa has to proceed to the central inspection depot at Mekanissa. There, the certificates issued in the interior are inspected and verified by taking a number of 300 gm samples from each lorry to be tested in the laboratories of the CTA. Before 1997/8 only washed coffees were cup tasted prior to auction while sun-dried beans were subject only to physical inspection, but from that season the unwashed beans have also been cup tasted before auction. This has put considerable demands on the industry, where there has been a shortage of trained and experienced tasters. After confirmation of grade and quality in this way the deliveries are divided into those which have been passed as of potential export quality and those, about 10% of the total at this stage, suitable only for the domestic market. Both sets are then sold by auction, the first to exporters and the second to domestic wholesalers. The auction takes place daily in a large hall (not purpose built), down one side of which are seated the purchasers and down the other side the sellers and their agents. All sales are for instant transfer and the auction principle is on the ascending bid, or English, basis. The auction is led from a raised dais at the front of the hall by an auctioneer...
assisted by a recorder, and prices are chalked on a board in front. Around the side of the hall, on the buyers side, are arrayed a series of samples from the various lots on offer, marked by grade and provenance, which the potential buyers can inspect before the auction begins. Until 1999 it was not possible for the buyers to know the identity of individual sellers but this has now changed, thus making it easier for an exporter to come to an informal arrangement with a particular akranbe (which may even be a partnership company). Knowledge of source also gives the buyer information on the likely quality of a given lot and reduces dependence on the CTA’s cup testing alone (as buyers cannot cup-test before the auction). The influence of the CTA and its liquoring unit is, to this extent, diminished somewhat. The seller can refuse to accept the offered price but after three days storage charges come into effect. This also applies to coffee lots sold which then have to be delivered to the purchaser’s warehouse within three days.

Normally, until the coffee is sold it remains on the trucks which brought it from the interior. Although this minimises opportunities for fraud it is a wasteful use of transport facilities and is currently being reviewed. It also marks a difference from the practice in Kenya and Tanzania, for instance, where coffee is sold by (graded) lot rather than by truckload on which the buyer has only limited information regarding quality.

Although the auction process is straightforward and for instant sale the varieties of coffee coming from different parts of the country make price differentials complex and considerable knowledge of conditions and volume of supplies in different areas is required. Among the principal types, for instance, are Sidamo washed and unwashed, Limu washed, Kaffa unwashed. Gimbi (or Lekemte) washed and unwashed, Harar long berry, and Yergacheffe. At auction these can be broken down into more local categories according to Zone of origin. These include Sidama, Gedeo, North Omo, South Omo, Bench/Maji, Keffa Sheka, Kembata Alaba Timbaro, Amaro, West Wollega, Illubabor, Borena and others amounting to eighteen in total, of which sun-dried and much of the washed beans will be quoted at grades 3 or 4, while the better washed coffee will be priced at grade 2. The main origins differ in terms of shape and colour of bean, acidity and other taste characteristics, reflecting the genetic variation found across the country. The product is therefore far from homogeneous at either local or national level, and when the considerable domestic demand is taken into account
constitutes a market of some complexity. For export purposes, however, the different origins tend to be combined into one of the principal types mentioned.

It is worth making a few general points about the use of the auction system at this point. Auctions are not universal in coffee growing countries today but tend to be a characteristic of Arabica markets, particularly in East Africa (LMC International 1999, Houtkamp 1994). The details of the system differ from country to country. In Kenya, for instance, processing is partially completed by cooperatives and estates before final hulling and grading by the Kenya Planters Cooperative Union in Nairobi or one of its competitors. It is then tested and graded by the Liquoring Department of the Coffee Board of Kenya (CBK) before being channelled through auction by Kenya Coffee Auctions Limited, a parastatal subsidiary of the CBK, at which stage it is ready for export without further processing. In recent years there has been some debate about the future of this system with pressure for change coming from larger producers and overseas buyers (Schluter 1997, 1995) who see advantages in making individual contracts. A somewhat similar system operates in Tanzania though here there is a high level of vertical integration combined with an increasing tendency for exporters to engage in pre-auction activities, though without being able to by-pass the auction. In Uganda after 1990 sales were made in response to direct foreign tenders, now replaced by private treaty, and auctions discontinued.

Economic arguments in favour of auctions usually refer to their relative openness and to growers' perceptions of fairness in setting prices, while arguments against them are usually cast in terms of uncertainty of outcome and price volatility. Auction theory is somewhat inconclusive regarding the efficiency of selling a multi-unit homogeneous good in this way (Klemperer 1999). Why, however, these arguments should have led to an auction system in the British settler economies of East Africa but not in the Spanish estates of Honduras and Nicaragua in Central America where direct sales to exporters evolved (Paige 1997) remains to be explored. It has been remarked, though without further elaboration, that the auction system for coffee (and, historically, tea and tobacco) sales associated with the former British settler colonies is 'cultural' in origin (Houtkamp 1994), and one may add that even where a direct colonial connection is absent, as in Burundi and Ethiopia, there is a geographical contiguity which may have influenced policy. Some substantiation of this may be found in the origins of the auction. In Chapter 3 I looked at the historical developments which
led to the introduction of the coffee auction in 1973 on the initiative of exporters whose familiarity with other East African markets, combined with British technical advice, would have tended to favour this means of price determination.

It is also worth noting that the structure of ownership of production in Ethiopia has been quite different from that of the large estate owners of Latin America and thus that the political determinants of the institutional framework will be different. For instance, coffee exporters in Ethiopia were predominantly expatriate in the early 1970s when auctions were first introduced, this being consistent with the historical pattern of marketing structure which gave provincial and national rulers important access to the incomes generated by the coffee trade through granting of concessions and licences. Thus, the government’s agreement to the introduction of an auction may have been influenced by the difficulties which it would impose on the growth of vertical integration, thus keeping exporters predominantly at the post-auction stage. In common with auction practices elsewhere the seller may also refuse to sell if a reserve price is not reached, a facility which may have mollified the concerns of brokers at the time when the Ethiopian auction was being introduced.

Finally, as was pointed out in Chapters 3 and 4 there has been a marked tendency to centralisation in the administrative history of Ethiopia during the last hundred years, and the involvement of government at an early stage in the introduction of the auction can be seen as an additional indication of desire by the state to exercise supervision and control over a key resource. Today the auction is administered by the Coffee and Tea Authority, a statutory body reporting to the Ministry of Trade, with amongst its powers and duties that of issuing “coffee and tea export and import authorisation certificates; and control (of) coffee and tea trade activities” (Federal Negarit Gazeta No. 116, 1995). Within the CTA the Coffee Liquoring Unit ensures that export quality standards are met.

6.3. The Exporters

After purchase at the auction, which can only be by licenced exporters, a final more rigorous sorting is carried out by the exporter, of which there were some 75 active operators in 1999 out of a total number of licences issued by then of around 240. The sorting process generally involves large numbers of female workers who
sort by hand from conveyor belt or on the open floor of a warehouse. Initially there is some mechanical sorting by size of bean before hand sorting on the basis of other defects. Electronic sorting by type of defect is also possible and used widely in some other countries but even where it is in use in Ethiopia a final grading by hand is still found to be necessary. Although labour is cheap there are unlikely to be substantial scale economies in the present system and it is largely the wide range of managerial skills required for processing plus knowledge of export documentation that might deter successful new entry. Coffee which does not at this stage reach exportable standards is again made available to the domestic market for consumption outside the growing areas.

Excluding the minor route from Harar to the Middle East, the principal buyers tend to be in the United States. Europe and Japan and include importing wholesalers, roasters and blenders, the latter often being for the German, Italian and Scandinavian markets for ground coffee. The exporter works closely with the National Bank of Ethiopia in preparing relevant export documentation and is responsible for payment of the coffee export tax of 6.5% of the fob value. It is perhaps worth noting at this stage that despite an established history of repeat contracts the National Bank insists that the documentation includes Letters of Credit, a requirement rarely called for in similar circumstances elsewhere in the region (Schluter 1997) and which has been estimated to add about 1% to costs (Muir 1997). Although this requirement has been criticised the view has also been expressed that at the present time of increased competition and ease of entry to the private market Letters of Credit help to ensure an element of stability and guarantee of payment, particularly where more ambitious, but inexperienced, new entrants are concerned (Bagersh 1999). They are also part of the process which allows the government to maintain some degree of control over foreign currency flows (LMC International 1999).

The ten largest exporters accounted for approximately half the trade in 1998 (Paul Ries 1999). Many of these are long established though not, interestingly, the largest at that time. Nejat International, which was formed only in 1995 and was able to export over 5,000 tons as early as 1996, reflecting the labour intensive nature of the industry in Ethiopia plus an access to loan capital which made entry relatively easy. The others were S.A. Bagersh, Bashafer, Ambessa Enterprises, Moplaco plc, Amoli plc, Legesse Sherefa, Muluneh Kaka Coffee Exporter, Gehion Commercial and Adem Bedane Oda plc. Of the rest, Ethiopian
Commodities PLC was worthy of note as having been owned by the American food conglomerate Cargill until 1998, but this company appears to have withdrawn after the Ethiopian government refused licenses to foreign multinationals to participate in the auction. While this measure, on the one hand, protects local businesses on the other it lays the onus for ensuring efficiency and competition on these same businesses and on the CTA. in its supervisory role. Several others such as Paul Ries or Ibero and Jos Hansen are long established local trading companies, expatriate in origin, with some potential, and ambition, for expansion. For these firms the years of the previous military government were ones of great difficulty because so much trade was diverted through state owned companies as part of an anti-capitalist ideology, and they have seen the new regime as providing an overdue opportunity to make up for the losses of these years. Up to about 1998-99 the market allowed fairly easy growth, especially for established companies, partly as supplies recovered following the restoration of a stable political environment combined with high international prices in the early 1990s and partly at the expense of the declining share of the government owned company, the Ethiopian Coffee Exporting Enterprise, described below.

The major international buying companies are Taloca and Volcafe from Switzerland for sun dried coffees, Illycafe from Italy, Andre and Orbi from France, Hamburg Coffee and Ratfos from Germany for washed coffees. Until 1999 when it stopped trading in coffee the large US commodity trading company, Cargill, also purchased from Etyhiopia and owned one of the local exporting companies. Several, including Taloca, Volcas and Ratfos, maintain offices in Addis Ababa and are in close and regular contact with exporters, who have also made visits, sponsored by the Exporters’ Association to buyers and blenders overseas. Such links become important elements of the way in which connections with the global coffee market are defined and modified, particularly in the area of quality control and buyer influence.

The involvement of exporters in additional grading before export gives them a somewhat different role in Ethiopia than they have in other countries of the region such as Kenya where, as we have seen, the beans purchased at action are already fit for export. In Ethiopia the exporters are, in effect, processors as well as exporters, and as such are crucial to the quality assurance process. Once again the reasons for this must lie in those aspects of the pre-auction socio-political structure which has in the past produced little incentive to sort and grade at farm
level, a situation which is now under active debate in both private and government circles. However, the value added after auction through the grading process will to some degree account for the fairly high mark-up noted in the previous Chapter between average prices paid at auction and the subsequent unit export price (as a proxy for FOB) of over 40%. While some of this goes to exporter’s profit and transportation to the port, some also goes to those employed in the grading process, in the purchase of updated grading equipment and in costs of storage.

The presence of the auction has tended to mean that exporters have had few formal links with suppliers in what appears to be some contrast to the pre-auction period of the early 1970s. At that time such links were often based upon a chain of mutual debt obligation linking commercial banks to exporters, the latter to wholesalers and bulkers, and these in turn to small processors, collectors and farmers themselves, with interest rates that ranged from 7% for exporters to as much as 120% p.a. at the bottom of the chain. (Teketel 1973 p.98). According to the same study, around 40% of coffee merchants in Sidamo in the early 1970s were financed by exporters. The situation today differs in that the introduction of the central auctions in 1973 and the regulations which surround them render it pointless for an exporter to extend finance to any given akrapy. This was noted in the previous chapter where the principal sources of finance for a small sample of akrabies was either family savings or the banking system.

The situation is likely to change, to some degree, with the more liberal climate of the 1990s and 2000s. A number of exporters have been seeking to form subsidiary akrapy companies, and vice versa, in order to ensure supplies of given quality or to guarantee sales. Quite how the latter is ensured in the auction process is unclear though with the changes in 1999 which allowed the identity of sellers to be known there would be scope for informal collusion between buyer and seller. This is one clear area where institutional procedures ‘locked in’ to a path determined during a previous regime has the potential to constraint the feasibility of change in the contemporary market. This is picked up again when I discuss the institutional impact of the auction in Chapter 11.

A consequence of the changed economic climate, to one sympathetic to private enterprise, is the revival by the major exporters of the Ethiopian Coffee Exporters Association which was founded originally in 1969 but suspended in 1977 for the
duration of the revolutionary regime. In 1998 it had some 65 member companies whose interests were served by offering advice on procedures, encouraging standardisation of good practice, the adoption of a code of conduct, promoting Ethiopian coffee abroad, and “strengthening and maintaining good working relations with the Ethiopian Coffee and Tea Authority and other institutions” (Kaffa Coffee 1998. p.6). This organisation has a permanent secretariat and also provides daily updates on New York prices to those of its members who do not themselves subscribe to this international service.

One company which had major influence but which was not, at the end of 1998, a member of the ECEA was the Ethiopian Coffee Export Enterprise (ECEE). This company was formerly part of the state marketing corporation, but which in the 1990s had to operate commercially in competition with private companies, though still state owned. The throughput of coffee of this company declined rapidly during the second half of the 1990s as the larger private companies took advantage of improved access to supplies and as new entrants joined the market. One estimate is that from about 40% of all coffee exports in 1996 and 25% in 1997 the ECEE was likely to have handled only about 15% by 1998 (Herhaus 1998). This was only a few percentage points above the throughput of the largest privately owned companies and continued falls of the same magnitude placed the ECEE in the minor league of exporters and with considerable problems of overcapacity in utilising its five sorting and hulling plants which are scattered around Addis Ababa. In the new market oriented philosophy of the government the ECEE became an increasing anomaly, with its losses being subsidised by government and remaining dependent on the state for capital funds for rationalisation and growth. By July 2002 it had ceased trading altogether.

With the diminishing role of the ECEE, and as the scope for predatory attacks on its market share diminished, condition became more competitive for the remaining companies. A further factor is the rapid and severe decline in international prices since the late 1990s, which in a somewhat perverse sense may have helped to rationalise the Ethiopian market by squeezing out less efficient new entrants, which were regarded by some of the more established companies as having a destabilising effect. One victim of this has been one of the larger of these, Nejat, which was affected by a new regulation requiring a Letter of Undertaking from the banks as a prerequisite for taking part in the auction. In other words, exporters are required to give evidence of having sufficient working
capital to finance their purchases of coffee prior to export. This clearly makes entry more difficult.

6.4. Price Determination – Institutional Aspects

Most of the larger exporters purchase to contract: that is, they will agree on a sale to a foreign buyer, fixing the price outright on the basis of the three month forward price on the New York ‘C’ market. They then purchase the required quantity at the next day’s auction in Addis Ababa, which is graded to the required physical and cup tasting (liquoring) standards before packing and shipping. The larger exporters are in constant daily touch through the internet with price movements in the New York and London terminals (a subscription based service via Reuters). The recently revived Coffee Exporters Association also provides daily price updates to those of its members who are without internet access. The standard international indicator or benchmark is the price fetched by Brazilian ‘Santos 4’, to which certain Ethiopian coffees such as unwashed Jimma 5 is approximately equivalent and to which other grades are related by a premium or discount. Until late 1999 these price differentials were determined by a Price Differential Committee which consisted of representatives of the Coffee and Tea Authority, the National Bank of Ethiopia, and coffee exporters, and which meets as frequently as necessary under the remit of the Prime Minister’s Office. In the past this committee has met as often as several times a week but in mid 1999 meetings appeared to be much more infrequent in anticipation of its gradual demise, though by mid-2002 it was still in existence and meeting only several times a year. What appears to happen (there is no written account available) is that a deduction of about 20% is taken from the New York price to allow for shipping and insurance, then a further premium or discount to reflect the origin and quality of the bean and to take into account the elasticity of demand in the market of destination, distinguishing, for example, between Japan, Europe and North America. When the Committee was meeting frequently it then formally advised the National Bank of the prices for that day which then in effect become minimum prices below which exporters have not normally been permitted by the National Bank to accept, thus effectively setting minimum auction prices (the auction takes place at 1 p.m. each day). In response to what appears to have been pressure from the IMF this PDC was to cease functioning in June 1999, leaving exporters free to come to their own price arrangements with foreign purchasers,
but in late 1999 there was some feeling that it may continue in a different form, and in 2002 it continued to meet infrequently. Exporters seem divided on the usefulness of this PDC. For some it provides a useful, and perhaps reassuring, benchmark in negotiating price that minimises competitive uncertainty, while for others it is a constraint on any competitive advantage that they may have. This is particularly the case in a falling market where PDC recommendations lag behind international market movements and make negotiation with foreign buyers difficult. For the government in the past the PDC ensured that Ethiopian coffee was not undersold, particularly in foreign exchange terms, while it retained a degree of central control under the guise of stabilising the market in the interests of the industry as a whole.

Ethiopian auction prices tend, therefore, to reflect movements in world market prices, tempered by variations in domestic supplies. Some indication of the link is given in Figure 6.1 which compares the New York 'C' with average Addis Ababa auction price for the period 1992-95. It should be noted that this Figure compares movements in the NY price in US$ per pound with the Ethiopian price in Birr per kilogram. Hence trends may be compared but not direct comparisons at any point in time.

**Figure 6.1 NY and AA Auction Prices 1993-98**
Both sets of prices clearly tend on average to rise and fall together, indicating that the domestic filiere, at least in value terms, is closely linked to the international coffee market, a phenomenon to which I shall return in chapter 10.

6.5 Risk and its Management

There are implications of the time lag involved between the setting of the forward price in New York and the price eventually paid to akrabies, sehsabies and farmers. As already noted, the normal practice in Ethiopia is for the exporter to enter into a contract to deliver at an agreed price, based upon the NY market and under guidance from the National Bank, coffee which has yet to be purchased in the Addis Ababa auction. A risk is therefore borne by the exporter that local auction prices may alter adversely during this short interval; for example, that in a period of rising prices they are committed to a sale before they have made a purchase. The standard method in many other countries of covering such risk is via the NY market in coffee futures or options. The larger exporters, including the ECEE when it existed, have had freedom to do this but the facility seems rarely to have been utilised, perhaps because of a scarcity of relevant financial expertise, though it is possibly also discouraged by the National Bank because of foreign exchange implications.

To appreciate this latter point it is worth giving a brief outline of the principle involved in hedging (taken from Kolb 1997). Processing and transportation costs are ignored in what follows. An exporter may agree to deliver coffee in three months time at, say, 90 cents/lb and has yet to buy the coffee locally. He may then also purchase a future contract to buy coffee at 90 cents/lb. If, in the meantime, as a result of changes in the world price, local prices rise to 91 cents/lb (or equivalent in local currency) then the loss can be partly covered in due course by selling his futures contract at a profit. The purchaser of the futures contract is likely to be a speculator who will set off a number of similar contracts against others with an agreement to sell at a higher price than the original 90 cents/lb of the purchasing contract. If world prices had fallen instead of risen then the futures contract could only be disposed of at a loss but this would be compensated by the gain in being able to purchase the physical coffee more cheaply. Although there is therefore no net gain, neither is there a net loss, and the exporter has in effect secured a satisfactory selling price. Hedging thus provides a form of insurance.
There may be times when the price spread between buying and selling each type of contract will not cover the total loss of unexpected price movements, but this can be regarded as the price to be paid for insuring against greater loss.

More detailed workings of the futures market and how it impinges on world prices is discussed further in Chapter 10. It is clear from this brief summary, however, that a degree of expertise is called for, which an exporter will either have to acquire and have confidence in using or commission an agent to act on the company’s behalf.

In a survey undertaken in 1999 for the International Coffee Organisation only one of some ten countries examined had an active scheme for hedging in futures markets which involved producers as well as exporters. This was administered by the national producers’ association ANACAFE in Guatemala which provided farmers with forward cover provided they had a secure contract with an exporter. The ANACAFE is thus able to provide the expert advice to potential participants (LMC International 2000). In India hedging was prohibited until October 1999 but is now regularly used by larger exporters.

Hedging in the way described means use of the New York and London futures markets. A variation would be to permit the development of a local market in simple forward trading, where if it were possible to by-pass the auction then farmers’ co-operatives or akrabies could engage in forward sales to exporters at agreed future prices. Consultants advising the CTA in recent years have frequently pointed to the need for some limited introduction of local forward market engagement in Ethiopia in order to reduce the risk currently carried by akrabies and exporters. From this a local futures market could gradually emerge, as for example has happened in India.

The development of a domestic futures market in which local organisations could engage was supported by several exporters to whom I spoke, though its appearance is probably unlikely for some time, and the CTA appears cautious. It would, nevertheless, help to stabilise those price movements which are more local in origin. In the 1990s, for instance, a number of new entrants amongst exporters appear to have rushed into forward commitments which have been followed by heavy pressure on local supplies and thus upward pressure on prices. Knowing this, sellers were also holding back in anticipation of greater gains. This is
consistent with the analysis of price variability in the previous Chapter where the Addis Ababa auction price was more volatile than the NY price over the period 1992-99. As a potential institutional development in the market, and consideration of why it may or may not happen, the emergence of a forward market in Ethiopia is considered again in Chapter 12. In the meantime, the larger exporters will continue to rely upon a quick reaction to changes in international prices, and upon the formation of a regular relationship with buyers who can be depended upon for repeat contracts (which puts pressure on quality), thus spreading risk over a longer time span. Risk against non-payment is, of course, covered by the National Bank’s requirement that all transactions should be by Letter of Credit from the purchaser’s bank.

6.6 The Domestic Market

The domestic distribution and consumption of coffee in Ethiopia, while widely claimed to be of significance and accounting for some 50% of annual production, has hardly been researched by economists or other analysts and data is weak. Officially, coffee for domestic distribution outwith the growing areas can only be bought at the central auctions, or from exporters after auction; that is, it cannot at present be distributed directly from growing to consuming areas. It is purchased by a variety of wholesalers who then distribute to intermediary wholesalers or retailers throughout those areas of the country where coffee is not grown. This coffee is usually that which fails to reach export quality and is to some extent a residual element, amounting to something of the order of 25-30,000 tons annually. About a third of this is coffee of the lowest grades as determined by the pre-auction grading tests (but is sold through the normal auction process) and about two thirds emerges from the sorting sheds of the exporters as other grades are refined prior to export.

Because of its poor general quality coffee purchased for domestic use through these official channels is not in direct competition with exported coffee. At the margin, however, there may be some interchange if a global shortage draws in cheaper low grade coffees to the world market and vice versa. The fact that at auction exporters are having to buy beans which need further sorting also means that the low grade beans which are ultimately rejected will have been purchased on the same international price basis as those which are eventually exported. For
these reasons the price of coffee for domestic consumption is therefore likely to follow trends determined in international markets and some evidence of this is apparent in data produced for the IMF in 1997, discussed below. A further point linking international and domestic markets is the fact that a large proportion of the coffee harvest each year is also retained for consumption in the growing areas themselves, either directly on farm or via numerous small local markets in relatively small quantities. While supply response to price changes depends ultimately on planting more trees, and is therefore a delayed process, there is scope for short-term supply elasticity for export markets via reduced wastage and substitution out of localised consumption. This may well have been what happened during the parallel increases in price and sales in the mid-1990s. Finally, the boundaries between export and domestic markets are not so well defined in practice as official regulation intends.

Calculations below indicate that substantial amounts of coffee appear to circumvent the auction process in reaching other parts of the country. By its nature it is difficult to track this coffee, but personal observations in the Addis Ababa mercato reveal the easy availability of export quality beans in the informal markets. It should be recalled that the mercato area in Addis Ababa is one of the largest outdoor and semi-covered markets in Africa. Within it there is a distinct coffee section where a number of traders operate as wholesalers and retailers for a variety of sun-dried and washed beans. Many hotels, restaurants and private individuals from as much as an eighty mile radius around the capital city will purchase their supplies from this source (information from informal interviews). In the inner city suburbs there are other wholesalers who supply the many small cafes, restaurants and hotels which are a feature of Ethiopian urban life. In recent years a number of small processing companies have been formed which are producing ground roasted coffee for retail sale in groceries, supermarkets and tourist outlets, and whose suppliers use a variety of official and non-official sources.

Given the widespread occurrence of coffee drinking as an institutional or cultural habit, the figure of 25-30,000 tons for domestic consumption is therefore probably a considerable underestimate as this is only what comes via the auction. It is also considerably less than an estimate of 50,000 tons made as long ago as 1964 (for a population then estimated at 21 million (ICO 1964). As was pointed out in Chapter 1 there are no accurate annual production figures and a figure for
total domestic consumption is frequently arrived at as a residual amount between what is exported and a production estimate, adjusted for changes in stocks and an even vaguer estimate of smuggled exports. At times one also suspects the opposite – that total production is arrived at by adding estimates of domestic consumption and smuggling to known auction deliveries. Either way, total production is usually estimated to lie between 200,000 to 250,000 tonnes per annum; the UN FAO unofficial estimate for 1997, for example, is 246,000 tonnes (FAO 1998).

![Figure 6.2 Auction and Retail Prices 1992 - 1995](source: IMF Addis Ababa, 1997)

The 1995/6 Household Income, Consumption and Expenditure Survey (Federal Democratic Republic of Ethiopia 1997) shows an national average annual household market purchase of coffee beans of 12,679 gms. The Coffee and Tea Authority estimate that some 700,000 smallholders engage in coffee growing (ICO 1998). At an average household size of 5.25 individuals (FDRE 1997) this implies that the total population at the time of the HICE Survey of around 54 million people would consist of some 10 million households. About 9.3 million of these would not therefore be coffee growers and if each was purchasing 12.679 kg of coffee beans then a total of 117,911 tonnes will have been bought. This is considerably more than the 25-30,000 tonnes rejected at auction and by exporters,
and implies that a substantial distribution network for domestic use bypasses the auction, though much of it will have been sold and consumed within the growing regions. In addition to this there is the amount consumed on farm by the coffee growers themselves, the estimated 700,000, which has been estimated at around 30,000 tonnes (Muir 1997, p. 16), implying a per household consumption of 42.85 kg per annum – over three times as much as non-coffee growing households, which is perhaps not unreasonable (see also Tesema, 1994, where on-farm consumption in the Jimma area is of the order of 50-54 kg p.a. and a 1962 survey of Limu where it was 33.2 kg). This all then gives a grand total of domestic consumption, on and off farm, of 147,911 tonnes, which with exports, say in 1996-7 season of 111,206 tonnes, and making no allowance for stock changes, totals some 259,117 metric tons produced which is of the order usually quoted by US AID, FAO and the CTA itself.

Although the regulations attempt to keep the export market as separate as possible from the domestic market the many informal links mean that domestic prices will tend to follow international trends. This is illustrated in Figure 6.2 where data compiled by the CTA for the IMF for the period January 1992 to December 1995 (discontinued thereafter) shows evidence of a distinct relationship though subject to short term variations. The monthly price at auction and in domestic retail markets during that period are seen in general to rise and fall together but also to have narrowed briefly between May and June 1994. The latter may be interpreted as a response to a tightening of supplies in the domestic market for that period as exports reacted to sharply rising international prices (more than doubling between January and July of that year), thus subsequently drawing up the domestic price even of inferior grades, and reinforced by a domestic demand that may be assumed to be fairly inelastic with respect to price, given the cultural importance of coffee throughout the country. It is also interesting to note that if the period 1992-95 is taken as a whole then the difference between the auction price and domestic price, expressed as a percentage of the former, actually diminished, which implies that the absolute difference tended to remain constant as both sets of prices rose. That is, the local retail mark-up remained constant, possibly reflecting increased competitiveness as a result of economic liberalisation, even in the informal sector of the market.

However, over such a short time span, of only three seasons, the data in Figure 6.2 are likely to have been distorted by two factors: (a) the exceptionally low
performance of the 1991/2 season when only 60,040 tons arrived at inspection stations (reflecting the highly disturbed political situation at that time when a number of washing and hulling stations were destroyed in civil unrest), and (b) the exceptionally rapid rise of the auction price of almost 100% between January and May 1994. It was during the months following the latter that the differential between the auction and domestic price was at its narrowest for the observed series in both absolute and relative terms and must reflect the structural constraints on market adjustment in the very short term, including the time involved in shipping stock from the provinces and the seasonal availability of additional supplies. That is, the rise in international price occurred largely towards the end of the 1993/4 Ethiopian season when the scope for supply response would be limited.

It is interesting to note what might be regarded as a relatively high differential between the auction prices, which are dominated by export quality beans, and domestic retail prices (in Addis Ababa) which would, in general, be of a lower quality. Thus, over the period 1992-95, auction prices averaged 10.164 Birr/kg and domestic prices 18.583 Birr/kg, making the latter 82.8% higher than the former. This is a greater difference than that between the auction price and average unit export price which was EB 14.305 per kilo over the period. However, without further substantial research into what will often be illegal channels it is impossible to know how the domestic differential is made up. If it is the case that much of the domestic supply comes through informal routes then a certain risk premium may be present, though this will be influenced by the seriousness with which the authorities take such activities and the likelihood of being caught. There are, of course, legitimate distribution costs, which may be substantial even in a low wage economy if significant quantities are retailed in very small volumes. In November 2000, for instance, rural markets on the road between Addis and Jimma were retailing low quality sun-dried coffee in portions of about 42.5gms for one Birr, implying a per kilo price of EB23.53. At this time good quality sundried or washed coffee was retailing in small outlets ('souks') in Addis Ababa at around EB15 per kilo, while the auction price was averaging about EB12 per kilo. This is a smaller differential than the average for 1992-95 and may be a consequence of further general liberalisation, but such a conclusion can only be speculative given the limited nature of the data.
What this section does indicate is that the domestic market is a segment of some significance.

6.7 Resume and Conclusion

The present Chapter has outlined the nature of the market structure and its institutions between the arrival at central auctions and the FOB stage of export. A number of aspects are important to note for later discussion:

♦ It is clear that the continued existence of the auction system and how it operates is central to any assessment of the filière. It is run by an agency of government, it centralises (or attempts to) the flow of coffee beans in the country, and it plays a crucial role in quality control. Although an auction is, in one sense, the ultimate free market institution (satisfying neoclassical efficiency criteria), paradoxically it can also provide a focal point for control by central government by requiring supplies to be channelled through it, thus affecting previous stages of the filière, and it ensures that deals are open from the point of view of taxation and the price paid by exporters.

♦ The auction may also act as a barrier to closer co-operation between between merchants in the growing areas and exporters, and foregoes the opportunities for efficiency gains from vertical integration. On the other hand it gives clear and accessible price signals to farmers, thus to some extent correcting the informational asymmetry that tends to prevail between rural and urban participants.

♦ The Coffee Exporters Association represent a potentially important lobby at the post-auction stage, where the opportunities to cultivate political support combined with their direct experience of foreign buyers provides exporters with informational and rent-seeking advantages over other groups further back in the marketing chain.

♦ Between 1992 and 1999 the Price Differential Committee was important in setting floor prices and establishing formulae for deriving local prices from the international price. This intervention may on the one hand be regarded as having ensured some stability in the context of liberalisation, but on the other as an attempt by the state to maximise the foreign exchange potential of coffee by preventing it being undersold. However, with or without the
influence of the PDC there are close links between movements in local prices and world prices.

- Whether they buy first and then look for a seller or enter a sales agreement for which they then have to purchase coffee, exporters are exposed to the risk of changing prices. Common methods in international markets of covering such risks are through the use of forward and futures exchanges but although these have not been used in Ethiopia this does not mean that other strategies are not also available. Much, for instance, depends upon trust, repeat contracts and the security of what is often broadly defined as social capital, which taken together can help to minimise the adverse impact of uncertainty over time. These, of course, are also institutional devices. The relationship between adoption of the more formal mechanisms and the availability of such informal strategies of risk management require further exploration.

- Many of the regulations and controls applying to auction and post-auction activities have the object of diverting the best quality coffees to the export market. This is in the face of a very substantial domestic demand which consumes around half of all production through a combination of formal and informal channels. Although the workings of the domestic market are not well known they are likely both to influence and be influenced by the export market, and for this relationship to have been affected by liberalisation.

In considering these six points and in taking this chapter with the preceding one on the pre-auction stages of the filiere it is clear that intervention by the state is ubiquitous. Although I have focussed so far on the roles and objectives of private individuals and companies, including farmers, traders, merchants and exporters, this does not imply that the state has been a passive entity, merely setting the rules for orderly market behaviour. This would be to follow the route of neoclassical economics, and to a considerable extent too, that of new institutional economics and its concern with efficiency. It is clear from Chapters 3-6 that there are strong elements of historical continuity in the Ethiopian institutional environment and that this applies to the state and the place of the coffee filiere within it. These include a consistent tendency to centralisation of the physical infrastructure; a tradition of regulation, licencing and taxation of interior trade; and a production system rooted in a tradition of land-holding which has strongly influenced the nature of the early stages of the filiere. The Ethiopian state has thus been, and remains, an all pervading force in determining the character and boundaries of the filiere.
The wider implications of this are addressed in Chapter 11 but before then it is essential to have a deeper understanding of the nature of the state itself in Ethiopia. This is particularly important as we are not talking here about a 'post-colonial' state in the sense often applied to other African countries but about a state which has evolved in its own distinctive way since at least the middle of the nineteenth century. Historical influences are therefore strong and must be understood prior to any attempt at analysing the contemporary state. Likewise, any account of the role of the state in the coffee filiere which fails to appreciate effect of continuity over time will be incomplete. The following chapter therefore identifies those elements in the development of the Ethiopian state, principally during the 20th century up to the collapse of the Derg in 1991, which, through their contemporary manifestations, are most relevant to an understanding of how (and why) the coffee filiere is regulated today. That chapter is followed by another on the regime which took power in May 1991 and a third which examines in some detail the impact of federalism and fiscal decentralisation introduced by that same regime in 1992.
Chapter 7

Environmental Origins of the Filiere: Evolution of the Ethiopian State in the 20th Century

7.1 Introduction

In Chapters 3-6 the numerous ways in which the filiere is, and has been, affected by government through regulation, taxation or other forms of control, has been touched on in describing the history and present structure of the filiere. It is now time to examine the nature of the state and its role more explicitly. As indicated at the end of the previous chapter this is necessary in order to understand why its interventions have taken the form that they have done, what this has meant for the institutional legacy inherited by later governments, and to fully appreciate the origins and character of the current environment in which the filiere is embedded. It is here that the political aspects of the filiere become more apparent. If arguments about path dependency, the pervasiveness of institutional norms, and cultural determination of state forms have any validity then it is essential to be aware of the elements of continuity in the evolution of the Ethiopian state that have contributed to its principal contemporary features. Only then, can recent legal, constitutional and fiscal changes be properly understood and their likely longer term consequences predicted.

My discussion on the state falls into three distinct sections, to each of which I have accorded a chapter. First, in the present chapter, I recount the emergence of the Ethiopian state as a political and historical entity from the early years of the 20th century. Excluding the six years of Italian occupation the last seventy years of the 20th century contained only three regimes, of which Haile Sellassie’s covered a period of forty-four years. He was also substantially in control for a further fourteen years before that and was himself born in the 19th century and knew Menelik. There is thus a considerable degree of continuity in the evolution of state powers during the entire 20th century, including the revolutionary period of 1974-91, and an understanding of which is essential to any assessment of the present scene in the early 21st century. The latter is addressed in Chapter 8 which traces important elements of continuity between the regime which came into power in 1991 and those which preceded it, and which then goes on to examine the significance of key policy changes that have affected the economy and the administration of government, paying particular attention to the introduction of a federal state. Chapter 9 then examines in some detail the major fiscal
changes associated with federalism and assesses their political significance in the historical context outlined previously.

I begin with a short review of how any discussion of the state in Ethiopia must differ from much of the existing literature on the state in Africa which focuses largely on post-colonial societies.

7.2 The State in Africa and the Ethiopian State

Ascriptive labels of ‘the state’ in Africa abound, ranging through the overdeveloped state, the soft state, the military-bureaucratic state, the centralised-bureaucratic state, the neo-patrimonial state, the absolutist state and the predatory state (for summaries see Mamdani 1996, van de Walle 2001, Allen 1995, 1999). Many such terms have their origins in the analysis of post-colonial societies, by which is meant the former colonies of 19th century European imperialism, and they frequently attempt to blend aspects of the legacy of colonialism with local cultural attributes to arrive at an understanding of recent state history in the country concerned. While the degree to which any one country’s experience can be categorised in any meaningful way by such tightly defining labels is questionable in itself, in the case of Ethiopia the attempt is particularly irrelevant as the colonial record is so different. While it is obvious that the colonial activities of the European powers around the geographic borders of Abyssinia in the 19th century could not have been without impact on internal events the fact that no external colonial power displaced the internal struggles for imperial domination in the highland areas means that the evolution of the Ethiopian state must primarily be analysed in its own terms. This is so even if the northern expansion into the south of the country is classed as a form of colonialism or if the post-war government of Haile Sellassie is regarded as a neo-colonial dependency of the West. In the former instance the fact that the colonial incursion was not one of advanced capitalism must be taken into account and in the latter the political specificity of Ethiopia, as opposed to its economic dependency, still demands attention.

Somewhat more may be gained by examining the evolution of state formations in Europe and other parts of the world where the impact of external colonial control of the type experienced by many African nations has been minimal or non-existent. Parallels with the process of transition from feudalism to capitalism in Europe have been made, for instance, though often more at a descriptive than theoretical level. Although some
insight into the emergence of a centralised state in Ethiopia between the middle of the nineteenth century and, say, 1974 can be obtained in this way there are severe problems in attempting to understand one society by use of an institutional model that is derived from the social formation of another. These problems were recognised in an extensive debate, summarised by Tenkir Bonger (1996), during the second half of the 1970s on whether the pre-revolution social formation in Ethiopia could in any meaningful sense be categorised as feudal. Much of the conventional discussion on European feudalism, for instance, tends to focus on relationships between monarchs, lords, mercantile bourgeoisie and the long process of transition to parliamentary democratic styles of government; there is also a conventional economic history which traces the growth of commerce and rise of industry, while a more radical political economy has studied the emergence of capitalist relations of production through various forms of class struggle between serfs and landlords, landlords and merchants, free labour and owners of capital. On the other hand, much of the analysis of Ethiopia, frequently by Western social anthropologists, has been on understanding peasant land tenure arrangements and associated forms of tribute in a context where rival power relationships may have been fluid over time but which overall was non-progressive. Only in the years after 1941 when Haile Sellassie introduced a number of cadastral and tax reforms (discussed below) are signs of movement to a capitalist mode usually discerned.

Even then the basis in feudalism is uncertain. As Tenkir (1996) points out, for some observers it is the social relations of rist and gult of the pre-1941 Abyssinian highlands that most closely approximate the feudal states of pre-industrial Europe or Japan (Lambton 1971) while for others it is the post-1941 evolving landlord-tenant relationships of the conquered south which gradually displaced the direct and indirect rule of the neftegna and balabat, that most evokes feudalism (Gilkes 1975, Crummey 1981). There are, on the other hand, others for whom there are problems with the use of ‘feudalism’ in both areas, ranging from the presence of a supply of free labour in the south (Cliffe 1974) to the absence of an entrenched hereditary feudal class in the north (Markakis 1974, Perham 1969) which disqualifies both from a feudal taxonomy. Such differences serve to highlight not simply problems in defining the particular institutional form of feudalism in Ethiopia but suggest that the application of the term itself may be invalid in the first place (Love 1983).

Much of this debate was also at a time when there was considerable discussion in Western radical literature on the ‘articulation of modes of production’ and introduced the possibility of other modes of production such as the Asiatic or tribute modes. These,
however, are equally problematic in the Ethiopian case. In Marx’s account of the Asiatic mode he presumes an organised culture built around the construction and control of irrigation schemes, while the notion of a tribute mode has been applied to a very wide spectrum of traditional societies into which Ethiopia fits only uncomfortably. On the other hand, it has also been argued that the lack of a sustained and rigid formalised social structure, due largely to the continuous ebb and flow of regional and provincial power struggles in the northern highlands, has meant that differences with the south of the country have been essentially superficial, and that Ethiopia does indeed share with most of the rest of sub-Saharan Africa a long tradition of extraction of economic surplus through tribute (Stahl 1974, Tenkir Bonger 1996). It is difficult to reconcile such a generalised conclusion with the variety of political systems that have prevailed in the past within the boundaries of present day Ethiopia, ranging from varieties of gedda system in parts of Oromia, the kingdom of Jimma, the city state of Harar, the social structures of the Gurage, various tribal groups in the Omo basin in the south, together with the more ‘feudal’ kingdoms of Gondar, Tigre and Shewa in the central and northern highlands.

One of the implications of such variety is its propensity to be re-expressed in the form of ethnic nationalism, particularly in opposition to centralised national government, a point to which I shall return below. Let us note, however, how the initial discussion in this Chapter of ‘the state in Africa’ has been turned by the Ethiopian case into a study of modes of production. This implies that the state takes its definition from the mode of production, and thus that the nature of the state inherited, for example, by the revolutionary government in Addis Ababa in 1974 can only be understood in the context of the feudal (or other) social formation from which it emerged. We saw in Chapter 4 how the coffee filiere was gradually and comprehensively shaped by government decree throughout the 1950s and 1960s. Thus, it is not only conceptualisation of the state in broad structural terms that interests us but the mechanisms whereby state power (in itself a site of class struggle) exerts its influence over economic resources. The coffee filiere is thus one of a number of key links between state and economy, or between those who control the state and those who produce the surplus which sustains it.

The history of the state in Ethiopia is thus of considerable interest and importance. As one of the few African countries not subject to prolonged colonial rule an understanding of its development enhances our understanding of the development of nation states in general and the variety of forms that this can take. It is also only through such
understanding that the complexity of contemporary state policies can be properly assessed, through appreciation of their origins, adaptations and historical specificity. It should also be noted that the past and its mythologies are an important input into the ideologies which drive contemporary policy making in all countries and which determine the way in which ideas are adopted and adapted in the formation of local institutions, as indicated in Chapter 2 (Hall and Taylor 1996). Finally, one of the pervasive themes of this thesis is a propensity to centralism in the evolution of the Ethiopian state. In one sense, this may be interpreted as no more than the common characteristic of all processes of transformation from a ‘feudal’ aristocratic oligarchy into an emerging capitalistic bourgeoisie, but in another it clearly served to reinforce the Amharic ethnic hegemony which was so much a feature of the 20th century in Ethiopia. The two overlap, of course, in intense and contested manoeuvres for power and control of the changing state dynamic. Underpinning the entire structure is the economic surplus of the peasantry, of which coffee exports formed, and continue to form, a crucial source of central revenue and foreign exchange.

The remainder of this chapter follows these themes through in a historical survey, which can only be selective, of those institutional and political changes of the late 19th and 20th centuries which culminated in the state structures of Haile Sellassie immediately prior to the revolution of 1974. This may seem a long way removed from the contemporary coffee filiere but the legacy of the imperial regime, which collapsed in 1974, has been significant, and is traced through in the final part of the chapter. To some degree the account inevitably follows a standard historical type of narrative but reference is also made to the numerous class, ethnic and inter-elite struggles which reflected the tensions between state and society, and shaped the evolving structures in which the coffee filiere became gradually and subtly embedded, and which continue to define its essential features today.

7.3 Evolution of the Ethiopian State: Institutional Formation in the 19th and Early 20th Centuries.

It is important to begin as far back as the mid 19th century because (a) it is from here that the first elements of the Ethiopian state that we know today can be traced and (b) there is considerable political, constitutional, legal, cultural and social continuity during the period between then and the early 21st century. In the remainder of this chapter those early elements of state formation which are pertinent to later developments will be
highlighted before moving on to the impact of Haile Sellassie's ascent to the imperial throne in 1930. There then follows a brief assessment of the Italian invasion of 1936, the effects and legacy of that invasion itself, and the subsequent changes introduced by the restored imperial government up to 1974. Such an historical preview prepares the ground for a more contextualised analysis of the eventual collapse of the imperial government in 1974, the rule of the socialist revolutionary state from then to 1991, the subsequent collapse in turn of that regime in the face of military defeat by northern forces dominated by the Tigrai People's Liberation Front (TPLF), and the nature of the changes subsequently introduced by the liberating government. This, in turn, allows us to place those organisations and institutions connected with the coffee filiere into a political context which respects historical continuity, and from which an understanding of the origins of a number of path dependent practices may be derived.

In the words of Bahru Zewdie, it was "Kasa Hailu, who, on his Coronation in 1855 as Emperor Tewodros II, inaugurated the modern history of Ethiopia" (Bahru 1991:27). The rise to power of Kasa brought to an end the extended period of political turbulence and provincial rivalry known as the Zamana Masafent (or 'era of the princes'). At the peak of his powers Tewodros exerted a centralised imperial authority over the highland Abyssinian kingdoms, which included most of Begemdir, Gojjam, Tigre, Wollo and Shoa. Although established by force and largely sustained by its threat, his position also relied upon strategic regional appointments, (anticipating the methods of Haile Sellassie) often from outside the local dynasties, and which brought regular tribute to his central treasury. He also reformed the structure of his army, initiating a salaried element, and was keenly interested in the technology of warfare. The latter was indicative of his limitations as a political reformer and his legacy lies not so much in specific innovations, which were few, as in his conception of a single political entity covering the mainly central highland areas of Abyssinia. The realisation of this ambition survived, rather shakily, until his death at the battle of Magdala in 1868, although in the period running up to it he suffered considerable depletion of his area of influence when many of his conquered tributaries dropped their allegiance and assisted the invading British expeditionary force. He was not therefore without considerable opposition and his eventual defeat by the British opened up a struggle between Yohannes IV of Tigre and Menelik II of Shewa for succession to dominate the highland regions, a struggle in which Menelik finally acknowledged Yohannes' superior power. In the conflicts of this period we have an illustration of the grounds on which the leaders of Tigre and their followers today can claim an inheritance of the Ethiopian state at least equivalent to that
of the Amhara of Shewa, Gojjam and Begemdir, and which continued to colour much of
the political scene in the early 21st century.

Yohannes' dominance over the other northern leaders, which was little more secure than
that of Tewodros, came to a premature end with his own death at the battle of Matamma
in 1889 against the Mahdists of the Sudan. This created the opportunity for Menelik to
take over as negussa negast, or 'king of kings', his armies and resources having been
strengthened in the meantime by a continuation of that gradual expansion south, west
and east from central Shewa that had been commenced by his grandfather, Sahle
Sellassie. These events and the early territorial expansion associated with them have
been well documented from various perspectives (Pankhurst 1968, Bahru 1991, Tsegaye
1995, Holcomb and Sissai 1990, Jalata 1993), including the way in which they allowed
Menelik to maintain a standing army and to command the resources which ensured a
steady supply of firearms (Tsegaye 1996:187).

The conquered areas were administered by the appointment of governors and the
allocation of southern land to generals and others from the royal court. This not only
rewarded loyal service but also created channels of access to the wealth of these regions.
The system of extraction of surplus in the south, gabar maderiya, has been documented
in detail by Tsegay Tegenu (1996) who reveals the substantial sums that were diverted
to Menelik's treasury. We have here the origins of the distinction between the northern
and southern systems of land tenure and of the different nature of peasant obligations
which prevailed until the end of the Haile Sellassie period in 1974. In the north, in what
was traditionally known as Abyssinia, variations of the following tended to prevail:
peasants would claim their rights to farm specific plots of land on the rist system, which
recognised heritable usufruct rights from a common ancestor, while they also paid
tribute or tax to a lord whose rights were termed gulit. The latter extended over a large
number of rist plots and were granted either by the emperor or regional king. In the
conquered lands of the south, on the other hand, a variety of systems developed by the
predominantly Oromo peoples were displaced by a variation of the structure described
above which was in essence one of colonial indirect rule and tenancy. The Amhara
incomers and small landlords from outside were known as naftenga (because of their
reliance on the power of the gun), while local Oromo acting as agents or intermediary
landlords were called balabats. Both collected tribute for regional and district governors
appointed by the Emperor, and to which a proportion of the tribute was due. Tribute
itself took the form of salt, ivory, cloth, honey, grain and, increasingly, MT dollars, and
at a later stage, coffee. It was a system in which many were oppressed and dispossessed but in which a large number were also absorbed and incorporated into the middle and upper elites of the invaders.

This southward expansion of Menelik created the need for a more rational, orderly and centralised system of government. Consequently, the southern areas became known as the Yedar Ager (or periphery) for administrative purposes. These were in contrast to the northern Yemehal Ager (the inland) where traditional, mainly Amhara and Tigray princes and chiefs retained considerable traditional power (Asmelash 1987: 28). In addition to the hierarchical system of petty landlords, district officials and regional governors Menelik also introduced functional administrative divisions known as Awraja Ghizat (or province) and Woreda Ghizat (or sub-province), terms which continued throughout Haile Sellasse’s period and to which reference is still made today. The administration of justice was consolidated by being conducted through six judiciary districts (Asmelash, op.cit), and in 1907 Menelik introduced a Ministerial system of government to replace the former military based system. The fact that the country has subsequently retained its geographical boundaries from this period demonstrates in part the strength of this administrative foundation laid by Menelik, and subsequently extended by Haile Sellassie, despite a history of periodic, at times even frequent, rebellion and suppression of opposition in various parts of the country throughout the 20th century.

A decision of major consequence by Menelik was to move his capital from Ankober first to Entoto and then to the valley below, at Fin Fine, to what became Addis Ababa in 1886 and, most significantly, to keep it there. The construction of a new palace, the arrival of foreign legations (arising from an intensification of surrounding colonial presence), the installation of telegraph and postal communications in 1897, all served to entrench Addis Ababa as the centre not only of government but also of trade and commerce. By 1919 the extension of the railway from Djibouti reinforced the permanence of Addis Ababa as the capital city. Traditional trade routes of the northern highlands such as Gondar to Massawa clearly continued but the flow of items such as coffee and ivory from the southern territories increasingly passed through Addis Ababa. For a time, however, up to the 1930s a substantial volume of produce, including coffee, also left the country by river via the Western trading town of Gambela into British Sudan.
The growth of long distance trade in Ethiopia was important in the fiscal development of the state because of the opportunities which it offered for taxation. It is also the context from which the coffee filiere evolved. Dominated from early days by Arab Muslim merchants there were numerous trade routes from Red Sea and Gulf of Aden ports to the shifting capitals and more settled agricultural areas of the Abyssinian highlands. At once welcome and exploited these traders provided channels for the exchange of produce for manufactured imports (including armaments). What is interesting for our purposes here is the degree to which they were taxed and controlled. Between Massawa and Gondar, for instance, in the late 19th century there appear to have been at least eleven internal customs posts, with some observers putting it as high as eighteen (Pankhurst 1968:521). Despite attempts to control the proliferation of such posts by both Tewodros and Menelik (and indeed to tap more of the taxable potential for their own central purposes) their prevalence continued at a high level until well into the 1930s. Between Addis Ababa and Gondar there were reported to be twelve at the time of the Italian invasion in the 1930s, twelve on the Addis-Jimma road and around six to eight on many other roads (Pankhurst 1968:522-3). On arrival at a local or central market other dues and sales taxes were payable, depending upon the commodity and type of transaction. Payment was more in salt, cloth or perhaps gold in early days but by the 1930s was again increasingly in cash. At the main centres the local chief or provincial ruler appointed a special official called a nagadras to be responsible for collection of all taxes and customs revenues.

Richard Pankhurst quotes substantial sums being realised through these imposts. Before his death Yohannes was said to have obtained some 40,000 MT dollars as dues from the salt trade, and by the end of the 19th century the authorities in Mekele in Tigre were receiving around 100,000 MT dollars per annum from salt tax. By 1902 Menelik’s Imperial Treasury was estimated to have received 854,427 MT dollars from salt alone. In 1906 Empress Taytu was said to receive 4,000 MT dollars annually from taxes on goods travelling through Waldaya (all Pankhurst 1968:525). By this time too there were taxes on coffee from Illubabor and Sidamo (Tegenu 1996:145).

Although payment of land tax in particular was often in kind (honey or grain), there was a gradual increase in monetisation, in both north and south. In the 1880s Menelik expressed interest in an Ethiopian currency, to replace the MT dollar (or thaler) and with his own head on it. The decree approving the new currency was issued in February 1893, but the new coins, when they appeared, were slow to displace the MT dollar. This is usually taken to indicate the conservatism of the Ethiopian peasantry and there may
be some truth to that observation but reluctance to use the new coinage may also have stemmed from suspicion and mistrust regarding its provenance from an alien ruler, especially in the south. Menelik was also interested in forming a national bank and after seeking British advice in 1903, the Bank of Abyssinia was established some two years later, to be run under a concession by the National Bank of Egypt (Pankhurst 1965:393). The latter's agent, D. MacGillivray, reported that

"the bank in the first few years of its existence will not be a Bank in the ordinary sense of the word. It will have to do many things unknown to banking. For example, if the Emperor wishes for 1,000,000 cartridges, he will naturally ask the bank to get them for him, and if he thinks he is being cheated of his Customs receipts, he will expect the Bank to right things for him. In a word, the Bank must look after the Emperor's financial interests." (quoted in Pankhurst 1965:394)

The point of the above summary is to indicate that by the beginning of the twentieth century there was an entity which could be clearly defined as a unitary Ethiopian state. There was a permanent capital where the head of government, with the aid of embryonic ministries, oversaw the imposition and collection of a variety of taxes, from where laws and decrees emerged and were recorded, and which was gradually replacing rule by force around the countryside with control via administrative structure, albeit of a rudimentary kind which continued to acknowledge traditional networks. We have here also the beginnings of a transition from the personalised rule of a provincial leader to the more systematic, delegated and ministerial governance of an emerging cabinet system, forced on Menelik by the very diversified empire which he now controlled. Yet, the personal element remained dominant, not only during the remainder of Menelik's lifetime but also in a very real sense throughout the reign of Haile Sellassie, despite enormous expansion in the responsibilities of individual ministries and their agencies. As we shall note later, the cumulative effect of such a combination was an unwieldiness in the management of government and a paralysis of decision-making which undermined its essential sustainability, and culminated in the coup of 1974.

7.4 The Rise and Influence of Tafari Makonnen: to 1936

In 1907 Menelik suffered a severe stroke which impaired his ability to introduce further reforms. He survived for five more years, was succeeded by Lij Iyyassu until 1916, then by Ras Tafari Makonnen as regent alongside Menelik's daughter Zewditu. In 1928 Tafari became negus, or king, and in 1930 was crowned as Emperor, taking the name
Haile Sellassie I. These twenty three years saw intense political struggle, often with forces of conservatism lined up against those of change, though in either case the real struggle was for power, and marked by frequent conflict and perpetual intrigue. Despite this, some changes to the wider society also occurred - the qalad system of land measurement introduced during the first decade of the century had a profound impact on many parts of the south of the country, while Lij Iyyasu in his time altered the way in which tithes were assessed (Bahru pp.90-93). But on the whole this was not a period of dramatic institutional change, at least not at the national level. At local level where he had control Tafari Makonnen (as he then was) could see the gains to be achieved from reforms of a certain kind. As Governor of Harar province from 1910 he reduced the range of customary obligations of the peasantry to the landlord and reformed the system of taxation and its administration (Marcus 1987, p.12-13). This tendency continued after he took executive power over the nation as a whole in 1916, and in the following years he reformed the procedures for collecting import duties, introducing a salaried class of officials, and appointed a progressively minded sympathiser as mayor of Addis Ababa.

All this substantially increased regional and national state revenues and reduced the proportion which regional rulers and governers had traditionally been able to retain for themselves. This undoubtedly contributed to the opposition which he faced from many of the old provincial lords, while at the same time strengthening his ability to challenge them. In addition to those who had allied themselves with Lij Iyyassu there were others who opposed his foreign links, such as Fitswarari Habte Giorgis; and those such as Dejazmach Balcha of Sidamo who marched on the capital in 1928 in a futile attempt to assert his traditional authority to retain taxes, tribute and the services of gabar. Others from this camp were Ras Gugsa Wolie of Begemdir and Ras Hailu of Gojam, and although the latter introduced money taxes and other changes in Gojam they were largely for his own advantage and little was transferred to Addis Ababa (Marcus 1987). Thus, although the first three decades of the 20th century were marked by modernisation and change, resistance came mainly from within the elite and it is only after the restoration of the monarchy in 1941 and the continuation of the administrative changes that had been commenced in the earlier period that examples of widely supported local rebellion began to appear. Gebru Tareke suggests that in the north the reasons for such apparent acquiescence lie with the close cultural nexus in northern communities between peasant, aristocracy and church in which the peasantry generally supported resistance to centralisation when it was expressed by a regional lord, whereas in the south the more recent history of conquest effectively suppressed overt resistance for a generation (Gebru 1996). In taking such analysis further there would also be differences...
in the relative weight given to national identity and to class consciousness between the two areas, differences which, as is discussed later, are carried through to the present.

For Tafari Makonnen and many of his supporters a major function of administrative reform was to facilitate trade and commerce and there was no reason why they too should not benefit from the opportunities created. In Harar he had established a substantial coffee plantation at Chercher by the 1920s and he was also a founder of the Societe Ethiopienne de Commerce et d'Industrie which was the main business agency of the government itself (Marcus 1995:43). In interpreting his motives it is probably fair to accept that he intended widespread long term national benefit from his reforms. That is, he could see, along with other younger educated observers, a need for the country to 'modernise' at that time. However, that did not mean that he and his family should themselves be excluded, or indeed that it was not important that he as monarch should retain a position of influence defined as much by success in the commercial field as it was formerly defined by feudal power. It is also important to remember that although the forces of tradition and conservatism in the country were powerful, there was an emerging intellectual class, aware particularly of the changes that had occurred in the 19th century in Japan, also educated in Europe and with an understanding of Marx and the Russian revolution of 1917. Among these were Gabra-Heywat Baykadagn, publishing 'Government and Public Administration' (in Amharic) in 1919 and Teklea Walda-Hawariat who had previously advised Lij Iyyasu but who eventually drafted Tafari's 1931 Constitution (Bahru p.103-110). The importance of ideas should not therefore be underestimated, as I noted in Chapter 2, in analysing the development of institutional forms.

After his coronation as Emperor, and change of name to Haile Sellassie I, Tafari embarked on a more rapid series of reforms than hitherto. During the years immediately following 1930 he attempted to reduce the number of internal customs posts, he increased the number of salaried officials in public administration, and he developed ambitious road building programmes to encourage trade. The power of provincial governors was diluted by the appointment of central government officials to key posts (Marcus 1987:108), and even the gradual introduction of salaried governors (Asmelash 1987:34). He also encouraged the expansion of education, particularly in Addis Ababa, and it was the capital city which attracted much of his developmental efforts. In 1931 he also arranged to buy out the Bank of Abyssinia from the National Bank of Egypt and to restructure it as a central bank, the Bank of Ethiopia.
He also put the structure of government, and its centralising principles, on a more formal footing in 1931 by basing it on a written Constitution. Although this was an interesting exercise in the process of modernisation, Tekle Walda-Hawariat, who was responsible for drafting the Constitution, subsequently wrote in his memoirs, “the first (principle) was that Ethiopia should remain united with unchallenged imperial power”, and that “The constitution was granted with the intention of not making it above the Emperor, but with the purpose of keeping the Emperor’s dynasty in power from that of its contenders” (quoted in Aberra Jembere 1994:....). Clapham also took the view that

“The constitution of 1931 was, first and foremost, an instrument for securing national unity under the centralised rule of the Emperor...the constitution reflected the centralising policies of the period and provided the formal basis for a process of centralisation which was necessary both for national unity and for effective modernisation” (Clapham 1969:35).

Others have made similar points,

“the constitution was designed to play a key role in the process (of centralisation) by establishing the legal framework within which governmental power was to be channelled and distributed” (Asmelash 1987:34)

Yet, although the constitution of 1931 served to consolidate Haile Sellassie’s position as supreme authority it must also be seen in its wider context, which was that of a rather unwieldy empire, not without its opposing factions, and surrounded by not particularly friendly European colonial powers. At such a stage in the country’s political history a centralising constitution may be said to make sense, even if it did entrench the power of one man.

7.5 The Italian Conflict

As the decade of the 1930s moved on more of the Emperor’s time and that of his cabinet was taken up with international affairs and with the increasing threat from Italy. Much energy was also diverted to procuring arms which had to be purchased with foreign exchange now largely dependent upon coffee exports, as we saw in Chapter 3. The Italian problem had been simmering on the Somali border since 1928 and in 1936 Mussolini’s ambitions took the form of outright invasion from his Eritrean base, followed by the subsequent defeat of the Ethiopians and occupation of the country for five years. In the invasion itself we should note the defection of the eastern Tigrean leader, Haile Sellassie Gugsa, who felt he had been unfairly passed over by Haile
Sellassie in filling the position of governor of Tigre province. Although it had little
effect on the outcome of the conflict the incident illustrates how the northern rivalries of
the 19th century continued to resurface in the 20th.

In a number of respects the Italian occupation may be regarded as little more than a
temporary interlude within a period marked more by continuity of policy direction than
fragmentation. On the other hand, although there was considerable economic disruption,
such as the collapse of coffee exports which we noted in Chapter 3, and much personal
colonial aggrandisement there were also consequences which favoured the government
of Haile Sellassie on its restoration in 1941. One is that the Italians held the country
together as an entity, indeed adding to it for their own purposes their existing colonies in
the Horn of Eritrea and Somalia. Second, they embarked on a substantial road building
programme, constructing 4,347 miles of all weather road of which 2,145 were metalled
(and involving 60,000 Italian workmen and a cost of over £80m). This considerably
improved communications, with favourable effects on trade and administration (Perham
1969:182). Third, much of the previous (and considerable) opposition to Haile Sellassie
had collaborated with the colonial power, and was either destroyed or significantly
diminished when it was ultimately defeated in 1941 by the combined forces of the
Ethiopians and British (Sbacchi 1997).

7.6 1941-74: Institutional Reform or Reformed Centralism?

In many respects, therefore, Haile Sellassie returned to power in 1941 in a stronger
position than when he left in 1936. This was more the case in terms of domestic politics
as internationally he had to negotiate cautiously with the British and French who were
still at war with Germany and Italy in Europe, and who had of course their own nearby
colonial territories. Internally, however, he was able to embark on a rapid series of
reforming measures which further strengthened the power of the centre. As summarised
by Clapham

“he consolidated his advantage by changes which cut at the roots of the
nobility’s administrative control over the provinces. Its military functions were
removed by training a professional army, under the Emperor’s command, which
replaced the feudal levies and private armies of pre-war days; its power to raise
tribute was severely reduced by creating a centralised system of taxation
administered by the Ministry of Finance; and the old provincial boundaries were
systematised into a hierarchy of province, sub-province, district and sub-district,
which was controlled from Addis Ababa, and to which appointments were made
directly by the Emperor” (Clapham 1969:21).
Specifically, in Decree No.1 of 1942 all provinces were to have Governors-General appointed by the Emperor, paid only by salary and without many of the powers traditionally associated with regional rulers. Following the deliberations of a high level committee, regional administration was based upon 12 Awrajas, 60 Woredas, 339 Meslenes and 1176 Meketel (Asmelash 1987:39). Also in 1942, Proclamation No. 8 introduced a land tax payable in cash and collected by officials appointed by the Ministry of Finance. In 1944 (Proclamation No. 70) this was extended to include asrat (tithe), at the same time assessing it as a fixed sum. The consequence was a substantial increase in central government revenue from land associated taxation (for details see Perham 1969, Asmelash 1987).

As the duties and powers of provincial governors became increasingly those of a salariat acting for the centre so their traditional rights were gradually undermined, in particular those associated with the granting of gult. As we noted above, gult has been likened to a 'fief-holding right' over land, in which the holder has the right to collect taxes and adjudicate on the land in exchange for fealty to the ruler who granted it. The reforms introduced by Haile Sellassie, even from his early days, therefore marked a distinct process of change in the class character of the state, as it was transformed from a feudal type of personalised system of mutual obligation to a more functional, bureaucratic and centralised organism. With hindsight one can see that these changes were reflecting small but significant shifts in the economic base itself. Greater commercial activity in and around Addis Ababa, the gradual growth of commercial farming, and the appearance of American and British aid were all signs of an incipient capitalism, for which the newly structured state machinery was in essence preparing the way. The process was gradual. In 1947 Proclamation No. 90 of that year removed the judicial powers of gultegnas by creating local judges appointed centrally as part of the national judiciary system, though it was not until 1966 that gult was totally abolished (Shiferaw 1995:108).

In the southern part of the country, which included the main coffee growing areas, the effect of these changes was to stimulate the process of transition to private landlordism. At one level the difference between north and south was not so radical as is often claimed. After the conquest the system of rights and obligations (serit) which had developed in the north was transferred in many of its principles to the south. But where rist could be held in perpetuity through heredity in the north it was often granted to the incoming settler on a less secure basis, known as maderiya. But not all southern land
was reallocated in this way. Those local leaders who had accepted Menelik’s overlordship without resistance were allowed to retain around a third of their land, called sisso. This included the kingdoms of Jimma, Assosa and Beni Shangul. It was those who resisted who had all their land rights confiscated. Shifferaw has shown that throughout most of the first six decades of the twentieth century there was then a gradual process of transition of maderiya to rist and, especially after 1941, of rist to private ownership (Shifferaw 1995). This complex history meant that many of the landlords and owners who eventually capitalised on growth in the international demand for coffee during the 1950s and 1960s were from amongst the traditional chiefs of the coffee growing areas, such as Jimma, as much as from northern settlers or absentee northern landlords. What may be said is that the combination of a profitable cash crop with an alien tenurial system that was only recently imposed created an environment more conducive to the emergence of capitalist relations of production than was found in the north where the rist-gult system was more deeply entrenched. Thus, the class dynamic underway, which affected the growth in demand for land for coffee production in the 1960s, noted in Chapter 4, had roots as complex in their ethnicity as in their institutional origins.

The changes which Haile Sellassie introduced in the countryside during the 1940s were only part of a wider set of administrative reforms, all reinforcing central state power. Other changes of the period included the Proclamation in 1943 reorganising the assessment and collection of customs duty, and in 1944 the personal and business taxation system was updated. With lend-lease backing from the USA a new currency was introduced in 1945 which reversed the inroads made by the East African Shilling during the period of British presence. We have already noted the increase in US influence, encouraged in part by Haile Sellassie to counteract dependency on the British and French but driven latterly by the Americans themselves as Ethiopia fitted in to a complex security jigsaw centred around Middle East oil reserves. US military aid began in 1951 and the Point 4 Programme of aid and technical assistance in 1952. To nurture external relations of this sort it was essential to present a government that had structures of central control in place, and for which assistance could be sought that would reinforce them.

7.7 State and Society

This account of legislative changes creates the impression that the process was smooth, unopposed and accepted passively by the general populace. This was far from the case
and very often the changes from the centre impinged on a local community in which ethnic, regional and political relations were already tense, if not actually in some turbulence. Where local rulers resented the increasing power of the Addis Ababa oligarchy, peasants often failed to co-operate with centrally appointed officials who were frequently rapacious in conducting their duties. During the ten years from his restoration in 1941 Haile Sellassie faced many regional revolts and several attempted coups. Instances of the former were the *woyane* rebellion in Tigre in 1943, in Gojjam in 1942-44 and 1951, Hararge province in 1944 and 1947, Bale in 1941-42 and 1947, and at Yajju in Wollo in 1948, and of the latter in 1943, 1947 and 1951 (Gebru 1991, Bahru 1991, Clapham 1969, Marcus 1995). Many regional revolts were fuelled by lingering resentment by war-time patriots of Haile Sellassie’s decision to have chosen exile followed by his subsequent return, but were also manifestations of longer term discontent with change, resentment of Shewan centralisation and the manner of its imposition. They therefore reflected problems not only of tradition versus modernity, and the vested interests which were thereby threatened, but of ethnicity and nationality, regional autonomy versus centralism, and were never to really disappear right up to 1974 and later.

As I indicated at the beginning of this chapter it is difficult to characterise the nature of the Ethiopian state during the period of Haile Sellassie’s rule. Reference to a feudal model seems inappropriate when the forces of change are coming from the state itself. The gradual spread of capitalist relations of production were to a large degree being fostered by the state, and bourgeois-aristocracy relationships were less those of conflict and struggle than of overlap and mutual accommodation. Between the masses of ordinary peasant farmers, both large and small, north and south, and the ultimately personalised and autocratic rule of the Emperor were a series of layered intermediaries including landlords, regional officials, national officials, *gultegnas*, and minor and major noblemen in interlinked marriages and other alliances, all frequently cross-patched by diverse ethnic, religious and local political rivalries and histories. There was also the Ethiopian Orthodox Church. It is not at all clear where in this complex milieu it is possible to talk in terms of civil society, the public sphere, the autonomy of the state, or even where the boundaries of the state may be said to lie. Even Mamdani’s concept of the bifurcated state seems an inappropriate simplification. What is clear is that the structures of government were becoming increasingly formalised, and that although the condition of the masses of producers remained essentially unaltered the channels through which their surplus was being appropriated was changing to a more centralised and managed system. The manner in which this happened often allowed traditional
provincial rulers to recruit the peasants in opposition, in alliances which conflated class and nationalism under the guise of specific local grievances.

Opposition and resistance to change was effective in slowing down the pace of change after the early 1940s, but not its broader impetus. An example is found in the introduction of a revised Constitution, which remained in force until 1974. Although it was formally adopted in 1955 the decision to update the 1931 Constitution had been taken some years previously. Reasons are not entirely clear. There is some suggestion that the government, aware of the limitations of the 1931 Constitution, decided to anticipate the demands of a more widely educated elite by extending and revising it (Clapham 1969:36). The Universal Declaration of Human Rights had also appeared from the United Nations, the body which was also until 1952 responsible for administering Eritrea and for which it had produced a separate Constitution. On taking control of Eritrea in 1952 there was therefore a need to integrate the Constitutional provisions of each territory. The new Constitution introduced for the first time a section on Human Rights, guaranteeing, in principle, freedom of speech and assembly, due process of law, and habeas corpus. It also began, albeit tentatively, to separate out the three main branches of government from each other and to delineate the powers of the Emperor. The independence of the judiciary was asserted, members of the Chamber of Deputies were to be elected by popular suffrage, and Parliament could interrogate Ministers and was responsible for approving the Budget. On the other hand, the Emperor retained powers of pardon and of commuting sentences, and he continued in practice to appoint and remove judges. In Parliament the Senate or upper chamber remained a body appointed by the Emperor. He held powers of veto, of dissolution and to legislate in times of emergency. In the executive sphere all appointments continued to be made by the Emperor, including in the Armed Forces, and he retained sole power over organisational matters. Some further revision emerged in 1966 on the recommendation of a committee set up after the attempted coup d’etat of December 1960, while the Emperor was out of the country, in which the main change was to increase the power of the Prime Minister in certain areas, especially in the appointment of ministers.

According to Clapham the main impact of the revised Constitution was in the legal framework of public administration while “the central core of the executive government is hardly touched on in the Constitution and...........it continues to operate along largely traditional lines through the personal relations between the Emperor and the senior officials”(Clapham 1969:44). One of those involved in drafting the new
Constitution also observed that “the Emperor was not acting out of liberal motives behind the screen of this pretext he was pursuing his long standing policies of centralisation and of constructing check-valves against mounting pressure for liberalisation” (Spencer 1984:257). The same observer also commented that fear of regionalism lay behind any concession to a role for political parties in elections to the Chamber of Deputies. Thus, and especially in the context of the various minor revolts since the early 1940s, the Constitution clearly gave added legitimacy to the Emperor’s powers as head of state and confirmed his authority to suppress opposition and enforce administrative changes to his liking. At the same time, the personal nature of his position at the top, paradoxically, mollified some of the impact of modernisation, as in theory he retained some of the traditional accessibility of the ruler to receive appeals from any of his subjects, while beneath him was a network of informal connections through which the new machinery of government could be made to work in an individual’s favour. In this way state-society relations were intricately bound up with each other.

Throughout the 1950s and 1960s, there was little additional innovation of a major kind though numerous decrees and proclamations appeared which affected the provision of education, health services, finance and credit, industrial investment laws, taxation and the wide variety of other concerns that become the responsibility of a centralised national government. In Chapter 4 I outlined those changes which specifically affected the coffee industry during this period. These were aimed at improving export quality, at controlling collection and grading, at setting up a centralised auction system, and at meeting the requirement of membership of the International Coffee Agreements. In common with legislation in other areas, they had the effect of modernising (in the sense of introducing standardised processes and procedures) a sector of the economy or polity without threatening the power of the central Imperial government while also ensuring that the revenue flows generated, including those in the form of foreign currency, were accessible to taxation or other forms of appropriation. As I noted then, this was not achieved without opposition. At different times during the period, farmers, merchants and exporters objected to the regulations and changes to the marketing structure that were being introduced. It should be remembered, of course, that some of these were externally driven through membership of the International Coffee Agreement and international standards of quality, reflecting the political economy of the world market (which is discussed in Chapter 10).
This long period of increased bureaucratic sophistication and unceasing political centralisation, effectively dating from 1930, came to an end in 1974 with the fall of Haile Sellassie. By that time, Ethiopia was recognised by the rest of the world as an independent unitary nation state with all the paraphernalia of ministerial, parliamentary and judicial organs in place that that entails. The Constitution of 1955, and its amendment of 1966, was still in place though in the Emperor’s response to the problems of the 1973-74 period a new Constitutional Commission was set up. Its proceedings were overtaken by events and the incoming military governments ruled without reference to any Constitution until a replacement for the 1955 Constitution was accepted in a national referendum in 1987. It is important to say something of the nature of the revolution which began in 1974.

7.8 The Fall of Haile Sellassie

Much has been written about the collapse of the regime of Haile Sellassie and of the path subsequently taken by the revolutionary forces at the time. It is not the place here to go over these years in the mid-1970s in detail (see, for example, Halliday & Molyneux 1981, Lefort 1981, Markakis & Ayele 1978, Ottaway & Ottaway 1978, Addis Hiwet 1975, 1984). It is relevant, however, to give some thought to the reasons why the many innovations in government outlined above did not protect it from overthrow. In particular, if the whole thrust of legislative and bureaucratic expansion was to enhance the power of the centre, then why did it fail to hold its position at that time? The answer is at once obvious and complex. The events of 1974-5 may be seen as the last of a line of protests and attempted rebellion, reminding us that the processes of change and their dynastic origins, faced opposition at each stage. But they also generated new elites in the bureaucracy and military from which opposition from within, so to speak, would emerge as the process which created them failed to proceed at a pace which satisfied their own expanding ambitions (Markakis and Ayele 1978:72). It is also paradoxical that centralisation itself makes the seizure of power and its physical transfer easier than would be the case in a more diffused traditional society. That the Emperor himself was becoming increasingly aged was yet another factor in the outcome of this particular crisis.

Analyses of the Ethiopian revolution have generally taken two forms. One is highly structural. The regime of Haile Sellassie is characterised as essentially having failed to shake off a feudal past, leaving a structure which could not cope with the economic,
political and social demands of a rising bourgeoisie which was nevertheless the creation of the old regime in its attempts to introduce change. Three examples illustrate this perspective well. For Halliday & Molyneux, writing in 1981, Ethiopian society was “entering a transition to capitalism but still marked by pre-capitalist relations of production” (p.73). And the

“archaic structures of the Ethiopian social and political system, which had survived the Italian occupation and several major strains in the three subsequent decades, were by the early 1970s in an advanced stage of decomposition” (p.82).

In 1984, Addis Hiwet takes a similar view, summarised as follows:

“In 1984, Addis Hiwet takes a similar view, summarised as follows:

“the belated advent of capitalism, its uneven development, its regional disparity, the considerable role of the absolutist state in the dynamic of the dissolution/preservation of pre-capitalist social relations. And an intimate analysis of the formation and transformation of social classes as determined by these constellations of changes and the conjunctural crisis leading to the momentous events of 1974 could go a long way in accounting for the origins, causes and dynamics of the revolution” (Addis Hiwet 1984:34)

Finally, there is Markakis and Ayele, for whom

“the advent of the capitalist mode of production; the appearance of elements of a new social order incompatible with feudalism, and the futile attempt to graft them on to the latter; the conversion of feudal privilege into modern rights of property, the centralisation of state power and bureaucratisation of its processes within the orbit of monarchical absolutism, all resemble the interregnum between declining feudalism and the rise of bourgeois capitalism...the Ethiopian regime was flawed by dissociation of its ruling classes from the productive process...rendering them exceedingly vulnerable to attack from other social classes.” (Markakis and Ayele 1978:68)

Although these approaches are in general well informed and succeed in identifying broad social movements at work they are prone to generalisation which smothers more subtle arguments. In Markakis and Ayele’s account there is little mention of any role performed by Haile Sellassie himself, referring rather to “the land owning aristocracy” (p.70) or the “absolutist regime” (p.52), and to “the class of bureaucrats who had sponsored the various reform measures related to land and land taxation in the 1940s and early 1950s” (p.70). Elsewhere, they claim that by 1974 “the dissociation of the bureaucratic-military bourgeoisie from the productive process was complete” (p.72) thus overlooking those many individuals from that group who had acquired land for commercial farming, who had interests in urban real estate, hotels, trading companies
and small enterprises, and who had themselves either come from branches of aristocratic families or owed their progress to such connections (Shifferaw 1995:129). There is a problem here in that a class based analysis tends to polarise and compartmentalise in a way that does not easily recognise the cross class allegiances (and nationalisms) of the reality of many individual lives. Thus, within the top and middle levels of the bureaucracy would be absentee landlords, marital links with the aristocracy, owners of bars and import-export agencies, and those with family members in the military. The intricacy of social relations amongst the various elites in Addis Ababa before the revolution, and its implications, remain to be explored in depth.

Many of these details and distinctions have been brought out by historians in more directly narrative accounts, representing a second approach, which adopts conventional historical political analysis, in which events unfold, without any pretension at fitting them into a more generalised structural context. Two examples illustrate this. The first is by Marcus, for whom the regime had failed to respond adequately to a series of crises throughout the 1970s and ultimately collapsed because “the monarchy had created a new Ethiopia that it could not govern” (Marcus 1994:180). Similarly. Andargachew claims that

“the aristocracy which had lost its military and administrative functions to the new elite was no longer the pillar of the monarchy; rather, the latter had become dependent on the new military and civilian elite…. However….the new elite became the main antithesis of the ancien regime” (Andargachew 1993:34).

To this he added a number of international factors, including weakening of US support, loss of Israeli support, increased opposition by radical Arab states and corresponding support for the Eritrean liberation movements at the time. The latter, when added to problems on the Somali frontier strained the army’s resources and contributed to its part in the revolt. He also refers to Clapham’s observation that the system of government that had been created by the Emperor could cope with internal court factions but not with the tensions associated with the wider social differences that were emerging.

All this is rather more subtle than the dismissal by Halliday and Molyneux of all the changes outlined above, covering the period 1941 to 1973, in no more than a single page of their book, declaring that Haile Sellassie “had neither the strength nor the vision to implement the reforms for which there was so much need” (p.58). On the other hand, their threefold analysis of overlapping processes, incorporating the combined effects of a longer term fundamental structural crisis, a medium term or contextual set of events,
and the immediate activities and protests of civilians and army personnel in early 1974 provides a useful means of separating out the many factors which led to the crisis and affected its outcome. This method has its limitations, however, particularly in accounting for how these different levels relate to each other and precisely how they interact. It is a version, in other words, of the structure and agency problem: a problem that is difficult to resolve once it has been set up in this way.

Other problems with the analysis of the revolution from a distance arise from the way in which certain events and trends from that period have been recorded and passed into accepted wisdom. The effects of the famine in Wollo, for instance, are frequently taken to have been pivotal in political terms, but the real impact has yet to be thoroughly analysed. Halliday and Molyneux, for instance claim that it caused “considerable inflation”. It is more likely, that the inflation at that time was caused by external factors such as the rise in international oil prices and internal monetary expansion unrelated to the famine (Love 1979). Marcus, too, gives the famine a greater direct impact on events than it really had at the time. Although widespread awareness of the famine undoubtedly helped to undermine Haile Sellassie’s image in the country at large, it was only one of a number of contributory factors to a situation where it was the direct interests of the army, teachers and taxi drivers, for example, which were the immediate driving forces of change. The same author’s comment that “Ethiopia’s economy seriously deteriorated” in the 1960s (Marcus 1995:180) is also at variance with the facts. In the first half of that decade real GDP grew at an average annual rate of about 5%, and during the second half at about 4%, a performance described as “satisfactory” by Shiferaw Jammo (1995:17). Even on a per capita basis Ethiopia’s growth during the 1960s was above average for Africa as a whole.

Many of these historical accounts proceed to detail the events which led to the downfall of Haile Sellassie and his system of government, to the gradual unfolding of the revolution, the turn to socialism and the eventual rise to power of Mengistu Haile Mariam. The account often takes the form of history as a sequence of events as if, once started, there was an inevitability about the outcome. There still lacks, to my mind, a history of the years 1973-77 which explains why the protests which began early in 1974 took the course that they did. Many later commentators overlook the fact that the revolution unfolded slowly, that there were two interim cabinets, and that although discontent in the army was an initial flashpoint the early days of protest were as much from a wide range of civilian groups as from the armed forces, and that it was only later, at a second stage, that the army took total control. The army itself moved gradually from
an initial reformist position, at the time of popular protest, to a more revolutionary socialist platform as a result of intrigue and disagreement amongst different factions and their civilian intellectual advisors. Despite strikes and protests civilian life carried on much as normal during the first half of 1974. It is possible to argue, in other words, that time and opportunity existed to retrieve the situation. Power was not therefore immediately removed from the Emperor but slipped away as various attempts to recover the situation were missed, mishandled or underestimated the nature and extent of discontent. Yet the opportunity was there and the outcome could well have been different. Given this, any attempt to account for the revolution in structural terms without also explaining why it took the actual course that it did at that time, amounts to no more than a teleology.

The present chapter is concerned with the role of the state, however, rather than with the downfall of Haile Sellassie’s government and the distinction is significant. It is notable that the state did not collapse with his overthrow, that there were institutions of state control which sustained the administration of the country during the interregnum and to which the military regime could eventually attach itself. The legislative and constitutional changes of the previous 70 or 80 years provided a framework which held the state, and hence the country, together. Eritrea was an exception, but then it had been an exception before. A major element in this was the centralisation of administration that has been noted above, creating a centralised machinery of the state which made it easy for any incoming government to command a similar degree of power to the outgoing one. Not only, therefore, did Haile Sellassie introduce changes whose consequences he could not ultimately control but he laid the foundations for a transition of power without weakening the state. For those to whom the continued existence of an Ethiopian nation state is important he rendered an invaluable service.

One further aspect of the fall of Haile Sellassie’s government, which takes note of institutionalist arguments, may be mentioned here, though it will be raised again in Chapter 11. It will be remembered from Chapter 2 that for Douglass North and others writing on New Institutional Economics, inefficient institutions can prevail for lengthy periods of time, but that ultimately changing relative prices are expected to generate social strains sufficiently serious to produce, possibly violent, change. An economic analysis of the last years of Haile Sellassie’s government, and particularly in the months leading up to mass civil protest, would tend to support this (Love 1979). Yet as pointed out in Chapter 1 there is an assumption of linear progress in the neoclassical economic foundation of most NIE analyses, which is not necessarily borne out by the facts. The
rise of a Marxist-Leninist government which nationalised all land would not be foreseen by such theories, though as I have pointed out in the previous paragraph this outcome was not inevitable. There is still much to be explored in this period.

7.9 The Years of the Derg

Rather than discuss the years between 1974 and 1991 in detail my purpose here is rather to identify those aspects of the period which indicate the presence over the longer term of a specifically Ethiopian state culture: that is, to see the Ethiopian state as an organism that is evolving and mutating but carrying with it various legacies from its own past. For instance, it is apparent that in all important respects the military government which emerged under Mengistu in the years following 1974 remained highly centralised. In this sense it may be regarded therefore as having fallen into the pattern established by its predecessors, where central control under a strong leader is assumed to be essential to the object of capturing the state and its command over the nation’s resources. The centralised bureaucracy that had evolved during Haile Sellassie’s time, especially when many individuals retained their positions, also rendered it all the easier for an incoming autocratic regime to assert its own authority over the entire country.

The tendency to centralism which had evolved over the preceding seventy years was at this time augmented by the adoption of a Marxist-Leninist ideology, reinforced by state ownership of the major channels of economic activity, and eventually cemented by the adoption and entrenchment of a Leninist party structure. The conceptual nature of the ideology also tended to give primacy to a class based analysis of Ethiopian society up to that point. Political disputes associated with ethnicity or regional economic differences which detracted from central authority then tended to be seen, at least by some, as the secondary effects of class exploitation, which once removed under a socialist programme, would render other distinctions irrelevant. The primary objective of the revolutionary government of the late 1970s and early 1980s could then be construed by its proponents as the effective removal of class exploitation, for which centralised authority was needed, rather than directly addressing what came to be called the ‘nationalities’ problem. That this may have been little more than rhetoric does not alter the reality which was a centralisation of power even more concentrated and autocratic than before.
Despite the continued concentration of power at the centre, a number of radical changes did appear, the most significant being the nationalisation of all land and its redistribution to a maximum of ten hectares per household. There was also a transformation of the structure of government at the lowest level which involved the creation of urban kebeles and rural Peasant Associations. These radically decentralised and democratised local decision making, although at the same time they allowed considerable informal discretion depending on who controlled the local committee. This was important as the Peasant Associations had primary responsibility for allocating land. However, another intention in setting these organisations up was ideological, to serve as channels to promote the socialist ideals of the revolution. They then became regarded, particularly by those who were not office holders, as little more than agencies for transmitting and seeing through decisions made at the top. The vehicle for this was initially the Provisional Office for Mass Organisational Affairs (POMOA) and later the Commission to Organise the Party of the Working People of Ethiopia (COPWE), created in 1979 and followed in 1984 by the creation of the Workers’ Party of Ethiopia (WPE) itself. Thus, although there was indeed substantial decentralisation in the implementation of policy and management of change, the administration of the country also became locked into a network of kebeles and Peasant Associations forming the base of a pyramid which led upwards to the ruling clique at the apex. The boundaries between ministerial roles, the traditional bureaucracy, COPWE, and the military were in practice blurred, creating a gridlocked environment for effective decision making. Yet, despite the various problems associated with their early history the principle of limited administrative decentralisation has survived, and to the extent that kebeles (which Peasant Associations are now also called) have been retained up to the present (2002) there appears to have been a sustained break with the pre-1974 past.

Another major change of that period, which did not survive, was the nationalisation of marketing structures for agricultural products which, by imposing state administered prices, had the effect of undermining incentives (after an initial period of buoyancy when the old system was first swept aside), and by the late 1970s and early 1980s marketed surpluses had declined considerably (Saith 1985, Cohen and Isaksson 1988, Dessalegn 1993(a) 1993(b), Allula and Fassil 1983, Ghose 1983, Tenkir 1996). These were through official channels: there is much anecdotal evidence that substantial quantities of coffee were smuggled across the borders to Kenya, Sudan, Somalia and Djibouti during this period, although, as I noted in Chapter 4 section 9.3, the volume may not have been much more than about 10% of total marketed output (Dercon 1995). Other changes included the major programme of villagization and resettlement which
followed the famine of 1983-4 and which naturally strengthened central authority regardless of whatever other effects it may have had (Pankurst Alula 1992).

Throughout its rule the regime refused any concessions acceptable to those struggling for the independence of Eritrea. It did set up in March 1983 the Institute for the Study of Ethiopian Nationalities, which in due course undertook much of the preparative work for the new Constitution of 1987 (Andargachew 1993:Ch 10, Clapham 1988:93). Although very largely a legitimisation exercise for the regime this constitution deviated from the historic norm in giving greater powers of autonomy, at least formally, to some of the regions, thus appearing to move in the direction of decentralisation. Thus, Eritrea, Tigre, Assab, Dire Dawa and the Ogaden were designated as ‘autonomous’ regions. In practice, however, little was conceded and the pattern that emerged was a hybrid of the Soviet and the Romanian models (Keller 1988). What appeared to be concessions to regional interests were no more than strategies to appease and divide potential opposition (Andargachew 1993:283), and indeed tended to be seen as such (Keller 1988:242). From one perspective this may be seen as reflecting the influence of the USSR which was Ethiopia’s principal external source of support at this time. From another, more historical, perspective, the actual impact was little different from that of the period of imperial rule where the constitution in effect increased the powers of the centre.

By 1988 the lack of success in defeating the Eritrean People’s Liberation Front (EPLF), together with the drain on the economy which the military campaign was costing (and the way in which the cost was imposed), drew pressure from the Soviet Union, which was going through its own reform at this time, that future aid would depend upon economic liberalisation and a settlement of the Eritrean problem (Marcus p.212). Some concession to the former was agreed but not to the latter. In the course of the three years which followed, the Derg’s inability to continue to finance the war, combined with growing opposition to Mengistu from within the armed forces, led to a string of military defeats, loss of morale on the Ethiopian side, and the eventual victory by the combined forces of the EPLF, Tigrai People’s Liberation Front (TPLF) and Ethiopian People’s Democratic Movement (EPDM), under a common front named the Ethiopian People’s Revolutionary Democratic Front (EPRDF), over the Addis Ababa based government in May 1991. Although the main effective opposition within the country throughout the 17 years of military rule had come from the EPLF and TPLF the more geographically spread discontent which had marked Haile Sellassie’s period between 1941 and 1960, noted above, was absent only because it was suppressed and many of the potential
leaders of those affected were in exile. The incoming coalition of parties attempted to forestall a resurgence of sub-nationalist discontent by announcing their intention to introduce a federal system of government.

In reviewing this period it is clear that it was only during the few years of transition between 1974 and 1977 that issues of class identity and broader democratic principles dominated political debate. Before then the identification of Haile Sellassie’s regime with a Shewan Amhara hegemony, maintained through an openly asserted imperialism, had ensured that opposition would generally take the form of ethnic and nationally based protest. In the Ethiopian context this meant the nationalism of the Eritrean, Tigrean, Oromo, Somali and other national groups. Moreover, given the context of the time (the 1960s), together with Ethiopia’s then close links with the USA (including the satellite tracking station at Kagnew in Eritrea), these opposition groups usually wrapped up their nationalism in socialist ideology. After 1977, when the revolution collapsed into outright military rule, termed “garrison socialism” by Markakis, nothing happened to change this tendency for political opposition to manifest itself in nationalism or ethnically based regionalism. The strongest versions continued to come from the north of the country, from the EPLF and, increasingly, the TPLF, whose constituencies were geographically more concentrated and culturally more homogeneous than the principal southern groups such as the Oromo Liberation Front (OLF). Many tensions and differences existed, however, both within and between these and other northern resistance groups regarding their nationalist objectives, their role in regard to the peasantry, and how they defined their own ethnic composition and boundaries.

None of these northern based groups touched on coffee growing areas which, being in the south, are largely found amongst Oromo communities. Organised political opposition from the latter areas was late in arriving and slow to spread. An early manifestation did appear somewhat unintentionally in the 1960s when the short-lived Mecha and Tulema Self Help Association rapidly achieved a popular momentum and adopted an increasingly political agenda in the mid-1960s. It was soon disbanded by the government and its leaders charged with treason (Markakis 1998, Gebru 1991). Only some ten years later, in 1976, did the OLF appear and by then its task was more difficult as land redistribution in 1975 had removed a major source of popular discontent. Furthermore, the wide geographic dispersion of the Oromo people, covering a variety of agricultural practices and having diverse histories, made the objective of building a united front against the central government under a banner of a single ethnic nationalism one of extreme difficulty. The situation in the south and south west of the country, in the
Arsi-Bale-Borana region, was rendered even more complex by the impact of the Somali conflict which brought Ethiopian armed forces into the area in large numbers. This meant that any potential support for the opposition from farmers unhappy with central controls and price fixing was dampened by the presence of the military in many rural areas of the south.

Meanwhile, in the north the government was gradually losing territory to the combined forces of the EPLF, the TPLF and latterly, the EPDM. Amongst the captured government soldiers were many Oromo who were encouraged to form their own political organisation which came to be known as the Oromo People’s Democratic Organisation (OPDO). This group was subsequently more prepared to co-operate with the Transitional National Government (TNG) after 1991, and, in offering a peaceful democratic alternative through the new federalism, had some success in undermining the OLF, particularly after the latter’s withdrawal from the 1995 elections.

Undoubtedly, the exceptionally high international prices for coffee in the mid 1990s, as noted in Chapter 5, would also have made farmers less inclined to support any opposition to the government that threatened to disrupt their newly boosted livelihoods.

### 7.10 Resume and Implications

Although the highland areas of what was traditionally known as Abyssinia have a long history of domination by independent, and often rival, kingdoms the period from the beginning to the middle of the 19th century was one of particular turbulence and fragmentation. Only with the arrival of Tewodros in the 1850s did some form of overall control begin to emerge, albeit by warfare and suppression. This marked the beginnings of a lengthy but continuous process of what, for convenience, we may call ‘modernisation’; a process which has to a very large extent been internally driven and which, through its various twists and turns, has left its mark on the nature of the contemporary state in Ethiopia (hence the space given to the process in this chapter).

The political consolidation begun by Tewodros was maintained by his immediate successors, Johannes and Menelik, with the latter in particular continuing to extend his empire to southern regions. These were largely inhabited by people of Oromo descent, but also included Somali, Gurage, and a number of smaller nationalities in the far south and west. (In Ethiopian literature it is worth remembering that the term ‘nationalities’ tends to be used in preference to ‘tribes’, ‘clans’, ‘ethnic groups’ etc.) Inevitably, this process involved an increasing centralisation of state power which, in the interests of
longer term stability and security of the state thus created. Gradually adopted more formalised bureaucratic systems. This centralisation also gave greater powers to the person of the emperor, or ‘king of kings’ (*negusi negcis*), and in the process generating considerable opposition from those who either stood to lose their regional powers or whose rivalry was thereby weakened. Under Haile Sellassie, particularly between 1930 and the late 1960s, the process of centralised modernisation, which eventually included the coffee filiere, continued and may even be said to have accelerated (despite a popular external perception of stagnation), but it was uneven and met with resistance in a variety of forms, and for a variety of reasons, ranging from regional refusal to pay taxes to the attempted overthrow of the emperor himself.

The revolution which deposed Haile Sellassie inherited a state system which proved easy to adapt to a new ideology, despite the many policy changes, and on the collapse of that regime in turn the incoming Transitional National Government of 1991 in effect recaptured Haile Sellassie’s legacy. Since then, as we shall see, many of the regulations of the earlier periods have been loosened, but not always removed, by the imposition of neo-liberal adjustment policies under pressure from the IMF, and the retention of political and economic power at the centre essentially remains in place. There is thus a continuity with the past, a continuity which affects and defines not only the general functions of government but also the numerous component Ministries (and their contemporary mutations), sectoral Departments and parastatals, of which the Coffee and Tea Authority is one. It is this which defines the soil in which the coffee filiere is embedded and which thus determines the nature of the filiere itself.

From this review of the development of the Ethiopian state since the late 19th century we can therefore infer a number of characteristics peculiar to the history of Ethiopia and which tend to be reproduced from regime to regime. This has implications for the present period in that the institutions of government at all levels inevitably carry forward to a significant degree those values which permeated its 20th century evolution, both in terms of those prevailing norms and values which continue to operate, and in terms of structural or organisational legacies from the past. Their presence in the workings of the contemporary Ethiopian state is explored in more detail in the following two chapters. In anticipation of this they may be summarised as follows:

a) **Centralisation**: a propensity to establish strong central control is evident throughout the period, both in terms of structures of government and of decision making within these structures which can be highly personalised. This centralising tendency has
provided each government, or the leading group within it, with a means of balancing a number of competing constituencies, including traditionalist and modernist interests (particularly in the early days of Haile Selassie), rural and urban, regional protest, and external threats. It may be argued from a conventional (and functionalist) perspective, that this is unavoidable in generating the stability and administrative cohesion that is required of an emerging nation state in the modern world. But centralisation also enhances the powers of national government, and serves the interests of those who control it.

b) Northern hegemony: although the government which came into power in 1991 rejected any return to the past, say in restoring the monarchy, in many other respects it reflects the pattern of its predecessors, most significantly in that it has its roots in the northern highland parts of the country rather than in the areas occupied during the nineteenth century. In fact, the dominance of the TPLF has swung the geographical origins of the ruling group to a more northern base than that of the predominantly Shewan heritage of the previous one hundred years or so. This could be viewed, in broad sweep, as the latest development in a long history of contested power between different highland groups, harking back to Johannes and Menelik in the late 19th century, as I observed at the beginning of the present chapter. It is possible, too, to see the constitutional changes introduced by the incoming government as intended to influence the future pattern of such a contest by locking regional opposition into a federalised system, a point to be returned to in the following chapter.

c) Politicised ethnicity: In large part as a consequence of this struggle for power amongst northern groups, actual opposition to whatever government has been in power has come predominantly in regional and ethnic form. As noted above, only for a few short years after 1974 did public political discourse openly reflect, or at least consider, the problem of national unity as a class issue. The absence of any opportunity to form independent political parties throughout most of the period, combined with increasing centralism, encouraged opposition to be expressed through other channels, for which an ethnic nationalism rooted in the country’s past has provided a natural base. The move by the incoming government of 1991 to political federalism as a means of accommodating this deeply rooted mode of political opposition is a recent complicating factor, whose implications are examined in the next chapter.

Of these characteristics which run as continuing threads through Ethiopian political history, it is that of centralisation which has most impact on the formation of the coffee
filière. That is, in respect to the organisational structure of the filière which as we have seen draws coffee from its regional points of production in through central auctions and highly regulated export channels. This also has the effect of rendering it easier to centralise revenues and foreign exchange earnings from the coffee sector, thereby minimising the possible access to coffee surpluses from within the regions themselves. There is thus also an ethnic element underlying the ostensibly economic structures of the marketing system. These various strands are explored in greater detail in the following two chapters, the first of which provides a general summary of the nature of the contemporary state in Ethiopia and the second takes a closer look at the fiscal effects of federalism.
Chapter 8

Contemporary Institutional Environment: The Ethiopian State 1991-2002

8.1 Introduction

The previous chapter outlined the way in which the state evolved in Ethiopia from the late 19th century until the collapse of the Derg in 1991. Over that period a number of distinctive characteristics peculiar to the history and culture of the country were seen to have been present, and were summarised in the concluding section of that chapter. They were:

a) A propensity to strong central control, both in terms of structures of government and of decision making within these structures, which can also be highly personalised.

b) A continuing dominant influence in government of northern ethnic or regional groups with their distinctively ‘Abyssinian’ historical background.

c) Largely as a consequence of (a) and (b), an over-riding tendency for political opposition to find its form in ethnic terms.

In Section 7.9 of the previous chapter we saw how these were all present throughout the period of the revolutionary government of 1974 to 1991, despite its radical difference in so many other respects from the government of Haile Sellassie which it displaced. In the first part of the present chapter we shall examine the degree to which these same traits may be found in the government which took power in May 1991. We are, in essence, searching for certain continuous threads in the reproduction of the state under different regimes. In its latest form, moreover, (as at May 2002) the Ethiopian state has also experienced a significantly greater degree of administrative and fiscal devolution than at any time in the past, through the introduction of a federal system. I also, therefore, examine the political origins of this significant change and how it has been received outside the government. This will assist us in assessing the degree to which these changes have in practice indicated a significant departure from past trends.
The new government also embarked on a process of economic liberalisation which in large part involved a dismantling of the many restrictions of the previous regime but which was also externally driven by the obligation to meet the requirements of aid donors and the IMF. The degree to which the EPRDF and the TPLF fully adopted the principles of the Washington consensus on economic liberalism is uncertain, as we shall see below, but some indication is given by looking at the number and extent of changes in practice. This forms the second part of the present chapter. Closely associated with economic reform is the management and structure of the government fiscus, which experienced major restructuring with the introduction of federalism. The implications of this for the politics of nationalism, regionalism and ethnicity are potentially significant and it is important therefore to examine the new fiscal regime in some detail, so as to be able to draw out both its political economic elements and their impact. Discussion of this is assigned to Chapter 9.

8.2 The EPRDF Government, May 1991 - 2002

The group that took power in May 1991, the EPRDF (Ethiopian People’s Revolutionary Democratic Front), was an umbrella organisation, comprising the TPLF (Tigrai People’s Liberation Front), the EPDM (Ethiopian People’s Democratic Movement, which changed its name in 1994 to the Amhara National Democratic Movement), and OPDO (Oromo People’s Democratic Organisation). The EPRDF had taken power with the assistance of the ELF (Eritrean Liberation Front). The dominant regional influence within the groups which overthrew the Derg was therefore northern. It is important to note that both the TPLF and ELF had well developed centralised systems of party organisation which had underpinned their field successes against the Ethiopian armed forces over the years. In the case of the TPLF this was reinforced by the embrace of Marxism-Leninism from the early 1980s, having also established the Marxist-Leninist League of Tigre in 1983. An additional factor in retaining strong central authority after taking control in Addis Ababa was to counteract the possibility of an Amhara-based revival of power in an attempt to return to the status quo ante of 1974. One aspect of this fear of opposition has been the government’s sensitivity to criticism in the press and in public debate, with a number of journalists and other open critics having experienced arrest and imprisonment. This in itself, as a feature of all Ethiopian governments to date, is an example of continuity manifested in a particular set of official attitudes.
It is also worth noting here that the economic liberalisation process, discussed in more detail in Section 8.5 below, has also proceeded at a pace controlled more by the government than as desired by the IMF or major donors (Styan 2001). Although this reflects a determination not to have the timing of policy determined by the IMF, even though its direction may have been accepted, it is also characteristic of a fiscal and monetary conservatism which not only predates the 1974 revolution but which was seemingly little altered by the revolution itself (Love 1989). There is also a considerable state bureaucratic apparatus inherited from the past which is not so much a legacy of the socialist revolutionary period as a highly labour intensive structure of accountability introduced in a series of stages since the late nineteenth century. In part, it is the administrative consequence of the centralising policies of the Haile Sellassie period, but it is also the product of more complex cultural factors associated with the needs of a historically literate elite to keep records of various types, whether this is to deal with legal disputes, land allocations, descent lineages or treasury records, many examples of which can be found in the records of the 18th and 19th centuries. The inherited outcome is thus deeply embedded in the social history of the country.

Despite the evident tendency for such traits of central control, dominated by northern nationalities, to recur with each regime, the incoming EPRDF government of May 1991 seemed to be willing to be more inclusive. In July of that year it convened a national conference at which some twenty political organisations from around the country were represented. This conference agreed on a transitional system of representation until a new constitution could be written and presented to the nation. The interim council of representation had 87 seats of which the EPRDF (or the various parties coming under its umbrella) had 32 and those of Oromo nationality 27. The independence of Eritrea was recognised as now inevitable and separate talks proceeded on this assumption. A series of elections at different levels then followed. The first was as early as 1992, for local administrative councils, followed soon after by elections for regional assemblies. In June 1994 a Constituent Assembly was elected to ratify the draft constitution, and in May 1995 the first general elections for the House of Representatives under the new constitution were held. During the period prior to these elections the TPLF actively encouraged and supported the formation of a number of smaller regional and ethnic parties which would be sympathetic to the EPRDF and which would thereby undermine the electoral chances of the more oppositional parties. This in fact happened with the two main Oromo parties.
Following disenchantment with the prospects under the new Constitution of an independent Oromia the OLF withdrew from the electoral process leaving the Oromo vote to be dominated by the OPDO.

This process of creating and supporting an array of alternative ethnically based parties allowed the EPRDF, which remained dominated by the TPLF, to retain controlling power in the House of Representatives and thereby to dominate the cabinet. This roughly remained the same position five years later when the second general election was held in May 2000 and the EPRDF umbrella parties took 348 of 505 constituencies. As an indication of its problematic position it is interesting to note that the TPLF itself took only 38 seats, that the Oromo People’s Democratic Organisation (OPDO) had the largest number, at 177 seats, followed by the Amhara National Democratic Movement (ANDM), another party within the umbrella, 134. The EPRDF standing as a party in its own right took 19 seats. The remainder were spread over some 25 smaller parties, virtually all ethnic or regionally based, and eight independent candidates attached to no party. In both elections the independent opposition has claimed that numerous irregularities, including physical harassment, prevented them from drawing their true level of support from voters. Some of irregularities were admitted by the National Electoral Board but most were rejected and the results for the most part allowed to stand.

Whatever the motives of the TPLF and EPRDF in attempting to manipulate electoral outcomes (which may have been intentionally benign or conspiratorial) the means has clearly been through an attempt to harness what is often referred to as ‘the nationality problem’. Political parties based on local ethnic and linguistic interests have been encouraged both as a fairly open tactic from the centre and constitutionally through the creation of a federal state. Both may be regarded as a legitimate means of containing the considerable regional discontent that was barely contained during the period of the Derg, and which, as we have seen, had origins long predating 1974. In recognition of the divisive possibilities of these entrenched ethnic, or ‘national’ groups with their long standing perceived grievances, and for other possible reasons mentioned below, the TPLF was led at an early stage to endorse a move towards constitutional federalism.
8.3 The Move to Federalism

In constitutional terms the move to a federal state was a major break from the past, and the associated decentralisation of electoral, administrative and fiscal responsibilities would appear to suggest that the post-1991 government surrendered a portion of central state control in exchange for a system that potentially offered greater national cohesion. The centralism so evident in the previous regimes of the Derg and of Haile Sellassie seems therefore to have been diluted. We shall examine the extent to which such a perception may be supported in the remainder of this chapter and in Chapter 9 which focuses on fiscal changes.

Although it is tempting to account for the move to federalism as a purely domestic response to regional factionalism there is an international context which is important in helping us to understand the motives of the EPRDF at the time, and to avoid an overly instrumental interpretation of the move to federalism. The international background to Ethiopia's embrace of federalism is that during the early 1990s many other countries were doing the same. Of seventy five transition and developing countries with populations of over 5 million at that time, sixty three had or were in the process of decentralising some degree of political power (Hommes 1995). A number were in Latin America where a tradition of strong, authoritarian central governments had previously prevailed. Others included Canada, China, India and Nigeria. A number of reasons for the widespread surge of interest in decentralisation during this period have been suggested, including developments in the European Union and its wider influence, and the impact of neo-liberalism on attitudes towards the role of central government, and related efficiency arguments associated with decentralisation of public sector decisions. The latter have often been overlaid on more local factors, such as political pressure from the provinces in Canada or attempts to increase fiscal controls in China (Tanzi 1995, Bulti 1994: 141). In the case of Ethiopia the long term struggle for independence of Eritrea was itself a powerful local element, added to the others described already in Chapter 7.

The formal decision to embark on an Ethiopian federal system emerged from the national conference called by the incoming regime on 1 July 1991 to which representatives of most major ethnic groups were invited (Ali Said 1998: 112). Prior to this there had been the London conference of May 1991, convened by Herman Cohen (US Assistant Secretary of
State for African Affairs) at which the TPLF, OLF, EPLF and the still surviving Mengistu government were represented. There had also been previous meetings between the TPLF, EPLF and the US government, and between all three and the Addis Ababa regime. In addition, by 1990 the TPLF was promoting the participation and recognition of other political groups, which given the political history of Ethiopia as outlined in Chapter 7, would inevitably have regional origins, and was insisting on the principle of national self-determination (Andergachew 1993). The very close involvement of the United States (itself, of course, a federal state) in facilitating meetings amongst opposition groups and between the most powerful of these (the TPLF and EPLF) and the government in Addis Ababa is significant. Also crucial to the outcome at that time, and to the weakening of Mengistu’s position, was the collapse and changing character of the Soviet Union which had been the Derg’s main backer. The talks between opposition groups in Ethiopia and the official regime were therefore taking place in the wider context of the ending of the cold war, of which all parties would be very aware. It would thus be clear to the leaders of the TPLF and EPLF that the support of the United States in enabling them to achieve their objectives would be enhanced by an indication of their own sympathy with the now dominant international orthodoxy regarding the limited role of government in economic activity and democratic decision making. However, while this strategy appealed to the northern liberation groups, who could manipulate it to their own advantage, it was one with which the southern ones such as the OLF and ONLF, as smaller players, had reservations, later, in their eyes, to be confirmed, and culminating ultimately in their withdrawal from participation.

These are the links which drew Ethiopia into the stream of countries converting to decentralised political and economic management. It does not follow, nevertheless, that this outcome was the result of a wholesale change of philosophy by the EPRDF or by the TPLF from previous centralist policies, or that it necessarily entailed the end of centralism as a long term feature of Ethiopian governance. It is important to remember the Marxist orientation of the TPLF throughout most of its existence from 1975 to 1991, and of the significance of the Soviet Union as an example. The Russian revolution in 1917 had also taken over from an imperial system which extended over a large number of subject nationalities, and the Communist Party of the Soviet Union (CPSU) had in due course introduced a constitution which in principle had allowed secession but which in practice had set up a number of impossible hurdles, creating a model which the Derg in Ethiopia
(amongst others) had subsequently followed. Although the USSR referred nominally to a union of ‘Republics’ it remained under strong central control from Moscow, in effect as a Russian Marxist-Leninist empire. In doing so, it depended upon a central party system under which there were numerous regional (communist) parties; these controlled elections to regional assemblies but came under the umbrella of the CPSU and were subject to control by its hierarchy. In the case of Ethiopia, the Marxian sympathies of groups like the EPLF and TPLF during their opposition over the years prior to 1991 therefore disposed them to follow Soviet style organizational principles which were not immediately dissolved when they gained power, and could be argued to have generated a climate where the constitutional arrangements for dealing with regional interests would inevitably follow the Soviet pattern. Paradoxically, there are interesting parallels between the constitutional framework adopted by the Derg under Soviet influence, and the history of those main opposition groups of that period which are now in power. The outcome is that those other groups which continue to seek specific regional independence from Ethiopia, such as the OLF and the Somali Abo Liberation Front (SALF), take such parallels to indicate that the move to federalism by the current Ethiopian government is no more than a legitimising exercise for the continuance of ‘abyssinian imperialism’. This is a particularly strong interpretation. A more moderate one would be that the EPRDF is using federalism as a means of both defusing regional discontent and providing a vehicle for managing it, but without seriously diluting central authority in any important area. Federalism is thus a ‘managing’ strategy by the centre, which for historical reasons happens at this time to be dominated by the TPLF.

Whatever way we interpret the motivations of the EPRDF it is clear that the move to federalism was the product of a complex interplay of international and domestic factors. Having made the decision to go along this route, the first step clearly was to have a major constitutional revision, and the result was approved by the Constituent Assembly in December 1994. At the national level the new Constitution allows for a Council of Peoples’ Representatives with a maximum of 550 members elected by universal suffrage (Article 54, para 3, Federal Democratic Republic of Ethiopia 1994) and from which the power of executive government is drawn (Article 56, ibid.). It also legislates on defined Federal matters (Articles 51, 55, ibid.). A second chamber, the Federal Council, is composed of representatives of the “nations, nationalities and peoples” elected by the State Councils (Article 61, ibid.). The latter consist of members elected again by universal suffrage within
each State as defined by the conditions in the Constitution (Article 47, ibid). The States in being at the time of the acceptance of the Constitution were Tigray, Afar, Amara, Oromia, Somali, Benshagul/Gumaz. Southern Nations, Nationalities and Peoples. Gambela Peoples. Harari People. The powers and functions of the Federal Council are outlined in Article 62 and those of the States in Article 52, to which I shall refer further below. I shall also refer in the next chapter to the relative powers of taxation which are laid down in Articles 96 and 97.

To a very great extent the states which make up the federation have been defined along those ethnic lines already defined by the processes of history, dictated by dominant linguistic, historico-cultural and population factors that prevail in different parts of the country. At face value this exercise may be taken to be a bona fide attempt to construct a structure of governance which openly recognises the role of ethnicity in defining national identity and which hopes to accommodate, to a widely acceptable and wholly peaceful degree, the regional and ethnic interests of all those groups which are within the current physical boundaries of Ethiopia. It is important to note, however, that the definition of regional boundaries on ethnic lines is not in itself particularly new as Daniel Gamachu has shown in his work on the history of administrative divisions in the country (Gamachu 1997). Nor is the explicit reference in the constitution to ‘nations, nationalities and peoples’ and the possibility of secession, as these (or at least ‘self-determination’) were in the National Democratic Revolution Programme of the PMAC in 1976. What has been debatable has been the real meaning and implications of the recognition of separate ethnic or ‘national’ identity in the new constitution, and the degree of fiscal decentralisation that appears to go along with it.

8.4 Perceptions of Federalism

The move to federalism has also had its critics, who in reflecting the complex national, class and regional make-up of the country, may be grouped as follows:

(a) There are those for whom it is significant that open recognition of regional ethnicity in the structure of the state came from a newly installed government dominated by a political party that closely identified with one such group, namely, the TPLF. The
nominal ruling party, the EPRDF is then seen, as indicated above, as little more than a Soviet type of umbrella system perpetuating central control by the TPLF. Many critics therefore view the constitutional changes as no more than a ruse to disguise the provision of favourable treatment to the people of Tigrai.

(b) Others see federalism, sometimes in addition to (a), as a strategy to limit any future dominance of national government by an Amhara based party. Many such critics, though by no means all, are themselves arguing from an Amhara perspective.

(c) Others again, and not only those of Amhara origin, see the changes as a threat to the idea of ‘Ethiopian’ nationality and the future existence of an Ethiopian state, pointing for evidence to the ready granting of independence to Eritrea and to the secessionist and socialist origins (and hence presumed hidden objectives) of the TPLF. These critics fear a break-up of Ethiopia into a number of separate independent states, which would reflect northern historical conflicts and southern conquest. Such critics are not necessarily ‘Amhara supremacists’ regretting a loss of status at the heart of government, but will include those who do believe in a greater Ethiopia and may include many people from families with mixed regional backgrounds who have lived in Addis Ababa for several generations and who are uncomfortable with a future based so overtly on politicised ethnicity (Tegegne Teka 1998).

(d) There are also intellectuals who have a rational fear of the Balkanisation of the Ethiopian state and all that that could entail in the way of continuing ethnic conflict, the disintegration of social order, and long term damage to political stability and economic development.

(e) Finally, there are those who disagree with federalism as an appropriate method of government at Ethiopia’s present stage of development. Those, in other words, who do not have faith that the system will actually ‘work’, that it will produce additional layers of bureaucracy, leading to inefficiency, misappropriation of funds and delay in the implementation of projects.

In reviewing such reactions, it is important to recall again the historical route from which the present situation has emerged. As we saw in Chapter 7 the formation of the Ethiopian state as we know it today can be traced to conflict in the 19th century between powerful regional leaders in the north and from the expansion through conquest by one of these to the south and west. While there is much that is common in cultural and linguistic terms amongst many of these groups, particularly in those of the north, there is also much that is
different. The stability and survival of any government in this situation therefore depends upon the skillful, and even Machiavellian, construction of a commonality between groups in order to hold them together despite their differences. The particular character of this exercise throughout most of the twentieth century was heavily influenced by the fact that so much of the last hundred and fifty years has been dominated by an elite drawn from one group only, namely the Shewan Amhara. A key strategy in containing the problem during the middle years of that century was the formation of a strongly centralised and controlling institutional framework which was developed alongside the simultaneous promotion of the concept of the ‘nation state’ of Ethiopia under Haile Sellassie. In practical terms this meant that the machinery of government inherited both by the Derg in 1974 and by the EPRDF in 1991 continued to reflect the powers of a centralist autocracy. Given this history, then both critical observer and disaffected citizen alike would either cynically expect more of the same, even if dressed up in the new name of ‘federalism’, or be justifiably wary of any radical change to central powers that appeared to carry the risk of diminishing the government’s ability to hold the ‘nation’ together.

How important the various views outlined above are likely to be in future political terms will depend upon how radical the decentralising process turns out to be in practice, given this prolonged historical culture of centralism and hierarchical control. This will be most evident not only in the powers of elective assemblies at different levels but also in the degree of fiscal freedom that is permitted at local, district and regional level. In order to assess the latter, and to judge whether it has been sufficiently radical to reverse the pattern of all previous regimes since the late nineteenth century we need to take a closer look at the changes themselves in greater detail. Before doing this, however, we should note that fiscal decentralisation has also taken place in a context of a wider process of general economic liberalisation. In the remainder of the present Chapter, therefore, I outline the key measures which have been taken since 1991 to liberalise the economy, including those which have affected the coffee filiere. This, when combined with the political summary of this first section, prepares the way for the more detailed statistical examination of the fiscal impact of federalism in the next chapter.
8.5 Liberalization since 1991

8.5.1 General Background

The fall of the Mengistu regime in May 1991 marked a significant change in the political and economic philosophy of government. The high levels of state command and intervention associated with the outgoing ‘socialist’ government, though loosened to some extent after 1988, gave way to a programme of increased political freedom and liberal economic policies by the incoming EPRDF. As already indicated, this was prompted by a combination of the changed international climate following the collapse of the USSR, and by the presence of the USA as a mediator in negotiations with the former government, rather than by an unambiguous conversion to neo-liberalism by the EPLF and TPLF leaderships. The on-going tension which this has created within the EPRDF and TPLF came to the fore in 2000-1, when differences in opinion within the cabinet regarding the extent to which ‘capitalism’ should continue to be encouraged were even reported in the press (Addis Tribune 27-04-2001). In terms of practical measures the new government had been quick to act. By fiscal year 1992/3 an Emergency Rehabilitation and Reconstruction Program, aimed at rehabilitating schools, hospitals, roads and other infrastructure had been introduced, and an Economic Reform Program which formed the basis of subsequent macro-economic policy soon followed (Mekonnen Manyazewal 1999). The Reform program consisted of three phases:

(i) a stabilisation program of the usual structural adjustment kind. This involved devaluation of the Birr, gradual deregulation of exchange controls, reduction of import tariffs and removal of all export tariffs except that on coffee (Mwalwanda 1999; IMF 1999)

(ii) a first stage of structural reform, “aimed at generating supply response” by relaxing labour, tax code and investment regulations.

(iii) a second stage of structural reform seeking to improve efficiency in the civil service and public enterprises (Duri Mohammed 1993:7).
In a 1998 paper to the IMF the government claimed that “substantial liberation of the exchange and trade system had already been undertaken” (IMF 1999:8). The paper goes on to outline reforms that had been implemented or proposed in the areas of export promotion, private sector development and foreign investment, privatisation, capacity building and reform of the civil service, rural development, infrastructure and other areas.

8.5.2 Coffee

Coffee is mentioned only once, in the context of price verification of exports by the National Bank where a single point price is replaced by verification of a range of prices reflecting the varieties of coffee exported. Also, whereas all other agriculture exports were to be verified on an ex post audit basis, coffee was to remain on an ex ante basis. This was subsequently altered, however, in 1999, and coffee price verification was also applied ex post audit, thus speeding up the export process.

Despite the absence of any further mention of coffee in the government’s policy paper to the IMF the filière has been affected in other respects by the liberalisation programme. In 1993 the cost of licence fees were reduced substantially (Itana 1998) to B200 annually for an export licence and to B150 for akrabies and sebsabies (Proclamation No. 70/1993) with the latter being obtainable from zonal offices. The four separate coffee export taxes were replaced by a single rate of 6.5% on value, which is simpler to operate and is of similar impact, though some traders believe it discriminates against higher value beans. In June 2002 payment of this tax was suspended by the government as a response to persistently low international prices, but will be re-imposed if prices rise again. Other changes are that limits on the numbers of licences issued have been relaxed; buyers at auction now know who the seller is; and the Price Differential Committee meets only infrequently and requires only post-audit certification rather than pre-audit as before. The previous regime had also exerted tight controls over internal prices by permitting only allowed deductions from the international price at each stage of the marketing process, whether for sun-dried or washed coffee. This was discontinued by the incoming government, though it retained minimum floor prices.
As indicated in Chapter 6 the former state monopoly, the Coffee Marketing Board, was dismembered in the mid-1990s, with only the exporting arm, remaining under the name of the Ethiopian Coffee Export Enterprise. For a while this company retained a monopoly over the purchase of coffee from state farms, which comprised only about 5% of total marketed production, and it otherwise had to compete openly with private exporters. With the increased freedom given to the private exporter, together with relaxation on ease of entry, the ECEE’s share of the export market diminished substantially during the second half of the 1990s, and by 2002 it had ceased trading altogether (with the future of its assets uncertain). One other small, though potentially significant, change has been a removal of the requirement to sell and buy only through the auctions for producers’ cooperatives, which may now enter into export contracts directly from initial grading in an attempt to return a greater share of the export price to farmers who are members of cooperatives. By mid 2000 this amounted only to a very small volume.

Cumulatively, the effect of these changes is to create an impression of considerable liberalisation, and this has certainly been true if the period of the Derg is taken as a benchmark. The state is no longer involved in trading and entry into the various market stages is completely open. These are all very marked changes to the way in which the marketing of coffee has altered since the fall of the previous regime. Yet, in taking a longer view there is much that has not changed, and there is still considerable state regulation over the marketing structure. We have seen in Chapters 5 and 6 that much of the regulatory system introduced during the 1952-73 period is still in place. Coffee growers are still required to sell sun-dried coffee only to licenced collectors or cooperatives, though from 2000 they were permitted to by-pass the collector and sell directly to a merchant. The primary collector may sell on only to licensed merchants as before and each may deal only within defined geographic areas. Coffee beans cleaned by the wet process may be sold to pulperies for direct shipment to auction. Estate coffees can also proceed directly to auction. Coffee for domestic consumption cannot be sold as such beyond the boundaries of the state in which it is grown, other than through the central auctions. All coffee for markets outside the growing region must proceed to the terminal auctions in Addis Ababa or Dire Dawa, where they are cup tasted before auction and before export. It must be certified as having been cleaned and graded to a minimum standard, both before arriving at auction and before export. Nothing less than Grade 5 may be exported and the entire process is monitored and supervised by a statutory agency, the Coffee and Tea Authority.
The state's revenue from the coffee sector has also remained at much the same level as before though, as noted above, its collection through export taxation has been simplified. Other sources are from income tax, sales tax, business taxes, transport taxes and licence fees, paid from the incomes of all those involved in the passage of coffee from grower to home consumer or foreign buyer. In Oromia there is also rural land use rent, which in 1999 amounted to B10 for the first hectare and B7.50 for each additional half hectare, payable to the Oromia state authorities for land used for agricultural activities. This reflects the wider issue of land ownership and security of tenure. The policy paper referred to above confirms "a central tenet of economic strategy in Ethiopia, namely, widespread sharing of growth is to be achieved through an emphasis on agricultural and rural development in the context of the existing egalitarian distribution of land" (IMF 1999:10). Since we are talking here of the retention of regulatory controls that affect the coffee filiere, the continued state ownership of land and its implications for average farm size, for long-term security, and the possibilities for sub-leasing, sharecropping and mortgaging must feature as important variables at the level of production, as I discussed in Chapter 5.

### 8.6 Conclusion

Although there has been significant economic liberalisation since 1991 much of it has been more a dismantling of restrictive state controls associated with the revolutionary period than a radical change from the pre-revolutionary past. In many respects it has not included the main body of constraints and controls regulating and affecting the coffee industry. Despite the government's commitment to the encouragement of private enterprise (including facilitating foreign investment) the political environment remains one of only gradually allowing controls to be relaxed, and rarely to let them slip away altogether. To some extent this may be the product of a natural and justifiable tendency towards caution in managing change, but, as pointed out in the first part of this chapter, it is also the contemporary manifestation of a tendency of government in Ethiopia to retain strong central control, reinforced in this case by the history and philosophy of the ruling party, the TPLF. I shall return to this argument again in Chapter 11.
It may, of course, be argued that many of the regulations still in place are essential to the task of meeting international standards of quality, and are therefore symptomatic of any ‘modernised’ commodity market (subject to the political economy of international markets, taken up in the Chapter 10). The Ethiopian state in this sense is taking on the role frequently assumed in neo-classical economics and some New Institutional Economics of providing an objective regulatory framework in the interests of stability, future investment and long term growth. Although this is often regarded by non-economists as rather a naïve account of the motives of the state, there are times when, as outcome, it may indeed be close to reality, if the question of who gains and loses is set aside. It is supported by the observation that the state in Ethiopia no longer has a direct role in the actual production and marketing process, and that its principal agency, the CTA, has a remit, formally or informally, to facilitate the operations of privately owned capital and independent cooperatives. This view has to be qualified, however, by the observation that not all the regulations that remain appear to be of a facilitative nature (and indeed are not found in the filieres of neighbouring countries such as Kenya or Uganda), and that rather than merely being a legacy of the past they continue to serve a political purpose to the present regime.

Further discussion along these lines is deferred to Chapter 11. In conclusion here, let us repeat that the context within which recent policy has evolved and been implemented is to a very great extent historically circumscribed. Even when there are external protagonists, such as the IMF, the form in which adjustment policies, for example, are adopted, and the pace and manner of their implementation, will inevitably have to take account of the local terrain. When it comes to a specific sector, such as the coffee filiere, the direction of change at the micro-institutional level will be the outcome of an interaction between contemporary policy measures at the macro level and how these filter down, on the one hand, and the particular nature of the institutional legacy from the past, on the other. As I described in this chapter, a new element in this equation has been the introduction of a federal system, with potentially significant effects on the balance of political and economic power both amongst regions and between them and the centre. In the following chapter I take a closer look at the fiscal aspects of this relationship.
Chapter 9

Fiscal Implications of Federalism and the Coffee Filiere

9.1 Introduction

The previous two chapters outlined the way in which the state evolved in Ethiopia from the late 19th century until the present. This allowed us to identify those characteristics of the contemporary Ethiopian state that are peculiar to its own history and to the culture from which it emerged. Prime amongst these was a propensity to strong central control, both in terms of structures of government and of decision making within these structures, the latter of which has often been highly personalised. This centralising tendency arose from a need to balance a number of varied constituencies, including traditional and modern, rural and urban, regional ethnic, and external, all of which, it may be argued, had to be controlled or managed in generating the stability and cohesion that was required of an emerging nation state in the world of colonial powers and industrial capitalism of the early and mid 20th century. At the same time, this pattern of central control also enhanced the powers of the central government itself, and hence of those who controlled it, thus contributing to its own survival and to that of its ruling elite.

Before commenting further along such lines it is important to take account of the impact of what is regarded by many as the most important political and administrative change introduced by the present Ethiopian government. This is the conversion to a federal system and of its fiscal implications for central government, and hence, in a wider sense, for the influence of central authority. The political economy of federalism, in other words, must take account of the degree to which the government fiscus has been decentralised, how the process has been controlled, and of its implications for the retention of political power at the centre. What is the significance, finally, of such changes for the coffee filiere, given that coffee production is dominated by the two states of Oromia and SNNP (Southern Nations Nationalities and Peoples)? Do the changes that have been introduced by federalisation reverse the previous tendency to centralised authoritarianism that has been noted in earlier chapters, or are they merely a window-dressing exercise to mollify regional demands for greater devolution of powers? It is the function of the present chapter to seek answers to such questions. Inevitably, this requires an examination of evidence on changing patterns of revenue and expenditure and of their distribution between the Federal and Regional states. The
factors which determine the distribution of public expenditure, revenues and central subsidies amongst the nine states and two city regions must also be studied in some detail in order to ascertain the degree and nature of fiscal devolution that has occurred. The remainder of the present chapter thus unavoidably proceeds at a level of fiscal detail which may at times appear excessive but which, in creating a cumulative picture of the fiscal impact of federalism, allows a more informed assessment of its political significance.

9.2 Breakdown between Federal and Regional States

9.2.1 General

As we have seen, by its very nature the coffee filiere is subject to state regulation, taxation and intervention throughout its length. Any reform of state structures will therefore be expected to alter the political and economic environment in which the filiere functions. In order to make an assessment of the effects of this it is important to understand the nature of the changes that have occurred. This section therefore begins by taking a detailed look at the general fiscal relationships between the Federal State and the regional States in Ethiopia, before exploring how the coffee filiere may be affected.

Article 96 of the Constitution gives the Federal State powers to levy and collect duties and taxes on the following:
- imports and exports;
- employees of international organisations;
- Government enterprises;
- national lotteries;
- all transport services;
- Federal government property;
- Federal licence fees;
- Government monopolies;
- stamp duties.

Article 97 gives the regional States the power to tax or raise fees from:
State and private enterprise employees:
land usufructory rights:
incomes of private farmers:
merchants resident in the State:
sales taxes:
water transport fees:
income from private rent:
government enterprises located within the state:
State licences and services:
forest resources.

There are also several areas where there are concurrent powers of taxation such as jointly established enterprises, dividends to shareholders, and large scale mining, petroleum and gas operations.

The immediate principle behind this differentiation of powers is explained in Proclamation No.33 1992. As summarised by Fikru and Ferede “the sharing of revenue is based on the ownership of source of revenue, the national or regional character of the sources of revenue, convenience of levying and collection of the tax or duty, population size, distribution of wealth, level of development of each region....”(Fikru and Ferede 1999:191). The first of these marks Ethiopia as being rather unusual in that the status of the taxpayer rather than the type of tax is the determining factor in a number of cases – such as employees of different types of enterprise. At a different level, there are macroeconomic management reasons why Federal governments generally retain power over some of the more important sources of revenue. This is recognised in public finance literature where in the interests of internal stability (and efficiency of resource allocation) the powers of individual states to pursue independent fiscal policies are limited (Oates 1999). On the other hand, the welfare benefits (in neoclassical economic terms) of decentralising the provision of public goods to match local needs (Oates 1999:1122) is also recognised in this literature and an appropriate balance therefore sought. These arguments make the usual neoclassical economic assumptions of a neutral State seeking allocative efficiency in the use of resources. I shall return to this issue in the concluding section.
9.2.2 The Federal-Regional Breakdown

Before we can make a judgement on whether or not there has, as a result of federalisation, been a fundamental change in the centrist nature of the state (and hence of its influence over the coffee filiere) it is useful to look more closely at the evidence on fiscal decentralisation. Let us begin by examining how the balance between Federal and State revenues and expenditure has been determined in practice in Ethiopia in recent years, taking the revenue situation first.

Table 9.1: Federal and Regional Share of State Revenues, 1993-94 and 1997-98

<table>
<thead>
<tr>
<th>Type of revenue</th>
<th>1993-94</th>
<th>1997-98</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Ebm</td>
<td>Federal %</td>
</tr>
<tr>
<td>Total tax revenue</td>
<td>3077</td>
<td>82.73</td>
</tr>
<tr>
<td>Direct tax</td>
<td>945</td>
<td>55.49</td>
</tr>
<tr>
<td>Income &amp; profit tax</td>
<td>900</td>
<td>58.30</td>
</tr>
<tr>
<td>Indirect tax</td>
<td>834</td>
<td>88.19</td>
</tr>
<tr>
<td>Foreign trade taxes</td>
<td>1297</td>
<td>99.06</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>833</td>
<td>80.30</td>
</tr>
<tr>
<td></td>
<td>5787</td>
<td>82.96</td>
</tr>
<tr>
<td></td>
<td>2030</td>
<td>61.58</td>
</tr>
<tr>
<td></td>
<td>1860</td>
<td>67.23</td>
</tr>
<tr>
<td></td>
<td>1377</td>
<td>85.02</td>
</tr>
<tr>
<td></td>
<td>2380</td>
<td>100.00</td>
</tr>
<tr>
<td></td>
<td>2243</td>
<td>81.96</td>
</tr>
</tbody>
</table>

Source: World Bank 2000 (b)

It is clear from Table 9.1 that the Federal government retained considerable control over revenue sources, with the figure of 82.73% for 1993-94 even being slightly higher by the end of the five year period, at 82.96% by 1997-98. It is clear too that control over taxes on foreign trade is a major component of this share. Thus the EB2380m collected from taxes on foreign trade in 1997-98 comprises 41.1% of total revenue for that year, all of which accrued to the centre. This is virtually the same as it was in 1993/4. The only area where the share of total tax revenue collected by the regions increased over this period was in indirect taxes but this was more than balanced by an increase in the central government’s share of direct taxes, rising from 30.77% to 35.08%, which came largely from income and profits taxes on international organisations and government enterprises.

The Federal State has thus retained significant revenue raising powers despite the policy of fiscal decentralisation. The period between 1993-94 and 1997-98 was also one in which Gross Domestic Product grew at an annual rate of 4.5%. It may therefore be surmised that the taxation structure is not set up so as to increase the share collected by
the regions as economic growth progresses. In other words, it is not significantly biased in a regional direction. The broad shares between centre and regions indicated in Table 9.1 are not therefore likely to alter much more in the short to medium term.

What about public expenditure? Does a similar pattern exist? Table 9.2 shows that for current expenditure there does appear to have been a significant change towards the regions, with central government’s share of all administrative expenditure falling from 71.4% to 63.0% between 1993/4 and 1997/8. It should be noted that this category also includes defence expenditure which remains totally centralised. The same pattern is reflected in the other principal categories of expenditure, Economic Services and Social Services, and in the total of all government expenditure where the central share fell from 60.9% to 56.3%

Table 9.2: Current Budgetary Allocation by Functional Classification

<table>
<thead>
<tr>
<th>Function</th>
<th>1993-94</th>
<th></th>
<th>1997-98</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Federal</td>
<td>Region</td>
<td>Total</td>
</tr>
<tr>
<td>Administration</td>
<td>1386.0</td>
<td>71.4</td>
<td>28.6</td>
<td>2073.3</td>
</tr>
<tr>
<td>Economic Services</td>
<td>493.0</td>
<td>39.1</td>
<td>60.9</td>
<td>778.4</td>
</tr>
<tr>
<td>Social Services</td>
<td>1261.9</td>
<td>20.2</td>
<td>79.8</td>
<td>1671.1</td>
</tr>
<tr>
<td>Education</td>
<td>825.1</td>
<td>14.0</td>
<td>86.0</td>
<td>1149.6</td>
</tr>
<tr>
<td>Health</td>
<td>302.7</td>
<td>16.4</td>
<td>83.6</td>
<td>397.8</td>
</tr>
<tr>
<td>Total</td>
<td>4716.4</td>
<td>60.9</td>
<td>39.1</td>
<td>6661.0</td>
</tr>
</tbody>
</table>

Source: Planning and Research Department, MEDoC (unpublished table)

We can conclude from the evidence of Tables 9.1 and 9.2 that although central government has delegated responsibility for expenditure on many economic and social services to the regions, with associated administrative expenses, it has retained control over their financing. That is, it has delegated a greater share of expenditure than it has done revenue raising powers. In the terms used by Tanzi (1995) this reflects a greater degree of administrative decentralisation than fiscal. One consequence of this is that the regions do not raise sufficient revenue from their own tax base to finance all that they are now required to do. In anticipation of this there is an obligation in the Constitution on the Federal state to transfer a sufficient proportion of national revenues to the regional states to cover their administrative and other budgeted costs. In Ethiopian FY 1997 this amounted to 49.85% of the central government’s ‘Ordinary Revenue’ (as
defined in Article 7a p571/(A) p573), excluding capital revenue and foreign loans and grants. As we shall see below, there is considerable variation between regions however.

In summary, although there has been quite significant decentralisation of public expenditure to the regional governments there has been little tendency, at least during the years observed, for regions to move towards a greater degree of self sufficiency in public finance terms. Indeed the opposite has prevailed as expenditure has increased at a faster rate than revenue at regional level. Although this may be seen in political terms as central government continuing its hold on financial control, it may also be interpreted as no more than the natural outcome in the short to medium term of any attempt to decentralise and stimulate economic activity in regions which have suffered decades of neglect and which consequently have little tax base of their own. On the other hand, it would be technically possible to write into the foreign trade taxes, for instance, a formula that automatically transfers a proportion to the regions on an assumed destination basis (as for example with the Southern African Customs Union). That is, the politics and economics of the situation are closely intertwined.

9.3. Effect at Regional Level

So far I have considered the degree of fiscal decentralisation only at a very aggregated level. It is also instructive to look at the pattern across the regions, especially since coffee production is dominated by only a few regions. The share of the total revenue received by each State that comes from its own resources, for fiscal years 1993/4 to 1997/8, is shown in Table 9.3. As might be expected, there is considerable variation between regions. It can be seen that the western region of Benishangul was most dependent on central funds and Addis Ababa least. Of the non-city regions only rarely is as much as 25% of expenditure financed by local sources, though the largest coffee producing region, Oromia, is consistent in this regard. For quick reference the final column shows those states responsible for the bulk of the coffee inspections in 1997/8 and the volumes inspected.
Table 9.3: Regional Own Revenue as % of Expenditure per Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Own Revenue as % of Total Expenditure</th>
<th>Coffee Inspected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1993/4</td>
<td>1996/7</td>
</tr>
<tr>
<td>Tigray</td>
<td>18.6</td>
<td>26.6</td>
</tr>
<tr>
<td>Afar</td>
<td>8.8</td>
<td>22.0</td>
</tr>
<tr>
<td>Amhara</td>
<td>18.8</td>
<td>19.1</td>
</tr>
<tr>
<td>Oromia</td>
<td>29.2</td>
<td>30.1</td>
</tr>
<tr>
<td>Somali</td>
<td>60.1</td>
<td>23.0</td>
</tr>
<tr>
<td>Benishangul</td>
<td>6.6</td>
<td>6.8</td>
</tr>
<tr>
<td>SNNP</td>
<td>19.2</td>
<td>23.1</td>
</tr>
<tr>
<td>Gambella</td>
<td>8.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Harari</td>
<td>33.7</td>
<td>19.6</td>
</tr>
<tr>
<td>Addis Ababa</td>
<td>63.8</td>
<td>99.4</td>
</tr>
<tr>
<td>Diredawa</td>
<td>89.8</td>
<td>55.4</td>
</tr>
</tbody>
</table>


Care should be taken not to read too much into the apparent comparative position of different regions, and the early period in particular can be misleading because of the political circumstances of the time. The high ratio for the Somali region in 1993/4 is likely to be a reflection of a very low level of expenditure at that time rather than of success in revenue collection. The subsequent decline in the ratio to 12.8% in 1997/98 may be regarded as the consequences of a catching up in this respect (as a result of the formula based approach to be described in the next section). For Tigray, Amhara and Oromiya the proportion of expenditure for the year 1997/98 financed by own revenues are of a similar order of magnitude, being around 20-25%, whereas in the much less developed regions such as Gambella and Benishangul the share is generally well under 10%. Clearly, these differences arise from the way in which the tax base interacts with the level of development in each region. Such factors also render it difficult to detect any link between coffee production in a region and its revenue raising capacity.

The ratios shown in Table 9.3 are a measure of what is referred to in public finance literature as ‘vertical imbalance’. A more precise measure for comparative purposes is obtained with the formula $\left[1-\frac{(R^s/R)/(E^s/E)}\right]$ where $R$ and $E$ are total revenue and expenditure and the superscript ‘$s$’ denotes states. Where this formula has a value of zero it means that the share of own revenues in total revenues is equal to the share of state expenditure in total expenditure. The nearer the value is to one then the lower is the share of own revenue compared with the share of expenditure and the more reliant is
the state (or states) on federal support. To do this calculation for Table 9.3 would take us too far from our present topic but a calculation for Ethiopia as a whole produced a figure of 0.52 in 1996. This is considerably higher than for Germany, for example, where the ratio was 0.15, or Canada at 0.08 or Australia at 0.24. It is lower than for South Africa, 0.88, and Bolivia, 0.66, but in general is on the high side of international comparisons (World Bank, 2000b: pp.24-5). However, at Ethiopia’s present stage of development (especially in rural areas), and limited experience with a federal system, a fairly high ratio is not surprising, and would be expected to decline gradually as greater confidence in the system at national level emerges and if, as hoped for, greater decentralisation stimulates more even economic development and efficiency of tax collection improves.

9.4 Principal Sources of Revenue at State Level

A further indication of the diversity between regions and hence of the difficulty of generalising about the impact on the coffee sector is revealed when we examine the sources of revenue by type of tax. In comparing the contribution that each region is expected to make to government revenue a number of differences emerge which reflect a combination of structural economic differences and efficiency of collection amongst states. Table 9.4 highlights these for 1996/7.

Table 9.4: Revenue Budgets by Region, 1996/7

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Direct Taxes</th>
<th>Indirect Taxes</th>
<th>Stamp Duty etc</th>
<th>Non-tax Revenue</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>m.</td>
<td>Ebm</td>
<td>EBr</td>
<td>EBr</td>
<td>EBm</td>
<td>EBm</td>
</tr>
<tr>
<td>Tigray</td>
<td>3.36</td>
<td>33.06</td>
<td>27.27</td>
<td>5.03</td>
<td>21.45</td>
<td>81.78</td>
</tr>
<tr>
<td>Afar</td>
<td>1.13</td>
<td>4.73</td>
<td>2.61</td>
<td>0.15</td>
<td>2.20</td>
<td>9.54</td>
</tr>
<tr>
<td>Amhara</td>
<td>14.77</td>
<td>96.25</td>
<td>12.74</td>
<td>2.13</td>
<td>52.51</td>
<td>161.51</td>
</tr>
<tr>
<td>Oromia</td>
<td>20.01</td>
<td>211.30</td>
<td>39.12</td>
<td>6.75</td>
<td>59.78</td>
<td>310.20</td>
</tr>
<tr>
<td>Somale</td>
<td>1.98</td>
<td>39.17</td>
<td>2.68</td>
<td>0.08</td>
<td>0.23</td>
<td>42.08</td>
</tr>
<tr>
<td>Benesh.</td>
<td>0.49</td>
<td>3.92</td>
<td>0.35</td>
<td>0.07</td>
<td>2.80</td>
<td>7.07</td>
</tr>
<tr>
<td>SNNP</td>
<td>11.06</td>
<td>88.35</td>
<td>11.05</td>
<td>0.82</td>
<td>32.64</td>
<td>132.04</td>
</tr>
<tr>
<td>Gambella</td>
<td>0.19</td>
<td>3.48</td>
<td>0.31</td>
<td>0.05</td>
<td>2.22</td>
<td>6.01</td>
</tr>
<tr>
<td>Harari</td>
<td>0.14</td>
<td>4.13</td>
<td>1.65</td>
<td>0.52</td>
<td>1.45</td>
<td>7.23</td>
</tr>
<tr>
<td>Region 14</td>
<td>2.34</td>
<td>195.96</td>
<td>90.53</td>
<td>58.58</td>
<td>163.51</td>
<td>450.00</td>
</tr>
<tr>
<td>Diredawa</td>
<td>0.28</td>
<td>12.98</td>
<td>4.05</td>
<td>1.20</td>
<td>4.21</td>
<td>21.24</td>
</tr>
<tr>
<td>Total</td>
<td>55.77</td>
<td>693.33</td>
<td>192.36</td>
<td>75.39</td>
<td>343.01</td>
<td>1228.70</td>
</tr>
</tbody>
</table>
Of the total revenue raised by the regional governments of 1228.7 mB in 1996/7 as much as 450.0 mB or 36.6% came from Region 14 (Addis Ababa), and a further 310.2 mB or 25.2% from Oromia, much of which would be from activities in the vicinity of Addis, particularly the Addis Ababa – Mojo corridor, as well as Nazareth and Shashamane. Though not shown in Table 9.4 the biggest single source in each case is, in fact, business income tax, followed by personal income tax in the case of Addis Ababa and agricultural income tax in that of Oromiya. There are a number of other variations. Thus, the direct taxes for Amhara and Oromia include rural land use fees of B27.32m and B30.00m respectively (deriving from the Public Ownership of Rural Lands Proclamation of 1975). By contrast, in the highly urbanised Region 14 this item was estimated to raise only some B0.05m while urban land lease was expected to raise B28.76m. Agricultural income tax was highest for Oromia, being budgeted at B43.00m, while for Amhara the amount expected was B26.32m and for SNNP B21.00m. Of the indirect taxes, those on sales of local goods, at a rate of 5% on food items, would incorporate coffee transactions, and produced an estimated revenue (from all sources) for Oromia of B3.5m in 1996/7. This compares with B1.66m in Amhara and B0.46m in SNNP, from the same source. It is also worth noting that non-tax sources of revenue are of some significance, with the exception of Somale region. Otherwise they range from around 20% of total revenue in the cases of Harari and Dire Dawa and Oromia to over 30% in Amhara. These consist generally of charges and fees, sales of goods and services, pensions contributions, and miscellaneous small charges. They also include fees from licences to operate as coffee traders.

The trend over time between direct and indirect taxation is also of some interest. In Table 9.5 this is shown for direct and indirect taxes for the three year period FY1996/97 to FY1998/99 this time using preliminary actual outcomes rather than budgeted amounts.
Table 9.5: Direct and Indirect Tax Revenue by State, 1996/97 – 1998/99

<table>
<thead>
<tr>
<th>Region</th>
<th>Direct Taxes</th>
<th></th>
<th></th>
<th>Indirect taxes</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tigray</td>
<td>Ebm</td>
<td>Ebm</td>
<td>Ebm</td>
<td>Ebm</td>
<td>Ebm</td>
<td>Ebm</td>
</tr>
<tr>
<td>Afar</td>
<td>6.0</td>
<td>6.6</td>
<td>5.9</td>
<td>-</td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Amhara</td>
<td>42.4</td>
<td>39.8</td>
<td>40.4</td>
<td>43.0</td>
<td>34.2</td>
<td>20.6</td>
</tr>
<tr>
<td>Oromia</td>
<td>94.0</td>
<td>121.0</td>
<td>121.0</td>
<td>12.0</td>
<td>12.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Somale</td>
<td>247.5</td>
<td>264.6</td>
<td>264.6</td>
<td>26.4</td>
<td>51.0</td>
<td>52.0</td>
</tr>
<tr>
<td>Benishangul</td>
<td>3.1</td>
<td>5.0</td>
<td>2.4</td>
<td>0.2</td>
<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>SNNP</td>
<td>97.9</td>
<td>100.0</td>
<td>26.7</td>
<td>27.4</td>
<td>33.1</td>
<td></td>
</tr>
<tr>
<td>Gambella</td>
<td>3.7</td>
<td>4.7</td>
<td>0.5</td>
<td>0.5</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Harari</td>
<td>4.5</td>
<td>6.2</td>
<td>0.8</td>
<td>0.3</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td>Region 14</td>
<td>200.0</td>
<td>297.5</td>
<td>80.6</td>
<td>94.3</td>
<td>76.2</td>
<td></td>
</tr>
<tr>
<td>Dire Dawa</td>
<td>9.6</td>
<td>10.5</td>
<td>4.1</td>
<td>2.4</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>741.2</td>
<td>875.7</td>
<td></td>
<td>232.5</td>
<td>223.8</td>
<td>204.3</td>
</tr>
</tbody>
</table>

Source: National Regional Governments’ Revenue tables, Ministry of Finance, (unpublished)

There is an interesting variation in the trends here in that while the total direct tax revenue increased over these three years that for indirect taxes declined. The pattern is not uniform across the regions. Direct tax takings were lower for Tigrai and Somale at the end of the period than at the beginning, while all others experienced an increase in their totals. For indirect taxes, although the total fell this was not the case for Amhara, Benishangul, SNNP, Gambella. The major drop was for Tigrai, followed by Oromia and Region 14. many factors could lie behind such differences. The data for each year refers to ‘preliminary actual’ outcomes and may subsequently be corrected (though ‘preliminary’ refers to the fact that they are unaudited figures rather than that they may be incomplete). As some regions build up their administrative capacity their tax collecting efficiency would be expected to improve, while others would be affected by how the general economic climate affects incomes and consumption levels, and the degree therefore to which households are exposed to the tax regime. The pace of introduction of liberalised trade policies may also impinge differentially on indirect taxation. On the other hand, in those regions where direct taxation has fallen, such as Tigrai and Somale, the main cause appears to have been a drop in business income or profits tax.
It is difficult to say more at this point, except that it has been a rather volatile situation with quite substantial variations in the year to year figures, presumably partly reflecting varied degrees of adjustment to devolved administrative procedures. At local level the short term effects of this would be to increase uncertainty with the potential to inhibit the cooperation of producers, though actual evidence of this is difficult to measure.

Income from non-tax sources is also of some interest regionally, accounting for 30.6% of total revenue in 1998/99. This consists of miscellaneous charges and fees, and sales of goods and services. The pattern of recent changes is summarised in Table 9.6.

### Table 9.6: Regional State Revenues from non-tax Sources (mB)

<table>
<thead>
<tr>
<th>Region</th>
<th>1996/7</th>
<th>1997/8</th>
<th>1998/9</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ebm</td>
<td>Ebm</td>
<td>Ebm</td>
</tr>
<tr>
<td>Tigray</td>
<td>22.3</td>
<td>21.4</td>
<td>20.3</td>
</tr>
<tr>
<td>Afar</td>
<td>2.8</td>
<td>-</td>
<td>1.9</td>
</tr>
<tr>
<td>Amhara</td>
<td>53.6</td>
<td>66.2</td>
<td>53.8</td>
</tr>
<tr>
<td>Oromia</td>
<td>74.8</td>
<td>80.9</td>
<td>59.0</td>
</tr>
<tr>
<td>Somale</td>
<td>4.3</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Beneshangul</td>
<td>3.5</td>
<td>4.1</td>
<td>4.9</td>
</tr>
<tr>
<td>SNNP</td>
<td>36.4</td>
<td>30.2</td>
<td>21.9</td>
</tr>
<tr>
<td>Gambella</td>
<td>3.1</td>
<td>2.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Harari</td>
<td>1.7</td>
<td>2.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Region 14</td>
<td>182.8</td>
<td>291.5</td>
<td>296.3</td>
</tr>
<tr>
<td>Dire Dawa</td>
<td>4.3</td>
<td>4.1</td>
<td>10.7</td>
</tr>
<tr>
<td>Total</td>
<td>389.8</td>
<td>505.6</td>
<td>476.5</td>
</tr>
</tbody>
</table>

Source: National Regional Governments’ Revenue Performance tables, Ministry of Finance (unpublished)

Once again it can be seen that although this total non-tax revenue increased between 1996/97 and 1998/99 (though declining from 1997/98) the pattern varies across regions. The bulk of the increase has come from region 14 (Addis Ababa). Otherwise there appears to be no particular pattern, reflecting varying degrees of efficiency around the country, bearing in mind once more that these are ‘preliminary actual’ figures. Care should be taken not to read too much into the figures for such a short period, a period moreover which covers the fairly recent introduction of new constitutional arrangements with their attendant revision of procedures and processes. Depending upon available skills, amongst other factors, the speed with which different regions and zones have been able to adapt to the new fiscal regime appears to have varied widely, making
comparision between regions and years difficult to interpret. One might have expected the devolution of the right to issue licences to traders and other businesses to have increased income from this source, and this may have been a factor in the overall rise between 1996/97 and 1998/99, but it should be remembered that this was accompanied with deregulation of the number of traders permitted to operate in many instances and of a substantial reduction in licence fees. The net result of these changes may well be a fall in total revenues from this source. It is difficult to generalise from aggregated data: in one coffee growing state, SNNP, non-tax incomes steadily declined quite substantially, while in another, Oromia, they rose first before then falling significantly. In Harari, they rose steadily!

The implied differences in the rate of adjustment to federalism which lies behind such comparative figures also means that the response to any changes in the tax regime or tax rates will tend to have differential effects depending not only upon available skills but also upon structural differences between regions. There do not, however, appear to have been major changes in this respect. Between June 1995 and May 1999, for instance, the rates of tax on income from employment, from rental income, income from unincorporated businesses, and sales taxes on goods were unaltered. On the other hand, the formula for rural land use rent altered slightly, raising the amount due for farms of over one hectare; but agricultural income tax rates were simplified and reduced. The range of goods to which excise taxes were due was extended and many of the individual rates increased, but for incorporated businesses the rate of profits tax was reduced from 40% to 35%. Tariffs on imports were reduced from ten to seven rates ranging with a reduced ceiling of 40% compared with 80%, though this would only affect federal government revenues. None of these would be sufficient in themselves, or even in their net impact, to alter significantly the pattern of revenue sourcing across regions, though they do provide an additional element of change in the overall environment in which farmers and merchants have had to operate.

The figures in the text and tables of this section are useful for comparative purposes in establishing the nature of the fiscal regime which characterises the role of government in rural areas, but they do not, of course, exist in isolation from the political arena. The link between the bare figures of public revenue and expenditure and their political determinants is provided in the budgetary processes from which they arise, and to which they are accountable, and to which I now turn.
9.5 The Budgetary Process

The extent to which the process of establishing an annual budget for each region and its zones is conducted at regional and sub-regional level provides useful insight into the real degree of decentralisation that has been allowed by central government, and hence on whether the pattern of the previous one hundred years has significantly altered. It also helps us in assessing the impact of the state at various stages of the coffee filiere, and of the contribution of coffee, and its related activities, to state revenues. The budgetary process is fairly complex, however, and in order to assess the extent of recent changes there is no alternative to taking a somewhat detailed look at the systems that have been introduced since 1991. The situation is also complicated by the fact that procedures have not been totally standardised across regions. Nevertheless, in broad terms the key stages can be readily identified. Overall there are (a) the processes which take place within a region, aimed at determining expenditure to meet an anticipated budgetary total, and (b) decisions taken at national level on the amount of budgetary transfer, or subsidy, from central government revenues to the region. Each of these is taken in turn below.

9.5.1 Budget setting within a region

The general principal at regional level is that the process begins at the lowest administrative level, that of the woreda, which may in turn take account of wishes at kebele level. Each woreda then passes its requirements, or wishes, on to the zone (or killil) level which collates and assesses before passing further up to the planning and finance offices of the state bureau. This process for East Shewa Zone in Oromia has been summarised by Tegegne (2000). It is at the state level that the various budget requests are sifted, aggregated, gauged against regional and national sectoral plans, and set off against likely income. Priority is given to recurrent expenditures, then to ongoing capital projects, followed by new projects. The income is, as discussed above, derived from local tax and other revenue raising powers together with Federal transfer according to the formula described below. This process, broadly outlined here, apparently varies fairly widely in practice across the country (World Bank 2000a), and with varying degrees of efficiency. At the end of 2000 there were two states, Amhara and SNNP, which had been applying a version of the weighted mean formula (described below) to distribute funds between zones within the state, while others were considering its introduction. Unfortunately, the impact of the border conflict between Ethiopia and
Eritrea between 1998 and 2000 meant a reduced allocation from the centre in fiscal year 1999/2000, and in Amhara region the formula was dropped in favour of a simple allocation to recurrent expenditure and on-going capital projects.

Transfer from the Federal government takes the form of an unconditional block grant, leaving the political process within each state to determine the breakdown between recurrent and capital expenditure. In view of the relative newness of the federalised system there are many areas in which procedures are still evolving, for example where capital projects affect more than one region, such as large dams, electrification, or major roads, and which would usually be accounted for separately in any formula-based scheme.

9.5.2 Transfer from central revenues

The degree to which each state is able to raise revenue under its own powers, as given by the Constitution, is taken into account in determining the subsidy or transfer from the centre, which, as we have seen, constitutes the major source of income for all states except Region 14. Some understanding of how this transfer is determined is therefore important to an appreciation of the constraints on regional budgets. During the first few years following the installation of the new government, grants to the regions appear to have been based on existing administrative requirement plus approved project needs. For fiscal year 1994/95 a formula was introduced to determine grants for capital expenditure, while administrative requirements continued to determine support for recurrent expenditure. Since then the formula has been subject to a number of changes and from 1995/96 has been used to determine total (capital plus recurrent) expenditure for each region. By 1997/98 this formula had adopted the ‘weighted mean’ approach, whereby an index was derived which gave the population of a region a weight of 60%, its level development a weight of 25%, and its ability to raise revenue a weight of 15%.

The level of development was measured by composing a sub-index which included indicators for education, health, road density, electric power sales, telephone line density, and availability of safe drinking water. The ability to raise revenue from within the region was measured by comparing the ratio of own revenue to budget for the region with the corresponding ratio for all regions.

In 2000/01 FY the weightings were altered to include a 10% weighting for the level of poverty measurable in the region. This was obtained by reducing the population
weighting to 55% and that of the level of development to 20%. At the same time, the revenue raising element was adjusted to include an output performance indicator, although the weight remained at 15%.

The formula index for each region is then totalled and the regional value taken as a percentage of the total in order to determine the share of Federal funds to go to that State. It should be noted that the Federal government has already made its own calculation of the total split between the needs of the central state and those of the regions, and to this latter total that the formula will apply. From the sum so determined for each state, however, the Federal government deducts the expected own revenues for that state to give a net amount for transfer. Until FY1999/2000 the major bulk of any externally raised development aid specific to the state was also deducted, with the object of attempting to ensure that the considerations of equity implicit in the basic formula are maintained. Clearly these deductions are the source of a potential disincentive by the regional governments to raise their revenue earning capacity or to seek external donor funding. In recognition of this, for 1999/2000 MEDaC altered the offset for foreign funds so that only 30% of grants and 70% of loans would be offset (World Bank 2000a). The relative importance of this concession is evident in the observation that between 1996/97 and 1998/99 the share of foreign aid in the capital budgets of the states averaged 24% (the figure for 1999/00 was 44% but this was influenced by a reduction in federal transfers caused by the war with Eritrea.) (World Bank 2000a Table 4.1)

There is a sense in which the disbursement of central funds by a common formula may be interpreted as a loosening of control by the central authorities, especially when combined with the freedom given to regional bureaux to decide how to spend their receipts. That is, the opportunity for political interference by the central government in the allocation of funds to the regions has been lessened. On the other hand, the total amount available is still decided centrally, and the use of a (rather complex) formula to divide it amongst the fourteen states may be regarded as a depoliticising strategy which actually strengthens the hand of central government as it is regarded as attempting to introduce a ‘fair’ system.

9.6 The Effect on Coffee Growers

What is the impact of all this on coffee growers? It is at the local level that most growers of coffee and other produce will engage with the state. This will be most
immediate in assessment for land use tax and income tax. Until 1995 the former was a flat rate tax based upon a rate of B10 per farmer not in a cooperative, B5 if in a producers’ cooperative, and for state farms 2 Birr per hectare (IMF 1996). This was modified in that year and by May 1999 in Oromia, for example, farmers were obliged to pay B10 for the first hectare and B7.50 for each additional half hectare. The rate for state farms was raised to B15 per hectare. We saw in chapter 5 that the average holding for coffee farmers in the CIP survey was 1.2 hectares (Table 13), implying therefore an average annual payment of B17.50.

The agricultural income tax is based on a sliding scale, which until 1996 began at B10 for all farmers whose income was less than B600 per annum, then 10% for incomes between B601 and B1,200, and thereafter at a progressively rising marginal rate up to as much as 89% on income over B36,001 (IMF 1996). After 1996 the first band was fixed at incomes up to B1200 per annum which were liable to pay B15. The rate then began at 5% on income between B1,201 and B5,000, 10% on the next ten thousand birr and so on. The number of bands was reduced from 14 to 5 and the marginal rates of tax on each band substantially reduced.

How many farmers were affected? Let us concentrate on the post-1995 period. In those coffee growing woredas where the EU CIP had been operating, the 1999 survey showed that 71.4% of households had an annual income of less that B1,400, and 56.8% an income of less than B1,000. It may be assumed, on a straight line averaging basis, then that some 64% had a household income of under B1,200 per annum. These were a mixture of households. For those households which were mainly coffee growers the percentage earning incomes below B1200 can be similarly estimated at around 58%, while that for mainly cereal growers in the same region was 82%. These households would therefore be expected to pay no more than B15 in income tax; that is, just over half of coffee producers and well over three quarters of cereal growers in the same areas. This was in 1999. The persistent fall in coffee prices since then will in many cases have reduced liability further, except in those cases where farmers have compensated by increasing yields (assisted by a good harvest in 2001-2).

The latter assumes that all are liable and all pay something. The same CTA survey showed that of a total sample of 1186 households 1011, or 85.2%, declared any payment of tax (derived from Tables 67 & 68). Given the circumstances of scattered rural communities, numbers of collectors and their skills, this may be regarded as a fairly high level of tax penetration. The context, of course, as shown in the historical
chapters, is a society in which extensive degrees of control have been exercised through many layers of government for several generations. This is an interesting example of continuity within the structural administrative changes that have been introduced over the years.

At the most local level it is interesting to observe how much, or how little, households in rural areas receive in return for these taxes. We saw in Table 9.2 that during the four year period between 1993/94 and 1997/98 the shares of the total national budgets for 'economic services' and 'social services' that were allocated to the regions did actually increase, as did the amounts themselves. However, the share going to education in the regions decreased. How do such figures translate into experience at village level? A very clear indication is provided in the CTA-EDE socio-economic survey of CIP areas described in Chapter 5 where it was noted that 55.9% of households were more than an hour's travel from an all-weather road; 62.1% more than an hour from the nearest market and 48.3% from a grinding mill. The same survey revealed that 64.1% were more than an hour away from a health institution; and 29.0% took over an hour to fetch fresh water. Although only 19.2% of households were more than an hour from a school only 40.0% actually attended school, with the main reason given for non-attendance being the need to assist in household labour. In terms of such institutions of the state and the services they provide many households may therefore feel uninvolved. Even 22.1% were more than an hour away from a Development Agent office.

On the other hand, all are part of the state subdivision of the country into administrative regions. Each State within the Federation, such as Oromia, Tigre, SNNPS, is subdivided into killils or Zones, and each killil into a number of woredas, with each woreda in turn consisting of kebele administrations. The latter replaced the Peasant Associations of the former regime though generally with enlarged and altered boundaries (Yigremew 1988: Note 6). It is to the kebele administration that householders will pay taxes and to which they will apply if seeking more land. However, one legacy of the previous regime has been to engender a considerable degree of suspicion regarding organisations of local government. Many Peasant Associations were corrupt and folded with substantial outstanding debts and financial irregularities. Land allocation was not always regarded as having been conducted fairly and this has led to quite major local redistribution exercises in some parts of the country since then (Yigremew November 1998:14), including redistribution of common lands in the coffee growing areas (Tessema 1994, Gizachew 1994) and to some degree these have undermined the security of tenure.
which the 1975 Land Act was designed to provide. Many peasant households will therefore still regard these taxes as little different from previous forms of tithe or tribute.

When coffee is taken to the market the *sebsaby*, or primary collector, will have paid a market fee and will be liable to pay income tax. On reselling the dried coffee on to the *akraby*, the larger merchant, an additional tax of 5% on value become payable (note that along with the export tax this was suspended in July 2002 in order to alleviate the effects of low international prices). The *akraby* will then be liable to the usual income and business profits taxes. As pointed out in Chapter 8 the fees for various licences to operate were reduced substantially in the mid-1990s but still exist. Most merchants will be based in urban areas but their tax and licence obligations will be to the state or its subdivisions at zonal level. We should note in all of this that the powers of municipalities are extremely limited, being based upon legislation passed in the 1940s and leaving them in a somewhat anomalous, and poorly resourced, relationship to the federal system that prevails around them (World Bank 2000a). The net effect on traders and merchants of tax changes is consequently impossible to assess on the basis of currently available data.

9.7 Regional Equity?

If, as has been suggested in Chapters 7 and 8, there has been a consistent centralising tendency in the evolution of government structures in Ethiopia with the aim of facilitating control over resources, then the degree to which recent reforms do or do not alter that trend will offer insight into the true nature of the decentralising processes that have been introduced at fiscal level. One way of approaching the issue is to ask whether a major coffee producing state like Oromia is giving more than it receives in its relations with the centre, both in total amounts and relative to other states. This also has implications at the political level.

In other words, do the present procedures provide an equitable outcome for each state? Or are there biases which continue to favour the centre? Much depends upon what we mean by ‘equity’ in this context. But however it is defined, there are severe data limitations to providing an answer. Ideally, one would need to know, or have a reasonable estimate of, the contribution of each region to the national Gross Domestic Product; that is, to have an estimate of the relative income generating powers of each region. This could then be compared with the proportions of tax revenue raised by
region and the ratio of subsidy received from the centre both for current and capital expenditure. One measure of ‘equity’ might be for the latter ratios to be the same as the proportionate contribution to GDP for each region. One of the main difficulties is in knowing what each region contributes to GDP. On the assumption of a certain homogeneity in standards of living across the country population might be taken as a proxy measure for comparing relative levels of regional production, particularly as 90% of the economically active population depend upon agriculture, and in which case Oromia could be taken as contributing some 36% of the national total. But this is essentially meaningless, as allowance has also to be taken of those urban areas, particularly the urban Region 14, Addis Ababa, where agricultural activity is of minor importance, and which comprises well over half of GDP. Furthermore, an assumption of homogeneity clearly cannot be sustained in comparing, say, Oromia and Afar, or even between zones within Oromia.

In the meantime we may take a look at those figures which are available. For FY 1997/98 it is possible to calculate that Oromia was estimated to have raised 24.66% of the EB1568.88m. raised in total regional revenue, but received 25.3% of the EB3265.3m. paid to the regions by the Federal Government (Unpublished tables and World Bank a:28). A similar calculation may be made for each state but the resulting comparison would be subject to the same qualifications that attach to Table 9.3. For a whole variety of reasons states differ in their administrative capabilities, in their relative needs, and in the time path of change in these factors, such that crude annual comparisons of aggregated data, or even comparisons over relatively short periods of time, would produce misleading and quite unrepresentative indicators. Indeed, it is presumably to avoid this that the weighted average formula discussed above has been introduced. There are also too many variables for which data is lacking for there to be meaningful conclusions.

Yet comparisons are inevitable, and comparative statistics, where available, can be useful in that differences may be openly discussed and divergent trends brought to light, appropriately analysed and responded to. One area where future development of regional economies is highly dependent is that of capital expenditure. This is also an important factor in decentralising employment, both in the construction of capital projects and in their subsequent operation over the years. As noted above, the breakdown between recurrent and capital uses of money is left to each state to decide, and comparative figures will reflect different degrees of policy choice in this respect, but it is probably reasonable to assume that most state governments will attempt to
maximise growth of capital investment over time and that the figures indicate their success in doing so. The degree to which each region has succeeded in expanding its capital budget between EFYs 1986 and 1992 (1993/4 to 1999/00 Gregorian) is shown in Table 9.7. Because the sums in many cases were exceedingly low in 1992/93 (EFY 1985) the use of that year as a base would have given a misleading impression of rates of growth. Column 2 of this Table therefore shows intended capital expenditure for EFY 1992 divided by the corresponding figure for 1986. Even then, the low starting points for small states like Gambella and Harari tend to create very high ratios, which does at least indicate some addressing of their previously poor status. Of the three major states in population terms, (Oromia, Amhara and SNNP) the largest, Oromia had the lowest rate of change over this six year period, being also the lowest experienced by any state. The same applies when budgeted capital expenditure is divided by population for each region (Column 1). This time EFY 1985 is included in the average for the period 1985-92. The range is again wide, with Gambela receiving an allocation of EB0.303 per capita and Oromia EB0.020, though the population of the former is only around 200,000 compared with over 20 million for the latter. Finally, it is worth observing that once again there is no particular distinction between the major coffee growing states and the others, though with such highly aggregated figures this is not really surprising. We should remember, too, that these are figures for public capital investment. The pattern for private capital would presumably be different, but not relevant to present discussion on the state, and not, in any case, available.

Table 9.7: Regional Per Capital Budget Allocations and Growth Rates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tigray</td>
<td>0.051</td>
<td>4.16</td>
</tr>
<tr>
<td>Afar</td>
<td>0.111</td>
<td>3.80</td>
</tr>
<tr>
<td>Amhara</td>
<td>0.023</td>
<td>3.86</td>
</tr>
<tr>
<td>Oromia</td>
<td>0.020</td>
<td>2.77</td>
</tr>
<tr>
<td>Somale</td>
<td>0.088</td>
<td>7.71</td>
</tr>
<tr>
<td>Benishangul</td>
<td>0.159</td>
<td>11.57</td>
</tr>
<tr>
<td>SNNP</td>
<td>0.025</td>
<td>5.69</td>
</tr>
<tr>
<td>Gambela</td>
<td>0.303</td>
<td>109.55</td>
</tr>
<tr>
<td>Harari</td>
<td>0.173</td>
<td>46.59</td>
</tr>
<tr>
<td>Addis Ababa</td>
<td>0.157</td>
<td>10.37</td>
</tr>
<tr>
<td>Dire Dawa</td>
<td>0.052</td>
<td>9.37</td>
</tr>
</tbody>
</table>
Source: Calculated from unpublished tables, MEDaC

Note: In the average sum budgeted for capital expenditure in column 1 the FY1985 was included, but it was excluded from column 2 as the relatively low initial base of that year would have produced extremely wide variations which were unrepresentative of later years.

The absence of more regionalised data is itself a product of past centralism and will take time to remedy. The contents list and layout of the Annual Abstract of Statistics for 1996 is virtually unaltered from the format used in the early 1970s and contains virtually no regional input, though as regional issues become increasingly important and as the Regional States build up their own more sophisticated bureaucracies the quality and range of information will gradually improve. It will also become politically important to have better regionalised data and this will be an interesting minor trend to follow. All we can say in summary is that regional differences in own revenue and in receipts from central government, and in public capital expenditure, do not form a pattern in which the coffee producing states stand out from the rest in any way. It is impossible with the existing evidence to say whether or not their relative resource advantage has been to their benefit or their loss as a result of the recent fiscal changes. This leaves us with the more general context, which the following section of this chapter attempts to summarise.

9.8 Decentralisation or not?

What does this all add up to? Does the evidence of this chapter indicate that a reversal of the centralising tendencies characteristic of previous Ethiopian governments is occurring, and is this also the perception of regional opposition groups? The view of the World Bank, which may be fairly disinterested at this level, is clear: “Ethiopia has embarked on a bold and thoughtful process of decentralisation .........At this point the system is unquestionably working well” (World Bank 2000 (a): i) and at a later point adds its belief that “the constitution assigns extensive powers to the regions” in terms of administrative, budgetary, planning and political decision making processes (ibid: 2). Elsewhere, we have the statement: “Ethiopia’s federal system has actively promoted the decentralisation of planning and budgeting functions, and there are encouraging signs that this can lead to better use of resources” (World Bank 2000 (b): iv). Let us put these observations into the broader context.
The following overall points may be made:

A. Where there has been a reduction in centralisation:

1. Responsibility for recurrent state expenditure at regional level has been devolved to the regions, together with the budget formulation process.
2. A number of tax and non-tax revenue raising powers have also been devolved.
3. The allocation of funds between states is based upon a formula which takes account of relative population size and of regional socio-economic need.
4. The House of Representatives consists of representatives from the regional States, which have their own elected state assemblies, with powers to pass legislation subject to the provisions of the national Constitution.

B. Limitations of the changes:

1. States remain highly dependent upon subvention from central government, both for capital funds and recurrent revenues. The degree of vertical imbalance is high by international standards.
2. Tax raising powers are limited to locally generated incomes and sales. The rates of tax are determined nationally.
3. Addis Ababa remains the biggest recipient of both State and overseas funds.
4. The major sources of revenue, amounting to some 80%, remain in the power of central government, which retains for its own use some 45% of all revenues collected.

To these we may also add:

5. With regard to the coffee filiere most of the regulations which determined its structure during the reign of Haile Sellassie remain in place.
6. Although the Constitution has procedures which would allow any State to secede, in practice this is not likely to be easy.

For some observers the first set of points are a clear indication that the provisions of the new Constitution represent a radical change from the past. Regional differences are recognised and some degree of self government has been effectively devolved. It is a real change, devolving real powers, though there is no threat to the unity of the national
state. The argument in this view is that of mainstream debates on constitutional alternatives and fiscal federalism, drawing on examples from elsewhere in the world. It is a new venture for Ethiopia and will take time to evolve a mature balance between centre and regions. It is also an evolutionary process within the regions and the concentration of decision making power that currently tends to exist at regional level itself (Tegegne 2000, Bulti 1994: 159) would gradually be expected to relax somewhat as local competences improve and institutions mature. In the meantime, in this view, it is only natural that the government will proceed cautiously, given the country’s recent history. For those involved in the coffee filiere and other local economic activities there are assumed to be greater opportunities to influence policy at grass roots level through kebele and woreda consultative processes than before. There is scope for political representation of special interests, and more localised facilities for the disbursement of licences and payment of fees and taxes.

Yet, this is to ignore other political aspects. For many, the ethnic basis of the regional divisions has been unwelcome and seen as creating dangerous opportunities for the break-up of the Ethiopian state. Much of the debate in this area has been in terms of nationalities, and many Shewan Amhara people, for instance, from whom the families of Haile Sellassie and Menelik were drawn, resent the loss of power to a government dominated by the TPLF which they consider less committed to the existing nation state of Ethiopia. This is reflected in the views of the All Amhara People's Party, for example. Others, including many whose families have been in Addis Ababa for several generations, do not wish to be defined in terms of any nationality other than Ethiopian, and for this reason are wary of ethnic regionalism.

As I indicated at the end of Chapter 8 a third important body of opinion sees the creation of regional States along ethnic lines as little more than a concession, a cosmetic to hide the fact that real power remains at the centre as it always has in modern Ethiopia. Historically, the highland Amhara and Tigrinya speakers have vied for power over each other and over other nationalities in the area. A change of government in Addis Ababa from the Amhara line to one with a Tigrean base makes no difference to those other nationalities, particularly in the south and east, who feel they have been exploited by both. This, in broad terms would also be the view of a number of proscribed liberation movements, particularly the OLF and the SALF Many of the statistics reproduced in this chapter, which show continued reliance on the centre, lend themselves fairly readily to such arguments, even by those not committed to violent change (see Jalata 1993; Khalif 2000).
In support of the latter view is the fact that for the coffee filiere the main bones of its institutional structure remain essentially unaltered by the new constitutional arrangements. Despite liberalisation of entry regulations, and hence a greater degree of competition, most of the controls that were established before 1974 to ensure that the bulk of exportable quality passes through central markets remain in place, unaffected by regionalisation. The Coffee and Tea Authority, which is responsible for supervising and monitoring the industry, remains part of the Federal branch of the state machinery, while coffee remains the only commodity subject to export tax. Whether this degree of continuity with a more centralised past is a reflection of its contemporary political usefulness to the government now in power, or a still valid attempt to compensate for deficiencies in market performance, is an issue to which I shall return in greater detail in Chapter 11.

9.9 Conclusion

It is clear that the evidence on federal and regional fiscal performance and its structure lends itself to different interpretations. One reason for this is that the incoming government in 1991 did not enter an institutional vacuum. Although the various changes outlined in the present chapter may in some ways mark a radical break with the past the particular shape that they have taken, and their limitations, have been conditioned by that past and the major historical trends which I have traced in Chapters 3, 4, and 7 of this thesis. In part, the changes since 1991 are reactions to some elements of these trends, such as the problem of ethnic nationalism, but in part too, they are also the creations of the same centralising organism. The latter interpretation is reinforced by a further observation that the operations of State administrations tend to mirror the centralising traditions of national government. This is not only because they derive from the same organic past but also because they will tend to reflect power structures inherited from within that national group.

Furthermore, the degree to which existing institutions are protected will be a function of the interests of the later governments which inherit them. If, therefore, the present government has similar self-preservation tendencies to that of Haile Sellassie then it will not seek to fundamentally alter the institutional framework which characterised his regime. The decentralisation exercise of a Federal constitution may then be regarded as a strategy for holding the Ethiopian state together while leaving many of the component
organisations and regulative practices unaltered. The debate cannot simply be in terms of neoclassical theories of efficiency where the federal state takes the role of 'deus ex machina' searching for the most appropriate administrative and fiscal balance for Ethiopia's present stage of economic development, in some supposed value free environment. This argument is taken up again in Chapter 11.

In arguing, as I have done in Chapters 7-9, that there has been a pervasive centralising tendency in and by the state throughout its twentieth century history, I have implied that the reason for this has been to do with the preservation of state power in the interests of the dominant dynasty, party or elite group. The stress, in other words, has been on the driving force of internal power politics. Yet, from a political economy perspective the resources which underpinned state finances have depended heavily on the export of coffee to the world market; and therefore a dependence on that market, and the concomitant need to meet international standards of quality and delivery, has been an important conditioning factor in the internal architecture of control. In order to understand how the international coffee market impinges on the Ethiopian filiere and to explore how the structure of the domestic filiere is in some senses a response to this, it is necessary to describe in some detail the international end of the filiere. This is the purpose of Chapter 10, which will complete our survey of the filiere through which Ethiopian coffee passes on its way from farmer to final consumer around the world. On completion of Chapter 10 we shall be in a position, in Chapter 11, to review the entire process in its broader political and historical context and to assess the value of the theories of institutionalisation which were examined in Chapter 2, in aiding our understanding of the Ethiopian case.
Chapter 10

International Setting of the Ethiopian Coffee Filiere and Local Impact

10.1 Introduction

As I indicated in Chapter 1, one reason for taking a filiere approach to the analysis of a commodity chain is to be able to trace the effects or repercussions on other parts of the filiere of interventions at any given part or over any part of its range. The filiere extends from the producer of the crop (in this case) in its country of origin through various stages of processing to final consumption usually in other countries. It is often the international section of the filiere which carries the major part of the value added. For Ethiopian coffee the international end of the filiere is absorbed within the international coffee market, and it is how this echoes down the length of the filiere that interests us here. Precisely how Ethiopia is affected is a product not only of conditions within Ethiopia but also of Ethiopia's place in the international order and of the institutional character of the international market itself. To begin to understand this we need an appreciation of the structure and history of that market. In this chapter I begin, therefore, with a short summary of the supply side of the world coffee market. This is followed by a more detailed breakdown of the channels whereby demand is met, both by processors and final consumers. The degree to which the international coffee market in its many forms may be said to be 'globalised' and what this might mean is then explored. We shall then finally be in a position to examine how the world market and its structures affect the Ethiopian filiere.

10.2 The World Supply of Coffee: Past and Present

In looking at the global market it is important to recall the distinction between the two main varieties of coffee: Robusta and Arabica. The former tends generally to be more standardised though of a lower quality in terms of flavour and general body, and comprised some 31.4% of world exports in 1999-2000. It is produced mainly in West Africa, Uganda, Indonesia, Vietnam, and India. Robusta beans are the main ingredient in the manufacture of instant, or 'soluble', coffee, with smaller amounts of Arabica included in order to add flavour. Most Robusta will therefore be handled by larger importers selling either directly to the major producers of soluble coffee, such as Nestle, or to large roasters who will then supply the soluble market on a contract basis. Further
details of the soluble market are provided in Section 10.4.2. The major share of world exports, 68.6% in 1999-2000, consists of Arabica coffee which generally has better taste qualities and is in demand from specialist markets as well as from the soluble market to add body and acidity to instant coffees. Although the major producers of Arabica coffee are Brazil, producing about 20% of total world exports, and Colombia, with around 11%, the market is divided, for pricing purposes, into three main classifications: (i) Brazilian naturals, to which Ethiopian coffees belong; (ii) Colombian mild varieties, with which Kenya and Tanzania are usually classified; and (iii) other milks, coming mainly from Central America, but also including Rwanda, Burundi, Malawi, Zambia and Zimbabwe. The output and exports of the main producers, and their principal types of crop, are shown in Table 10.1, which includes all those countries whose production exceeded one million bags in their crop year commencing in 1999. Ethiopia ranked ninth, though because of the large domestic consumption the country ranked only fourteenth in export volume for that year. The difference may also reflect difficulty in meeting export quality for all produce that is brought to inspection.

<table>
<thead>
<tr>
<th>Country</th>
<th>Production (th.60k bags)</th>
<th>Exports (th.60k bags)</th>
<th>Main Type of Coffee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>32,353</td>
<td>18,234</td>
<td>A</td>
</tr>
<tr>
<td>Vietnam</td>
<td>11,264</td>
<td>10,838</td>
<td>R</td>
</tr>
<tr>
<td>Colombia</td>
<td>9,336</td>
<td>9,193</td>
<td>A</td>
</tr>
<tr>
<td>Mexico</td>
<td>6,442</td>
<td>5,349</td>
<td>A</td>
</tr>
<tr>
<td>Indonesia</td>
<td>6,014</td>
<td>5,160</td>
<td>R</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>5,463</td>
<td>5,586</td>
<td>R</td>
</tr>
<tr>
<td>India</td>
<td>5,407</td>
<td>4,476</td>
<td>A</td>
</tr>
<tr>
<td>Guatemala</td>
<td>5,201</td>
<td>4,802</td>
<td>A</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>3,505</td>
<td>2,016</td>
<td>A</td>
</tr>
<tr>
<td>Uganda</td>
<td>3,097</td>
<td>2,647</td>
<td>R</td>
</tr>
<tr>
<td>Honduras</td>
<td>2,975</td>
<td>2,829</td>
<td>A</td>
</tr>
<tr>
<td>El Salvador</td>
<td>2,778</td>
<td>2,553</td>
<td>A</td>
</tr>
<tr>
<td>Peru</td>
<td>2,529</td>
<td>2,191</td>
<td>A</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2,465</td>
<td>2,073</td>
<td>A</td>
</tr>
<tr>
<td>Kenya</td>
<td>1,433</td>
<td>1,143</td>
<td>A</td>
</tr>
<tr>
<td>Thailand</td>
<td>1,397</td>
<td>991</td>
<td>R</td>
</tr>
<tr>
<td>Papua New G.</td>
<td>1,386</td>
<td>1,074</td>
<td>A</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>1,384</td>
<td>1,305</td>
<td>A</td>
</tr>
<tr>
<td>Ecuador</td>
<td>1,350</td>
<td>737</td>
<td>A</td>
</tr>
<tr>
<td>Cameroon</td>
<td>1,218</td>
<td>1,224</td>
<td>R</td>
</tr>
<tr>
<td>Total World</td>
<td>106,997</td>
<td>84,421</td>
<td></td>
</tr>
<tr>
<td>World Total</td>
<td>114,218</td>
<td>88,155</td>
<td>60,455  27,700</td>
</tr>
</tbody>
</table>

Table 10.1 Production and export by main producing countries, 1999-2000.
Notes: (a) Production data is for the crop year commencing during 1999
     (b) Export data is for the twelve months December 1999 to November 2000
Source: International Coffee Organisation 2001 (www.ico.org)

Although it is still the world’s largest single producer the dominance of Brazil has been gradually decreasing, especially with the very rapid increase in production of Robusta from Vietnam during the 1990s. During the first half of the last century Brazil’s share of the world market was around 70%. From the 1950s to the 1980s it averaged about a third, and has since been dropping gradually. Table 10.1 shows that in the 1999-2000 crop year Brazil produced 28.8% of world output and exported 20.7% of world exports. This may change, however, as production has been increasing and moving North within the country to areas where it will be less prone to frost damage. The next largest producer in 1999-2000 was Vietnam, with 12.3% of global exports, followed by Colombia with an export share of 10.4%. During the late 1990s Brazil also held around 50% of coffee stocks located in producing countries.

It is clear from these figures that even if it not quite so influential as in the past the annual fluctuations in supply from Brazil must continue to have significant impact on global availability and hence on world prices. This assumes that consumption does not change rapidly from year to year and that in the short term prices are supply driven. Market operators are therefore very observant of climatic and policy changes that might affect forthcoming harvests from Brazil. Not only do late frosts inhibit flowering and hence affect the size and quality of the following season’s harvest, but beans already maturing on the trees for the current season can be damaged by excessive prolonged rain, while insufficient rain during the growing period of October and November can reduce yields (Peel 97). Similar factors can affect the harvests in other countries and the supply of weather information during crucial periods in all the major producing countries around the globe is therefore a key informational input to the New York and other terminal markets. These seasonal variations in weather patterns generally create a two year cycle in the market response but other factors such as disease or more favourable prices for competing crops can lead to a much longer cycle of destruction and replanting as conditions change in individual countries. Clearly, where supplies are liable to such unforeseen variations there will be a history of price instability. Furthermore, with yields generally increasing and new entrants coming on to the world
market there have also been longer term downward pressures on prices. This has led to various schemes in the past to stabilise prices, usually driven by the major producing countries.

10.3 International Coffee Agreements

Farmers' organisations and politicians in Brazil have naturally long been aware of the country's potential power in the world coffee market, and there have been a number of attempts to influence world prices, dating back to the early years of the last century. This is not the place for a detailed account of the variety of schemes that have been in place, but it is important to note that the characteristics, sustainability, and pervasiveness of many of the early schemes emerged from the political environment (and class structure of ownership) within Brazil. Their relative degrees of success have been highly significant for other producers around the world, including Ethiopia during the 1920s, as I noted in Chapter 3. During the late 1950s the agreement in place was El Convenio de Mexico, which required Brazil to withhold substantial stocks from the world market. Being confined to producers within the American continent this agreement allowed suppliers from elsewhere, such as Africa, to increase their share of the world market. At this time domestic politics in Brazil were greatly concerned with industrialisation, but needed the foreign exchange from coffee exports to finance it. Politicians therefore had to appease coffee producers. The solution which emerged was a new international agreement which not only incorporated African and Asian producers but had the important difference from the past that the principal consuming countries, particularly the United States, agreed to import only quota coffee. The interests of the USA in going along with this followed from the aftermath of the Cuban revolution in 1959 and the fear that communism would spread across Central and South America (Bates 1997).

The International Coffee Organisation was therefore formed in 1963 and for the first ten years of its life export quotas were in place. As was shown in Chapter 4, this period overlaps with a period of consolidation and extension of the regulatory system in Ethiopia. To some extent this would have happened anyway as the government of Haile Sellassie continued in its efforts to bring Ethiopian coffees up to international quality (and to ensure continuing revenues), but to a large degree it was also a product of membership of the ICA since for the quota system to work effectively it was important that the volume of exports be adequately monitored in each country. Moreover, in
setting quotas themselves it was essential that each country had accurate production figures. This was important as, once set, it was difficult to negotiate an increase in a quota. Indeed one of the problems noted at the time was the way in which quotas locked individual countries into a static level of production from year to year. What is less obvious, and what I have tried to show in Chapters 4-7, is how the introduction of regulations to satisfy the ICA could be used to reinforce existing structures of production, including ownership and regional variations. In Ethiopia the international legacy from this period as it has affected the structure of the domestic filiere is still strong, a point to which I shall return at the end of the present chapter.

Research on the impact of the ICA is in broad agreement that the imposition of quotas succeeded in increasing the prices received by member countries over those of non-member countries during the two periods, 1963-1972 and 1980-1989, when quotas were in place. Prices thus tended to be higher than they would have been in the absence of the agreement. Exceptions were at times of shortage, caused for example by drought in Brazil in 1986, when the release of stocks brought prices down. There was therefore a price stabilising effect as well as a price raising one (for reviews of this research see Gilbert 1996. Bates 1997). However, when the fourth agreement ended in September 1989 there was no further renewal, and indeed quotas were suspended in July of that year. There were a number of reasons for this. First, the international economic climate had changed in favour of more liberal markets. The ‘Soviet’ threat, as seen by the USA, was collapsing and the political economy of ‘the new right’ was dominant in the governments of the USA and other western countries, and permeated the IMF and World Bank. Support, therefore, from importing countries disappeared. Second, at the micro-economic level, there had also been changes in consumption patterns, with a move towards more specialised ground coffee markets, favouring washed ‘milds’ from Colombia and Central America, rather than the unwashed Brazil Arabicas and Robustas which supplied the soluble market. The rigidities of the quota system inhibited appropriate adjustment in supplies and prices to reflect these changing patterns of demand.

A third reason was that amongst the producers themselves there was lack of agreement for renewal of the quota system, at least as it had evolved up to then. This in part came from the perception by the producers of “other milds” that the existing quota structure favoured Brazil, a view supported by a World Bank study of the time which concluded that the main beneficiaries—in terms of revenue had been Brazil and Colombia. New terms could perhaps have been negotiated but the attitude of the Brazilian government
to renewal of the agreement was also ambiguous, reflecting a change of President and
debates within the country between pro-marketeers and interventionists. Taking these
three points together it is clear that the political will was not present for renewal of a

Following the non-renewal of the ICA there were several years of low prices, partly as a
result of the disposal of stocks which had accumulated during final, fourth, agreement
that had terminated in 1989. Eventually, a fifth ICA was agreed in 1994, but without
quotas and without the USA as a member. It was an agreement only to work together to
maintain standards, share information, raise market profiles, simplify documentation
and to continue to support the ICO as a forum for debate and a channel for all such
international activities. The low prices of the early 1990s did, nevertheless, stimulate
renewed discussion about intervention and in 1993 the main producing countries agreed,
outside the ICO, to operate a Coffee Retention Scheme, which would be voluntary and
would be administered by a new Association of Coffee Producing Countries. The
subsequent performance of this scheme has been mixed: announcement of its formation
was followed by a recovery in prices, which was sustained into 1994 by the appearance
of frosts in Brazil during June and July of that year. Prices then declined during 1996
before rising substantially in 1997. From early 1998 prices began what became a
dramatic decline from which they had not recovered by mid-2002, mainly caused by
increased supplies in response to the exceptionally high prices of 1995 and 1997. The
Coffee Retention Scheme seems to have had little impact on this downward trend
(though there has been little formal analysis), in part because quotas are not enforceable
and because a number of countries have had problems in financing the retention (Public
Ledger 18 September 2000:10), together with the opportunity cost that this implies.

Buyers in the consuming countries are aware of this and do not therefore buy in
anticipation of quotas causing prices to rise, hence mitigating against a recovery. Even
the prospect of bad weather in Brazil has less impact on the market when supplies from
elsewhere are so abundant, including a rapid growth of Vietnamese robusta output, and
to a lesser degree, from India. Moreover, there has been substantial extension of planted
hectareage in Brazil itself, and although harvests were affected by drought and frost in
1999 and 2000 the potential for substantial future growth remains. In mid-2000 stocks
held by the consuming countries were also large (F.O. Licht 2000). The likelihood of
any effective future agreement is therefore slim, and indeed the ACPC collapsed in
2002.
Before leaving this section it is important to ask why Ethiopia was a member of the ICO and a signatory to the various ICAs. Also, why did the country join the ACPC with its export retention scheme? With regard to the former, by staying out of the scheme as a small producer Ethiopia could have enjoyed the benefits of free riding by exporting to non-member consuming countries, though admittedly these would not be the largest importers. By joining, however, the Ethiopian government gained recognition and reinforcement of its status as an independent nation state on an important international commodity body. It also managed, as we saw in Chapter 4, to negotiate quotas near to its actual export volumes at the time, and in some years even failed to meet its export quota. This meant that any generalised price increase gained by the international quota agreement would raise Ethiopia’s revenue from coffee exports above what they would have been without the scheme. There was no need, therefore, for free riding. Finally, as the country’s links with the United States had strengthened since 1945, and as the USA was the principal destination for Ethiopian coffees at that time, there would be little to be gained by staying out of an organisation backed by the USA which had the objective of stabilising and increasing world coffee prices. The internal consequences of joining were, as indicated in Chapter 4.6, an extension of bureaucratic structures, and hence intensification of control, in order to ensure conformity with ICO regulations. These were consistent with other more domestically driven centralising changes of the period, all of which together guaranteed that the financial benefits would pass through central organisations, allowing the government to apply export taxes, monitor the provision of licences, and to control the subsequent inflow of foreign exchange.

These are all aspects of the supply side of coffee in world markets. Let us now look at the structures through which demand is met

10.4 Channels of Demand: the International Filiere

The exports from each country will have passed through a domestic filiere, or set of domestic market institutions in order to reach the international market and satisfy international demand for coffee. But the demand side of that market is also institutionally constructed, and some knowledge of how it operates is essential to understanding how the consequences of the market behaviour of principal actors reverberate down the chain to each producing country.
To proceed, let us note a number of important segments to the international market structure.

- There is, first, the role of importers, dealers and roasters and the consumers of ground roasted coffees.
- There is the part played by the major producers of soluble coffees, such as Nestle, Maxwell House, Fogens, de Haag.
- And there is the role of the international coffee exchanges in price determination. These include the Cocoa, Sugar and Coffee Exchange (CSCE) in New York, where most Arabica contracts are traded, and the London International Financial Futures Exchange (LIFFE) which deals principally in Robustas.

Each of these is relevant to the Ethiopian market and I shall now examine each in turn, before assessing, in the penultimate section of the chapter, whether their combined interaction may be described as ‘globalised’. As we shall see, the answer to that question is not simple, and is not helped by a relative paucity of publicly available information. It is curious that despite the importance of coffee as a major traded commodity, detailed information on how the international market actually works is obtainable only from scattered sources, many of them primary. Useful comparative data on individual companies is also difficult to obtain, and has been affected by a steady process of mergers and takeovers. Much of what follows reflects the situation as at the mid to late 1990s.

10.4.1 Importers and Traders

During the last decade of the 20th century over 56% of world green coffee imports were in the hands of only seven companies: in order of importance at that time they were Rothfos, E D & F Man, Volcafe, Cargill, Aron, Tardivat and Esteve (Wheeler 1995). The first four of these accounted for almost three quarters of the total of the seven and 40% of all green bean imports. During the later years of the 1990s, however, Cargill, one of the world’s largest commodity trading companies, decided to drop out of coffee trading, and the position at the beginning of the 21st century will therefore have changed, though to the extent that the gap has been taken up by the remaining six then the degree of concentration will not have changed significantly. This green coffee would then either be roasted by the importing companies themselves or sold on to roasters who
may be supplying national or regional hotel and restaurant chains, or may be involved in contracting for roasting and processing into soluble form for supermarkets’ ‘own brand’ coffees. Some 27% of total supplies was being used for the manufacture of soluble coffee in the mid-1990s, much of which would be supplied to the soluble manufacturers by the companies mentioned above, but some, also would have been bought directly from exporting countries, by Nestle in particular, though to a lesser degree by its competitors in the soluble market. Further discussion on the buying policies of these final product companies appears below.

In addition to the large players in each of the major industrial nations there are a number of medium sized and smaller importers, traders and roasters, who would form links in the chain of supply to local consumer markets, local and regional hotel, restaurant and pub networks. Many of these would be what the trade refers to as ‘principals’ or ‘dealers’, while others would be agents for a number of end users, and others again brokers dealing perhaps with eight to ten shippers at a time. The number of firms involved from producer to final consumer can be very short. In Sheffield, for instance, the principal merchant, who is also the main independent retailer of roasted beans to the public in the city, purchases green beans from a London importer. This company purchases its Ethiopian coffee from an Ethiopian exporter who will have purchased from the local auction as described in Chapter 6. In this case the coffee is retailed as ‘mocha’ and is generally Jimma 5. There may be occasions, however, when the principal importer may purchase additional supplies through a broker in order to meet the demand from a roaster. The importing process itself is strictly regulated through standardised documentation. In Europe the ‘European Coffee Contract’ ensures that volume, quality, means and timing of payment are correctly specified and defines how arbitration in the case of disagreement should be implemented. In the United States the ‘Green Coffee Contract’ has been in operation since the 1970s.

In the United States the end market for roast and ground coffee is quite concentrated, with three companies having over 75% of the market share. These are Procter & Gamble (under the brand name of Folger) with 34%, Philip Morris (Maxwell House) with 29% and Nestle with 13%. In Europe market concentration has been more varied, depending on the country. In Germany, France, Austria and Denmark the leading company is Kraft Jacobs Suchard, a subsidiary of Phillip Morris, though the German company Tchibo Educhso had a slightly higher share of the market in that country, with 32% (compared to 30% for Kraft Jacobs Suchard). The dominant company in the Netherlands, with 70% of the market, is Douwe Egberts, which is owned by the US
company Sara Lee (all information from van Rijk et al. 1998). A rather similar pattern appears to have been emerging in Japan where 59% of the roast and ground market is accounted for by two companies, Ueshima Coffee and Key Coffee, though the balance is made up by a large number of smaller companies.

It should be noted that very little of the coffee exported to these countries is already roasted. This is only in part because of historical reasons and an entrenched infrastructure. It also reflects the capital required for roasting and processing to required quality and the advantages, with roasted coffee, of being close to the users of roasted beans: this is more than simply retaining optimal flavour quality but also allows flexibility in responding speedily to user needs. On the other hand, several roasters in Brazil have been successful in exporting vacuum packed roasted beans to specialist markets in Germany, Italy and Japan (van Rijk et al. 1998).

10.4.2 The Soluble Market

The world market for instant or soluble coffee and its variants is dominated by Nestle which has around 56% of market share. This varies from country to country, naturally. Its share in the United States is only 25% (van Dijk et al. 1998) while in Britain it is also around 56% by value and 48% by volume (1989 figures from Monopolies and Mergers Commission 1991). In Europe as whole Nestle has a value share of around 50%, although in Switzerland this rises to almost 70%. Throughout the countries of the Far East Nestle has a consistent share of over 50% in all countries, including China (Market Tracking 1996). It cannot be automatically assumed that market control follows from these high shares as there are several large competitor companies on the international scene. In the world’s largest national market, that of the United States, the leading company in terms of market share is Philip Morris, whose Maxwell House held 32% of the market in 1998. This was followed by Procter and Gamble with its Folger brand taking 29% of the market in soluble coffee. Nestle, as already noted, had at that time, 25% of the US market. The principal subsidiaries and brand names owned by Nestle and Philip Morris are summarised in schematic form in Figure 10.2.
Table 10.2 Major Producers of Soluble Coffee

<table>
<thead>
<tr>
<th>Parent Company</th>
<th>Subsidiary Company</th>
<th>Brand Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nestle</td>
<td>-</td>
<td>Nescafe Gold Blend</td>
</tr>
<tr>
<td>Philip Morris</td>
<td>General Foods</td>
<td>Maxwell House Kenco Café Hag Lyons Birds Jacobs Suchard Percol</td>
</tr>
<tr>
<td></td>
<td>Kraft General Foods</td>
<td></td>
</tr>
</tbody>
</table>


Within most of the Western markets there are other companies with significant market presence. In Britain there is Brooke Bond, together with the own brands of the major supermarkets, while in Italy the market is very fragmented, and in Japan it is dominated by three national companies (Ueshima, Key, and Art). Although it is not relevant here to delve much further into the workings of the international consumer market it is important to have made the point that between them Nestle and Philip Morris account for around 73% of the global soluble market. This, however, consists only of around 27% of world production of coffee, and principally of Robusta types.

The question arises as to the degree of influence which Nestle and Philip Morris are able to exert in their purchasing activities, either on the six large dealers mentioned above or on the markets themselves by direct purchase. The Nestle group, for instance, generally buys about 12% of the global supply of coffee (Nestle www page). On the other hand, most of this is from dealers and merchants of green coffees. Likewise, General Foods Ltd in its British operations buys its green beans from “a broad range of coffee merchants and traders in Western Europe” (Monopolies and Mergers Commission 1991:46). But they also both buy direct from the Colombian Growers’ Federation. This appears to the pattern for most other major roasters and processors.
These are not spot purchases. The UK Monopolies and Mergers Commission report into the supply of soluble coffee for retail (MMC 1991) showed that Nestle at that time had commitments ensuring supplies for about eight weeks ahead. These consisted of three to four weeks of green coffee already in the country ready for factory use, one to two weeks in port or on transit within Britain prior to being graded for their use, and three weeks of coffee in shipment from the country of origin. All of this would be already paid for. In addition, there would often be another ten days of coffee in shipment but not yet paid for, plus a number of forward contracts in advance of shipment, giving a total of three and a half to four months supply guaranteed (Monopolies and Mergers Commission 1991:42).

It is impossible to say whether Nestle's buying power has been able to influence the market or to enable the company to obtain unfair competitive advantage, as details of its purchases over time are unavailable. Consequently, it is also difficult to assess whether the company's activities have been particularly exploitative of the farmers who grow the beans. The company itself claims that it buys more coffee directly from farmers, thus by-passing the 'middle men', than all the fair trade companies combined. (It does not, however, believe in offering the farmers stable prices, claiming that this will lead to overproduction and an eventual collapse of prices.) The Monopolies and Mergers Commission report concluded that although Nestle's profits appeared at that time (1991) to be higher than those for the industry average there was little evidence that this was due to the exercise of monopoly power, but could be accounted for by greater competitiveness (quality of product, brand promotion etc.). It is also possible to argue that at both national and international level the presence of major competitors, including supermarket chains, ensures that Nestle's ability to abuse its market position, should it be so inclined, is quite severely constrained. The presence, too, of the large and varied market in Arabica beans, with many independent roasters and trade outlets, gives merchants and importers a number of alternative choices.

On the other hand, an examination of the relative movements of value added in consuming and producing countries during the late 1980s, following a period of industry consolidation, shows that when prices fell it was the share of value added going to the producing countries which suffered: "the market power of the TNCs enabled them to maintain the level of retail prices of coffee while world market prices for green coffee were falling in 1987 and plummeting in 1989" (Talbot 1997:69). The same author suggests that the oligopolistic nature of the industry in the main consuming countries means that anticompetitive practices rarely need to be formalised. Similarly, the
collapse of prices after the failure of the ICA to be renewed in 1989 had an unequal impact on producers and processors, with the former managing very little surplus above production costs and the latter actually increasing theirs. This indeed was the occasion for the Monopolies and Mergers Commission investigation into Nestle in the UK, as there was widespread public perception that its retail prices had not reflected the fall in international coffee prices.

There is also evidence from the past, at the time of the first International Coffee Agreement, which shows that some of the major American roasters were able to negotiate substantial discounts with Latin American suppliers (Bates 1999). These would inevitably have repercussions for growers’ incomes unless they were accompanied by increased volume of sales (which to some degree did happen). To the extent that the US importers and roasters were then selling on to companies like Folgers and Maxwell House which even then dominated the retail market then clearly there was potential for monopoly power to be exercised down the chain. However, in the case quoted there were also strong international political aspects underpinning the economic agreements in the producing countries. It is not so evident that such deals are common today, but literature is sparse.

Manipulation of the market for raw materials by major companies will be motivated either by the need to ensure a continuous flow of supplies or to gain a price advantage over competitors, and perhaps also to deter entry. In assessing the potential of a company like Nestle to influence prices one must take care not to oversimplify, as price determination in the international coffee market is complex. The following section gives some indication of this.

10.4.3 Price Determination.

In terms of the value passing through official channels, in the mid-1990s coffee was second only to oil in global traded commodities, and possibly third overall if the illegal trade in drugs is counted, though by 2002 it had dropped to about fifth or sixth following the dramatic collapse of prices after 1999. The market is therefore considerable and the number of contracts at any one time substantial. As with most internationally traded commodities a number of exchanges have emerged around the world. In the case of coffee the key exchanges are the Cocoa, Sugar and Coffee Exchange (CSCE) in New York which deals mainly in Arabicas, and is the main source
of pricing information for Ethiopian suppliers, and the LIFFE (London International Financial Futures Exchange) which quotes mainly for Robustas. It is usual in discussing the international coffee market to make some reference to these exchanges, but only rarely is their role in the commodity chain examined in any depth. Yet, they have a number of interesting characteristics: they are the principal forums for price determination, they are highly subject to speculative influence; and they are tightly regulated. They are an important link between commodity and financial markets. And their daily movements are tracked on computer screens in the offices of coffee exporters throughout the world, including Ethiopia.

In looking at the Ethiopian coffee filiere is it enough simply to say that this is where the international price is determined, to take it as a given and to move on, concentrating more on the physical trade? Or are there ways in which the workings of the coffee exchanges can affect the institutional structure of a national filiere? For example, do the terminal markets in New York and London work in such a way as to increase price volatility or dampen it, and what does each possibility imply for the structure of a domestic supply filiere? Do Ethiopian coffees have a particular role in the international exchanges, or are they marginal? Do they sell at a premium or a discount? What does this say about the domestic filiere and what does it imply for its likely future direction of change? In order to answer these questions we need an understanding of how the terminal markets operate, and to achieve this we have to look in some detail at their principal types of transaction. This is the purpose of the present section.

The structure of international exchanges is the end result of an historical evolution. At the most local level, with storable produce, an active market in spot purchases and sales will tend to dominate. This is the case in Ethiopia today, described in Chapter 6. As industry becomes more complex, and dealers acquire greater skills, forward trading begins to appear. This is particularly likely to happen when there are also long shipping delays. Thus, the New York and London markets, amongst others around the world, became exchanges for transactions in forward contracts. That is, a purchaser will enter into an agreement to buy coffee of a specified grade from a given source at an agreed date some two or three months ahead of the present. In determining what the price will be on delivery so many months ahead some estimate is therefore required of likely shifts from the present, or spot, price. If a sufficient number of these forward contracts are arranged by brokers in an open exchange then a 'market opinion' on the future price will emerge. This can then be used by other traders in their direct dealings with suppliers.
A forward contract is a binding agreement between two named parties to deliver a particular type and grade of coffee at some specified date in the future. Each contract will be different. Although it is an attempt to reduce uncertainty, problems remain regarding reliability of delivery in terms of quality and timing, and it ties each party into an agreed price. Forward contracts also tend to be specific to the needs of the buyer in terms of the type and quality of the product, and is therefore limited in its transferability. Scope therefore exists for a more open type of forward contract, which has become known as a futures contract. A futures contract has standardised contract terms, for delivery of the same precisely defined quality and grade of good for each contract, in a specified delivery manner to certified warehouses. Although specifying the future price it also allows agreed movements in that price and defines how the contract may be closed. The futures contract, in other words, is for a standardised product, traded under standardised terms and conditions, and traded only on an organised exchange (Kolb 1997:3).

A major consequence of the highly standardised and regulated nature of futures exchanges is that the majority of transactions are often either speculative or hedging, and rarely result in delivery of physical goods. In fact, less than 1% of all commodity futures contracts are settled by delivery or cash (Kolb 1997:12), while the vast majority of obligations are cancelled by a reversing transaction. When a farmer sells a futures contract he or she is said to be taking a short hedge position. It implies that some other market agent is prepared to buy futures at the same price, said to be taking a long position. That is, the number of short contracts must be matched by the number of long contracts. As this would be unlikely if the only dealers were those interested in some form of physical delivery at the end of the day, there is a role for those who only speculate on price movements. Futures markets therefore consist of hedgers and speculators, where the latter are assumed to be essential for the former to function. Speculators make their profits from the insurance cover which the market provides for hedgers.

There is a considerable literature on the workings of commodity markets, and on econometric analysis of price movements, but little on their institutional nature. One attempt is by Veljanovski (1986), who points out that in order for a futures exchange to work efficiently standardisation of contract and product is essential. As commodities like coffee tend to vary considerably, the futures market is based upon a limited number of similar washed Arabicas from a relatively small group of countries (Mexico,
Salvador, Guatemala, Costa Rica, Nicaragua, Kenya, New Guinea, Panama, Tanzania, Uganda). These form the basis of the coffee “C” futures contract, sometimes referred to as New York “C”. The contract also specifies delivery months, minimum fluctuations, price quotation and ports of delivery. Because of its central role it also forms the “basis” against which coffees from other origins are at a premium or discount. At the beginning of 2001, for instance, Colombian coffee had a premium of 200 points over the basic “C” price (that is, 2 cents per pound above the basic price), while Burundi and Rwanda beans were discounted by 300 points. Ethiopian, as Jimma 5, was discounted by 600 points. (New York Board of Trade 2001: www.nybot.com/specs/kc.htm)

Buying and selling of futures contracts is not between traders in the exchange but by the clearing house of that exchange. When this is combined with rules controlling membership of the particular exchange it is a guarantee that contracts will be honoured. Thus, although elementary textbooks of economics traditionally refer to commodity markets as most closely approximating freely moving supply and demand with multiple agents involved competitively, the reality is that such trade depends upon a highly regulated institutional environment. The neo-classical response is that the regulation is an institutional device to minimise transaction costs. The arrangement whereby buying and selling takes place in one specialised exchange reduces search costs, while the regulations that determine what is in the futures contract itself is an institutional device to reduce uncertainty in each transaction to the price element only. There are thus different property rights involved when compared with the spot market. This is clearly summarised Veljanovsky:

“The spot market is a delivery market where rights to specific lots of the commodities are traded. The futures market is where hedgers take a position of temporary zero ownership, transferring the rights to commodities for a specified period to people willing to trade in those rights in the expectation of gain” (Veljanovsky 1986)

The difference is subtle but becomes clearer when it is remembered that most transactions in futures markets are not expected to result in physical delivery and that most contracts are eventually closed by a matching purchase or sale.

To stand back for a moment, we thus have the paradox that at one end of the coffee filiere there is the farmer in Wollega or Sidamo growing the physical crop, and at the other the financial dealer, who may or may not be in New York, trading in contracts to deliver coffee which he or she will never be called on to honour in physical terms. The
actions of the latter influence the price received by the former while the actions of the former, unless we switch our example to Brazil, have no impact on the latter! This is to oversimplify, of course. The real question is whether the presence of futures markets as institutions are to the advantage of growers and merchants dealing in commodities like coffee? The usual defences are as follows:

- It is usually argued that the interests which the members of the futures markets have in its functioning as an institution ensures that the common system of self-regulation in each exchange guarantees that competition will prevail. No single operator will be able to dominate or distort the market for any length of time, and therefore prices will generally tend to reflect market fundamentals. The ‘correct’ price signals will be sent out to growers, dealers and processors.

- In what one textbook refers to as the “social functions of futures markets” (Kolb 1997) we have the provision of future price guides for producers, merchants, and roasters when engaging in forward transactions for physical delivery. Given that futures prices are market consensus estimates then the futures price for a given period ahead will generally be the best estimate of the likely spot price at that time (Kolb 1985:45). This does not mean it will necessarily be accurate, however (Hull 2000: 76).

- A second “social function” is to provide facilities for hedging future risks, through the purchase and sale of futures contracts. In this and the previous case, the futures market helps to reduce transactions costs such as those of information searching and of reducing uncertainty.

- It is also frequently claimed that speculative behaviour in futures markets helps to stabilise prices. This requires further exploration, as follows:

The suggestion that speculators are a stabilising influence on markets is contrary to popular belief which tends to think of those occasions when speculative activity appears to have snowballing effects, leading to rapid and excessive price movements which are often given wide publicity in the news media. On the other hand, it has been argued that the presence of a futures market, which relies upon speculators, provides an intertemporal array of price information which permits more orderly market behaviour than would be the case otherwise. That is, prices as a general rule will be more stable with a futures market than without one.
The Chicago Board of Trade is quite unambiguous on this: “In addition to assuming risk and providing liquidity, speculators stabilise the market by dampening extreme price moves”, buying when prices are too low and selling when they are too high (1997: 118). In a more nuanced study Gilbert concluded that speculative activity can be responsible for particular short bursts of price volatility but that in the major coffee futures markets there has been no evidence of increased volatility due to speculators (Gilbert and Celso 1997). He does, on the other hand, find that the very rapid price increase during the first half of 1994 was probably due to institutional speculators moving from declining bond and equity markets at that time and investing across a range of commodity markets, including coffee. His estimate is that large speculators alone made some $600m profit during the second and third quarters of 1994, implying that hedgers lost some $900m to all speculators. On the other hand, other fluctuations during the 1990s could be accounted for by changes in the underlying physical coffee supply conditions. These examples highlight the fact that the stability of the market depends upon the objectives of two sets of players who have quite different motives and objectives, hedgers on behalf of physical traders in the coffee industry on the one hand, and speculators on financial contracts (often on behalf of pension funds) on the other. The outcome at any one time depends on the relative importance of the factors which drive each of these groups.

The presence of speculators as significant players in commodity futures markets also provides a link with domestic and international financial markets. This is not well drawn out in the literature, but it is important to make the point. I shall raise the question later about whether or not the international market in physical coffee may be usefully analysed in terms of recent concerns with ‘globalisation’, but insofar as we go along with the idea of globalised financial markets, then coffee, through the futures market in New York, may be said to have distinct links. In addition to the role of banks in facilitating payment and transferring foreign exchange the link to financial markets works in several ways. Other things being equal, for example, the connection between spot prices and futures prices will be partly determined by ‘cost of carry’. As one textbook has it “the futures price must equal the spot price plus the cost of carrying the spot commodity forward to the delivery date of the futures contract” (Kolb 1997:73). For a physical commodity the cost of carry will include storage, insurance, transportation and the financing cost. The latter will be related to general interest rates. Secondly, in market analysis, common use is made of the ‘capital asset pricing model’ in which the expected returns on a given asset are compared with the difference between the expected return on a market portfolio and the risk-free rate of return. The latter is
often taken to be the return on short-term Treasury bills, while the overall market return will be influenced by many wider economic and financial variables, combined with national and international monetary policy. The linking role of interest rates has been demonstrated empirically in testing the relationship between spot and futures prices in the New York and London cocoa markets (Jumah et al. 1999) and there is no reason to suppose it is not also present in coffee markets. We also have the example noted in Gilbert above of stock market investors switching across to commodity funds when the conditions are attractive.

Finally, in this section we should take a closer look at who is doing the hedging. Textbooks tend to give examples where it is an individual farmer or factory owner who is involved. This helps to explain the principle but may not be typical. Undoubtedly, major users of coffee such as Nestle will, directly and indirectly, engage in futures transactions as they attempt to stabilise their own global position, though their basic role as coffee processors means that their primary interest will be in securing forward contracts to guarantee supplies. The same applies to the major independent roasters and importers. We should also note that in contrast to many other commodities the degree of hedging in coffee futures is relatively low (Gilbert and Celso 1997). The fragmented nature of the world market (discussed below) means that retention of an ability to make rapid short-term price adjustments is valued, while a lack of skills (and confidence) in working the futures markets in the many smaller organisations inhibits their participation. Developing country participation is particularly low and a recent survey of ten producing countries revealed that only one, Guatemala, had a scheme whereby small producers could take advantage of hedging (LMC 1999). This scheme operated through cooperatives and was linked with the provision of credit: that is, to be eligible for credit the farmer had to be a member of a cooperative which covered forward sales by hedging on the futures market. In Ethiopia I was unable to identify any exporter, merchant, cooperative or farmer who hedged.

10.5 The dynamics of the world market: internationalisation or globalisation?

Sections 10.2 - 10.4 have described the workings of the international coffee market at the final decade of the twentieth century. I have focussed so far only on describing the mechanics of market trading in order that we may understand the links between different parts of the international and national filieres. The international market structure so described has not been static. In Section 10.2 we saw how the International
Coffee Agreement failed to be renewed in 1989, and in other areas of international trade literature the decade of the 1990s is often regarded as having been one of accelerated 'globalisation' of world markets. It is important to examine what this means in the context of the world coffee market and what the implications, if any, are for smaller producing countries. We need, in other words to look at the dynamics of the world market and to assess whether the international coffee market has been subject to the same trends in 'globalisation' that are widely believed to have affected many other industries.

Any answer to these questions must begin by agreeing on the meaning of 'globalisation'. Many definitions exist, ranging from the vaguely unspecific of Castells that “a global economy is…… an economy with the capacity to work as a unit in real time on a planetary scale” (Castells 1996:92) and McMichael's equally generalised reference to globalisation as being “conceived of explicitly as a universal way of organising the social and natural world”. To be fair, McMichael grounds this in a conceptual basis of political and economic restructuring as a phase of contradictory capitalistic evolution. This is in contrast to what he sees as the limitations of other literature in which “a common image of globalisation is that of the diffusion of a singular market culture, …… a process of growing economic and political integration” (McMichael 1997:645-6). Despite his criticism of process being analysed as trend it is still useful to identify the major changes in concrete terms. In so far the process is at work in the agro-food system its empirical manifestations may be described as follows, taken from Ward & Almas (1997): the increased concentration, and consequent power, of large national and multinational companies at both retail and wholesale levels, and the increased tendencies amongst these to move towards vertical integration upstream to ensure consistent quality and continuity in supply. These companies are also influential in driving the introduction of technical change which in turn affects minimum efficient scales of production.

To what extent has this pattern been evident in international coffee markets? At the retail level there has certainly been an increase in the concentration and power of retailers since the 1960s in Britain and the USA (van Dijk et al.1998; Monopolies and Mergers Commission 1991). In retaliation this appears to have led to consolidation amongst roasters during the 1980s, and to a string of acquisitions and takeovers by the major processing companies (Market Tracking International 1996; Talbot 1997). By the end of the 20th century, therefore, the result was that five companies, Nestle, Philip Morris, Sara Lee, Proctor and Gamble, and Eduscho processed 69% of exportable
coffee in the world (Rabobank, 1998), while the first two controlled as much as 49% of the world market for instant and green coffee. However, the intensive and competitive marketing of these companies also led to a saturation of demand by the final decades of the century, particularly for solubles, which in turn led to a decline in quality as roasters sought to compensate narrower margins by incorporating more of the cheaper Robusta coffee in their blends. In the 1990s a reaction in favour of better quality and a searching for specialist markets appears to have introduced greater fragmentation of the market and to have allowed the re-emergence of smaller scale roasters catering for the demand for ground coffee, especially for consumption outside the home, such as by Starbucks, Costa and Coffee Revolution (van Dijk, 1998). Although the latter has to some extent raised awareness amongst many consumers of differences amongst coffees by origin and has led to a certain multiplication of trade channels, it has been against the general industry trend in which changes in technology have meant that the specificities of origin have been less important than product characteristics as criteria for inclusion in mass produced blends (Daviron & Gibbon, 2002, Ponte, 2002). In recent years there have also been signs that major roasters have increasingly externalised the management of inventories, with consequent pressures on traders and importers to guarantee their supply lines. This section too, is highly concentrated, with, as we have seen, around 56% of world trade in green coffee in the hands of only six trading companies. Of these the two largest, Neumann and Volcafe, controlled 29% of the market.

The pressures on traders to meet the demands of supplier-managed inventory imposed by processors have also been felt further upstream, and in the countries of East Africa there is evidence of a distinct tendency both to favour contracts with larger commercial farms and increasingly for these to be owned by multinational corporations (Ponte, 2002), thus promoting a degree of vertical integration down to plantation level which marginalises the small peasant farmer who cannot meet volume or quality requirements on a sufficiently consistent basis. Buyers have also increasingly diminished the sellers’ informational advantage by requiring sight of representative samples in advance of contract, adding to the pressure on suppliers to guarantee a standard quality. Taken together, these form a pattern common to a number of other commodities, as we saw in Chapter 1, such as fresh vegetables and fruit, in which the power of buyer-driven coordination is inducing structural change in the growing countries.

At the other end of the filiere, the major producers of soluble coffee, such as Nestle and Maxwell House, have also responded to the growth of demand in specialty coffees and fair trade coffees in the West with massive promotional campaigns to upgrade the image
of their traditional product. They also continue with intensive efforts to penetrate the 'emerging' or relatively untapped markets of eastern Europe, China and south east Asia. Where major coffee producing countries show potential for their own processing industries, or have already embarked on these, as in Brazil or Ivory Coast, then Nestle and Philip Morris have also been active in joint-ventures and direct ownership (Talbot 1997).

With regard to the financial aspects of the international trade, and particularly pricing, it is also important to note that the key New York coffee futures market dates in its present form only from around 1972, although less sophisticated versions had existed before then, and the London terminal market only from 1958 (Marshall 1983: 142). The traditional dealing method of 'open outcry' is giving way to electronic bidding, and the location of futures markets around the world permits very nearly 24 hour trading (Kolb 1997:42). The relevance of this becomes apparent below, though it should be remembered that such 'globalisation' does not mean the disappearance of the institutional control that regulates each of the terminals.

It is clear that in many respects the changes in the international coffee market outlined here fit into the process of globalisation as defined at the beginning of this section, but the process is complex. While the larger soluble manufacturers such as Nestle and Philip Morris would seem to fall clearly into the category of global corporations and the handful of major traders have integrated operations around the world, there also remain large numbers of small to medium sized growers, traders and independent roasters for whom niche and specialty markets continue to offer profitable outlets. It is important to remember too, that although there have been significant structural changes in the world coffee market in recent years, there have been attempts to control it by producers (in Brazil) since the early years of the last century and by buyers (in the USA) since the 1940s (Daviron 2002, Talbot 1997). In the 1950s the degree of concentration amongst roasters in the USA was arguably greater than it is now (Talbot 1997). What we are witnessing today is therefore the latest stage of a process which in some ways has been a reaction to the collapse of the ICA in 1989 and the removal of quota regulations, but is also set in the wider context of the expanding networks of power of transnational corporations, national supermarket chains, and their principal suppliers in world commodity markets (Daviron & Gibbon 2002).

It is useful at this point to turn to Goodman's taxonomy of processes of capitalist accumulation at the international level, where he distinguishes between
internationalisation, multinationalisation, transnationalisation, and globalisation, and implies that different industries have moved, or are moving, through these various categories towards an end state of globalisation (Goodman 1997). Aspects of the different stages may run concurrently and conjuncturally. In many respects the international coffee market remains at the internationalised level, particularly in a country like Ethiopia where production and preparation for export is in the hands of a number of national companies. The dominant international logic, to use Goodman’s term, remains that of exchange. In many other countries there is multinational company presence, either in the ownership of exporting firms or in plantations, and much of the world market may therefore be described as ‘multinational’. One of the main characteristics that differentiate this from ‘transnationalisation’ is the relative autonomy that attaches to the overseas affiliates and absence of cross border integration of production (as would be the case with the automobile industry, for example). On the other hand, as we move towards the final processing and retail end of the filiere, particularly in the soluble market, it is clear that the large corporations like Nestle and Philip Morris are engaged in many activities which come under the heading of transnationalisation. They are organised hierarchically, are centrally controlled, and production at this level is not tied to particular locations. They also promote standardised products through lifestyle advertising and the use of global brand names.

These large transnational companies therefore have many of the characteristics of globalisation. To each of them coffee is only one amongst many other food products (also tobacco in the case of Philip Morris). Not only processing but also the distribution of final products is highly integrated internationally, to ensure that intensive advertising is followed up by product availability across a wide range of outlet, from smallest village store to mass hypermarket around the world. In achieving this, these companies depend upon efficient financial services, and hence there is a direct and dependent link with the global network of financial markets, an area in which globalisation is usually assumed to be the dominant defining character. The coffee futures exchanges are also, of course, integrally linked to wider financial markets.

In contrast to this high degree of global concentration at the final product end of the international filiere, at the other end where the beans are produced and initially cleaned and graded for export the market remains more fragmented, though the traditional small producer in many countries has been facing increasing competition from commercial plantation farms which conduct their own washing and grading and are often vertically integrated with exporters (who are often under foreign ownership). This is not to say
that the independent medium sized trader and exporter, and large numbers of small-holding producers, are unimportant in volume terms, but their relative significance appears to be on a long term decline in the face of global pressures to deliver standardised products in volume and to time. About 73% of world imports then go on to the ground and roasted markets and about 27% to the soluble market. It is the latter which is most transnationalised. Prices are highly influenced by climatic patterns but are also subject to speculative behaviour in the commodity futures markets. It is not a market which in its totality may be said to be wholly globalised, or perhaps even to be rapidly moving in that direction. It is, rather, a world market in which elements of traditional international trade, modified by an increasing degree of multinationalism and, at downstream stages of processing, transnationalism, coexist in the wider embrace of global financial markets and the global ambitions of the large soluble manufacturers. This pattern does not appear to be stable, however, and is subject to gradual and irregular drift through the stages, driven principally by the pressures of globalisation in the main importing countries. Furthermore, these different types of internationalism in the world coffee market also characterise major segments of the filiere or global commodity chain for coffee and help in identifying key centres of power, and their tributaries, which are driving the changes.

With this understanding we are now in a position to study the nature of the relationship between Ethiopia and the world market.

10.6 Ethiopia

In Chapter 6 I described how a coffee exporter in Ethiopia entered into a contract by agreeing with a foreign buyer to sell a given quantity of a certain type and grade at an FOB price derived from the New York forward price for three months ahead. In practice this means that the exporter will prepare the necessary documents and arrange for shipment, usually to a European, North American or Japanese port, where the delivery is picked up by an importer specialising in coffee and perhaps other beverage products. The larger importers include companies such as Rothfos (German), E D & F Man (British), Volcafe (Swiss) or Illycafe (Italian) who will have contracts to supply the major roasters for soluble coffee, such as Nescafe and Maxwell House, but there are also numbers of smaller importers dealing in green beans who will sell on to a specialist roaster and blender who may be relatively small and supplying a local consumer market directly or may be a large scale contractor to hotel chains, supermarkets or the restaurant
industry. Importers also act as brokers or sell to brokers who are seeking to make up particular consignments for roasters.

Being entirely Arabica, the bulk of Ethiopian coffee that is exported therefore ends up either as blends by independent roasters for the specialty ground coffee market, or as an additive to Robusta in blending for the manufacture of instant coffee. In the specialist market for ground coffee, Ethiopian beans may be marketed to the consumer under the name of 'Mocha', which will usually be Jimma 5, or perhaps as 'Sidamo' for better quality (washed) beans. Table 10.3 shows those destinations in 1999 to which Ethiopian coffee exports exceeded 1,000 tons. It is evident from this table that there is a fairly high degree of dependency on a relatively small number of markets, with the first four taking 69.7% of all exports for that year. Germany, the most important, took more than 30% and Western Europe as a whole 52.5%. However, there is also a considerable amount of re-exporting: Germany, for instance, exported an amount equal to 28% of what it imported during the year 1999 in a mixture of green, roasted and soluble coffees. Denmark exported 21% of its imports and even the United States exported 9%. The total number of countries to which Ethiopia exported coffee in 1997/98 was 38. In virtually every case the contract would have been between an Ethiopian exporting company and importing company, and only rarely a final roaster or soluble manufacturer.

Table 10.3 Principal destinations, by volume, of Ethiopian coffee exports, 1997-98

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume (tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>40,011</td>
</tr>
<tr>
<td>Japan</td>
<td>21,173</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>14,393</td>
</tr>
<tr>
<td>USA</td>
<td>11,792</td>
</tr>
<tr>
<td>France</td>
<td>6,184</td>
</tr>
<tr>
<td>Belgium</td>
<td>6,102</td>
</tr>
<tr>
<td>Italy</td>
<td>4,724</td>
</tr>
<tr>
<td>Poland</td>
<td>4,110</td>
</tr>
<tr>
<td>Holland</td>
<td>3,636</td>
</tr>
<tr>
<td>Denmark</td>
<td>2,232</td>
</tr>
<tr>
<td>Spain</td>
<td>1,584</td>
</tr>
<tr>
<td>Sweden</td>
<td>1,387</td>
</tr>
<tr>
<td>Canada</td>
<td>1,162</td>
</tr>
<tr>
<td>Hungary</td>
<td>1,152</td>
</tr>
</tbody>
</table>

Note: (a) Includes all those importing over 1,000 tons in 1997-98
(b) In many cases there would be re-exports.

Source: ‘Cradle of the Wonder Bean’, Coffee and Tea Authority, 1999:34
As a small producing country with few estate coffees, Ethiopia is not therefore in a strong position to negotiate contract terms directly with major roasters or soluble manufacturers. This means that Ethiopian exporters must take their place amongst the numerous small exporters around the world who are selling largely for the blending market, with an occasional entry into the specialist, gourmet coffee niche. The structure of the world coffee market outlined in this chapter allows roasters to pick and choose from a variety of relatively small sources in order to create the blends and flavours desired by their customers. In other words, the options available through Robusta and Arabica carrying different flavour and acidity characteristics according to their geographic origin, allow blenders a choice in which one producer may be played off against another. Thus, although Ethiopian coffees do tend to be recognised for their distinctive aromas and pungency, they nevertheless play only a small, and non-essential, part in the blending industry. There have also been problems of quality in the past and even today Ethiopian coffees are often regarded as ‘country’ coffees of variable quality. When all this is combined with competition from other Arabica producers, such as Kenya, then the net result is that the standard Ethiopian coffees, such as Jimma 5, tend to be discounted quite heavily.

In the absence of an international coffee agreement smaller producers also have little influence on prices as they cannot withhold substantial stocks, the international impact of a poor harvest is inconsequential, and they do not have the resources to use the futures markets to their advantage. As we have seen, international prices are determined in the main terminal markets in New York and London which are dominated by speculators and hedgers engaging in futures contracts on behalf of brokers and roasters. World imports are dominated by 6-7 large trading companies, while four large multinationals, led by Nestle, dominate the soluble market. Although it cannot easily be shown that prices or other aspects of the world market are actually controlled by this group of businesses they represent a powerful cohort to whose potential influence a small producer like Ethiopia is vulnerable. Likewise, the activities of speculators in the crucial futures markets can only be observed.

On the other hand, by paying the appropriate fee to Reuters, any exporter can be in constant immediate touch with price movements in these markets, and with market analysis, through the internet, and the Ethiopian Coffee Exporter’s Association provides a daily report from this source to its members. The ‘globalising’ technology of the internet has thus given exporters access to market information on a basis that was previously impossible and puts them on a reasonable par with importers in negotiating
prices. This informational asset does not at present pass very far back along the
domestic filiere, however, and it is therefore an advantage accruing only to the larger
exporters. It must also be pointed out that a certain facility is required both with the
technology and in comprehending the information available. It also means that changes
in the international price are quickly reflected in local auction prices, which in one sense
may increase the risk carried by merchants from the interior during the period between
buying and selling their stock. It is this which has led some experts to propose the
establishment of a local forward market (see Chapter 6).

We have also seen in this Chapter how the international market evolved a set of
standard contracts. These not only lay down conditions for payment but also for
ensuring delivery of an agreed quantity and quality of green bean. In order to be able to
satisfy these conditions each producing country must have in place a system of controls,
and a filiere, which channels coffee of the required quality as expeditiously as possible
from grower to shipper. We have already examined in Chapters 4-6 the way in which
the Ethiopian authorities have structured the local filiere to meet these demands. At the
same time, as we shall explore further in the concluding chapter, this external pressure
has also given an excuse for a high level of centralisation in the local market structure,
and hence for the state to maintain a controlling influence.

What all this means is that although the physical presence of international companies,
whether in plantations, trading or exporting, has been proscribed in Ethiopia (apart from
agents buying from exporters), the local filiere is nevertheless intricately linked
institutionally and financially to the ‘world market’, by which expression I mean the
organisational structure of the world market and the ambitions and strategies of its key
players. Thus, prices in the Addis Ababa and Dire Dawa auctions take their guidance
from the international price while grading to export standard is dictated by foreign
import requirements. The structures in place to ensure correct picking at harvest, speedy
delivery to washing and pulping stations, inspection in the provinces, efficient transport
to Addis, subsequent sorting and testing, and ultimately transport to port at Djibouti, are
all derived from the necessity to meet international standards. Ethiopian exporters carry
little weight at the global level, where competition from other suppliers is extensive and
where the few largest roasters and soluble manufacturers can pick and choose their
supplies from a variety of sources.

This is to imply that the role of Ethiopian exporters is entirely passive. Yet an awareness
exists in government and amongst producers and exporters that the distinctive
characteristics of the best Ethiopian coffees have not been effectively marketed and that considerable scope exists for niche marketing. The expansion in the USA and Britain, for instance, in recent years, of specialist coffee houses and increased consumption at home of ground coffees, offers potential for Ethiopian coffee. It is present already (2002) in a small way with some British supermarkets selling pre-packed ground Sidamo coffee and at least one major chain of high street cafes offering ‘Ethiopian’ coffee at a premium. However, such markets are still highly competitive and require standards that are in some respects even higher than for the bulk market, and in the case of some Ethiopian coffees require a degree of sophistication amongst consumers. There is also the problem, observed by Fitter and Kaplinksy (2001) that very little of the added value from such product differentiation filters back to the producer. Yet, in maintaining market share such opportunities are important. That there is scope here is evidenced in the success of the Kenyan AA bean, which is now widely available from specialist retailers throughout the United Kingdom, very often as the only African alternative to coffees from Central and South America or Java.

Although the gourmet market commands a price premium over other outlets, a significant proportion of this will accrue to the distributor and retailer in the consuming country (Fitter & Kaplinsky 2001) and an additional share will be returned to the exporter who has to ensure the required quality and consistency. The benefit to the farmer may be very little. An alternative which has often been suggested is for Ethiopian producers to sell to the ‘fair trade’ market, which, although small, guarantees a price to farmers above what they would receive by selling through normal commercial channels. This may also be linked with the organic market. At the time of writing (mid-2002) the Oromia Cooperative Bureau had negotiated an agreement with the Fair Trade Foundation in London and Amsterdam, and had enabled several producer cooperatives to export some 80-100 tons to the United States fair trade market. It should be noted, nevertheless, that the different marketing route which is required has still to be capable of providing beans of competitive international quality and on a regular volume basis (Whatmore & Thorne 1997). For the farmer the price differential is substantial, partly through eliminating intermediate traders’ profits and partly by the concerned Western consumer being prepared to pay a premium. Unfortunately the scale of these operations remains small. As far as the organic market is concerned, there are usually hurdles of inspection and certification to be overcome before satisfying a number of western outlets. Most Ethiopian coffee is ‘organic’ by default, and 100% guarantee is difficult to ensure, though some areas have been identified for monitoring and certification in this regard.
10.7 Summary

In this chapter I have examined the structure and workings of the world coffee market with a view to understanding how it affects, and has affected, the filiere in Ethiopia. The principal conclusions are as follows:

1. The world coffee market is highly concentrated at the level of end production, particularly of instant coffees, and although the market cannot be said to be globalised in the sense that these transnational corporations are directly involved at every stage in the production, processing and selling of coffee in every country, their influence is widespread and their buying practices in recent years have entailed significant structural changes favouring larger merchants, commercial farming and vertical integration in coffee growing countries. It is thus in the interests of the larger processors to operate in a milieu of smaller brokers, roasters and importers of green beans, though amongst these are a small number of very large dealers. In other words, the structure of the international market not only permits the perpetuation of existing small suppliers as in Ethiopia (despite the restrictions on foreign ownership) but encourages new entry (such as the rapid expansion of Robusta production in Vietnam). This is so because of the multitude of importing agencies and brokers in the consuming countries which compete to serve the multinational final processors.

2. World coffee prices are ultimately determined by the ‘fundamentals’ of global supply and demand, but on a short term basis, on which contracts and profits depend, they are also subject to the activities of speculators on the international futures exchanges, to changing stocks in the major producing and consuming countries, and to the buying policies of the large soluble manufacturers. In contractual negotiations any party with access to this information will have an advantage over others who do not, or whose access is less complete. Those traders in Ethiopia who have access to the internet and an understanding of the global coffee market, thus have an informational advantage over others in the domestic filiere. On the other hand, in a small community of traders, as in Ethiopia, information may disseminate quickly, and any advantage will tend to be short-lived, although completeness and accuracy are also important parameters.

3. Competition from suppliers in other countries, and the quality conditions laid down by importers to meet both the ground coffee market and the soluble market, means that standards of testing and systems of grading have to be consistently satisfactory. These have influenced the structure of the filiere in Ethiopia since the 1950s as was
shown in Chapter 6, but have been imposed by the Ethiopian state, and it has suited the state to have them in place. Moreover, to the extent that the present marketing structure in Ethiopia is shaped by the legacy of an earlier period, particularly those years when the ICA was in operation, then we have to ask whether the structure which then evolved continues to serve similar domestic political, class and ethnic purposes as in the earlier period, despite the absence of an international agreement. If the country’s engagement with attempts to regulate international markets of forty years ago was in effect motivated by class interests within Ethiopia then does the structure inherited from that time serve a similar function? I shall return to this issue in Chapter 11.

4. The section on the futures market began by asking how it may affect a domestic filiere. Clearly price movements in the futures market are very quickly transmitted to traders around the world, but does the manner of price determination actually affect either the structure of local filieres or how they operate? If the very presence of the futures market has the effect, as indicated in Section 10.4.3. of dampening general price volatility then there will be reduced uncertainty in local markets and accordingly narrower spreads to cover risk. The same follows if risk is reduced by hedging. One deduction from this is that the share of the export price going to farmers should be higher than otherwise, assuming a competitive environment. On the other hand, given that the knowledge required to engage in hedging is highly specialised, even if it is purchased through a broker, it is likely to be undertaken in due course only by the more sophisticated exporting companies. This will reinforce their position of institutional strength in the filiere with the benefit absorbed as profit taking rather than being passed down the chain. In Ethiopia at present (2002) this an academic point as there is virtually no hedging activity, though the reverse argument holds – that in the absence of hedging the Ethiopian exporter will find other ways of covering risk caused by price uncertainty and this too may not favour farmers.

The purpose of looking at the international coffee market in such detail has been two-fold: first, in order to assess how its various activities impinge on the Ethiopian domestic filiere, including their distributional impact, and second, to allow us to measure the boundaries of any such dependence and thereby to reveal the scope that has remained for a distinctive local way of managing external constraints. This is followed up again in Chapter 11.
Chapter 10 completes our survey of the Ethiopian coffee filière which began with its historical development in Chapters 3 and 4, described its contemporary form in Chapters 5 and 6, continued with an analysis of the state in which it is embedded in Chapters 7-9, and finished in the present Chapter 10 with its international context. We are now in a position to stand back, to return to the methodological review of Chapter 2 and to apply the various theories of institutionalism examined there in order to assist in our understanding of the true nature and significance of the coffee filière in Ethiopia today. This is the purpose of Chapter 11 which follows, and which is, in essence, the concluding analysis, to be followed only by a very short final chapter on implications for future policy.
Chapter 11

Interpretation

11.1 Introduction

It has become rather a trite observation to declare that "history matters" but the implications of this simple phrase are immense, in that no form of social interaction is unaffected by its fundamental truth, and that for any single discipline such as economics, politics, political economy, sociology or social anthropology to take it on board is to embark on an analysis of society that will be dauntingly complex. This complexity perhaps accounts for the fact that history is so often ignored. As shown in Chapter 2 when historical factors are brought into the foreground they quickly highlight the limitations and deficiencies of that sort of theorising which abstracts from longer term cultural and political trends. This tends to be the case especially if some contemporary political agenda is being pursued. Theory by its nature is an attempt to draw out universal essentials from a complex environment, yet in the social sciences the latter is comprised of different national political and cultural entities which themselves are melded into the structures of the modern nation state. History therefore matters because each country both as a unit and in its component parts has evolved differently, having singular institutions, culture and national characteristics, manifested so obviously in ways which we all recognise when we visit, but which in the ubiquity of their variations present a considerable challenge to analysis by generalised theory or method.

The problem of how to interpret a particular history is readily illustrated by the detailed study of Ethiopia which has formed the bulk of this thesis. The production and marketing structure of coffee in Ethiopia differs markedly from that in other African countries, which differ amongst themselves and from coffee growing countries in South and Central America and elsewhere. In much of Latin America, and some of Africa, production is on large estates owned by international companies. There are often medium sized private estates, and there are varying proportions of small-scale peasant producers. In some countries, mainly in Africa, auctions form part of the marketing chain while in others they are absent. Only in a few, such as Brazil and Ethiopia, is there a large domestic market. Serious questions are thus raised in trying to account for the
pattern in each country solely in terms of a theory of rational choice, of competitive market forces, or of the logic of institutional formation without reference to the dynamics of local context. As indicated in Chapter 2 these approaches may often provide interesting insights to anticipated behaviour where ‘the rules of the game’ are taken as given and where the limitations of the behavioural assumptions are recognised, but these ‘rules of the game’ or institutional constraints are not a static framework, and nor are they generally interpreted inflexibly nor unaffected by the outcome of the ‘game’ itself. The rules are enforced by institutions which incorporate the norms and formal legacies of past institutional structures in that country.

To understand what this means in the case of coffee in Ethiopia, and to appreciate its significance for analysis and policy making, it is useful to begin with a summary of the main points of Chapters 3 to 9 and, by drawing out connecting historical themes, to give them a cohesion which will enable us to grasp a sense of the filiere as a whole as a socially embedded entity. From this we can embark on a political and economic analysis. In doing so I shall draw on the theoretical arguments outlined in Chapter 2 and will comment on their appropriateness and limitations.

11.2 The Ethiopian Case Summarized

First, it should be recalled that the political economy of coffee in Ethiopia is not trivial. For much of the last century and to date in the present one, coffee exports have been the source of around two thirds of all foreign exchange. Value added in the production, processing and distribution of coffee is an important component of national income and a key source of government revenues. Coffee consumption in the country is virtually universal, forming a regular part of even the poorest household’s diet, and entrenched as a cultural habit which is used to attract tourists through participation in the ‘coffee ceremony’.

As I showed in Chapter 3 the growth of the importance of coffee dates from the decline of ivory exports following the southern expansion of Shewan monarchs in the 19th century into those parts of what is now the federal regions of Oromia and SNNP where coffee grows most effectively. These include the former provinces of Wollega, Illubabor and Kaffa to the west and south west of Addis Ababa and Gamu-Gofa and Borama to the south. Prior to that period coffee had long been a significant export from the Harar region in the east to neighbouring countries of the Middle East, and remains important
in that respect even today. Ras Tafari Mekonnen (later Emperor Haile Sellassie) owned coffee plantations in the 1920s while he was governor of Harar province, and in addition to the sale of coffee the taxation on trade in coffee on its way to export markets provided revenue for him, his supporters and his rivals in the struggles for power during these early years of the 20th century. By the time of the Italian invasion of 1936 coffee was the single most important earner of foreign currency, and although production and exports dipped during the occupation period, they rose rapidly once again in the 1940s.

Politically, the period from the mid-19th century to early twentieth century was one of consolidation of northern imperial power, in a process commenced by Tewodros whose power originated in the eastern region of Wollega, subsequently held loosely together by Johannes, the ruler of Tigre, then confirmed and expanded southwards by Menelik from Shoa, to be finally legitimised in constitutional form by his nephew, Haile Sellassie. The formation of the Ethiopian state by the early 20th century was thus the outcome of a series of military and political conflicts between the leaders of different ethnic groups in the northern and central highland parts of the country. An integral part of these struggles had involved the acquisition of land and resources to the south and east of the main highland areas, in what are now largely the federal states of Oromia, Somalia, and Southern Nations Nationalities and Peoples. As shown in Chapter 7 the consequence of such consolidation and conquest was a gradual strengthening of the central powers of the state, in fiscal as much as political terms, and through this an ability to dilute much of the traditional power of provincial leaders, especially in their control over the revenue accruing from land rights. An important legacy of this unique history has been a continuing nationalism amongst the larger ethnic groups, whether in the north or the south (frequently manifested in opposition parties such as the OLF, SALF and even the TPLF itself). Nevertheless, by the late 1940s the government of Haile Sellassie had managed to centralise virtually all tax collection and, with the aid of a more modernised administrative system (relative to the past), was able to address specific sectoral problems such as coffee.

By the 1950s the principal buyers in the international coffee market, particularly in the USA, were becoming more demanding in terms of consistency of quality, while at the same time the expanded state in Ethiopia depended increasingly on a growing tax base for its fiscal survival. Both claims were satisfied by raising the quality of the coffee exported, and, as traced in Chapter 4, this was achieved by the introduction of a series of regulations on the quality and marketing structure of the coffee trade. In 1957 the National Coffee Board was established, in 1963 Ethiopia signed the international coffee
agreement, and in 1972 coffee auctions in Addis Ababa and Dire Dawa were introduced. By the outbreak of the 1974 revolution, therefore, coffee was not only responsible for around two thirds of foreign exchange earned, but it was channelled through a highly regulated and centralised marketing system. The revolutionary government of 1974-91 both maintained this system for the small private sector that remained and introduced its own even more centralised and controlling structure which came to dominate for that period. It also nationalised all land and introduced a maximum holding per household of ten hectares, thus ensuring that production of coffee and other crops would remain largely in the hands of peasant farmers, and that the marketing structure would have to reflect this. In the final part of Chapter 4 I showed that after the collapse of the military regime in 1991 the new government, under the EPRDF, set about dismantling the most restrictive of the marketing constraints introduced during the previous seventeen years (with the exception of land nationalisation), and in effect the system of the late imperial period of the early 1970s was allowed to re-emerge. Although there was then further liberalisation, the contemporary marketing structure for coffee remains essentially the centralised and regulated form of the pre-1974 period.

The current structure (as at mid-2002) was described in detail in Chapters 5 and 6 and may be recapped as follows: Only around 5% of coffee production is grown in commercial plantations with the remainder produced by small-holders either from orderly planting or from semi-wild trees. After harvest sun-dried beans are sold to a large number of primary collectors who sell on to bulkers and transporters. The beans, which are by then dried and washed, are then sold at auction in the terminal markets at Addis Ababa and Dire Dawa, followed by further sorting and either export or distribution for domestic consumption. There are a number of important points to note in this chain that are illustrative of its social and political roots. One is that there is very little vertical integration. The fact that everything must go through a terminal auction may have something to do with this, but so too may be the way in which licences are required to operate at different stages of the filiere, thus allowing (at least in the past) a degree of control by the authorities, even the exercise of patronage, which has discouraged vertical integration. An additional factor is that many of the larger exporters and merchants in the interior have been locally based, non-national family firms steeped in a tradition of trading rather than of processing and consolidation, and for whom expansion would have political risks. A major consequence of such factors is that sorting and grading is not well developed in the producing areas. This, in turn, reduces the value added in these areas, transferring a larger share of value added to the terminal
market agents (see calculations in Chapter 6). Since these are concentrated in a limited number of urban locations, are in the formal sector, and are the principal channel through which exported beans pass, they are also more readily taxable. It may be argued, therefore, that the present structure of the filiere, tending as it has been doing, to replicate that of the pre-1974 period, is being defined by similar centralising forces.

The latter is so despite the introduction of a federal state which has devolved public spending powers to a greater degree than taxing ones, rendering it difficult to identify any pattern in the new fiscal arrangements which corresponds to the value of cash crops produced in different regions. This was brought out in Chapter 9 which looked in some detail at the workings of fiscal federalism in Ethiopia, but only after setting the scene in Chapters 7 and 8 of the historical context from which federalism emerged. That was a context marked by the evolution of centralised state power in Ethiopia from the late 19th century onwards, in due course contributing to a polity in the late 20th century in which fiscal decentralisation became viable without threatening political centralism, either at constitutional or party level. It provided a mechanism for the containment of ethnic regionalism.

Finally, and as already mentioned, many of the regulations, if not their centralised monitoring, are in response to the requirements of the international market. It is the international market which also determines major price movements. In Chapter 10 we saw how this market is itself highly regulated in terms of quality standards, contracts, payment, delivery dates and in the workings of the global futures markets in which prices are determined. The world market therefore impacts on the Ethiopian coffee trade not so much through the operations of multinational corporations, as in some countries, as through the institutional channels which have been set up to serve the interests of major international players in the past, whether Latin American producers or US importers and brokers. The major multinationals have their influence felt, in Ethiopia's case, only indirectly through their buying policies (for particular blends etc.) and their effect on price, even though much of the Ethiopian output goes to independent blenders in the European and Japanese ground coffee market.

In summary, what we have in Ethiopia is a coffee sector still largely dependent upon small scale producers, where the state intervenes through regulation and taxation at all levels from production to export and domestic consumption. This is not a novel state of affairs but one which has evolved in a distinctive Ethiopian way over the last hundred years, at times in response to internationally determined requirements, but also to meet
the needs of a 'modernising state' or more subtly the fiscal security of the ruling elite of the period. In this respect it is important to stress the significance of coffee. Maize, teff, salt, spices, beans, livestock and hides are all traded widely in local markets, and some of these are also exported, but not only are none are as important as coffee but none have such a complex marketing structure or are subject to so many regulations and controls. Maize markets have been liberalised to a greater degree than coffee (Wolday 1999, Teshome 1997) and the export of hides and skins is to a more informal international market (Kodama 2000). The essence of the coffee filiere is that it is central to the nation's foreign exchange earning capacity and it remains highly regulated.

11.3 The Relevance of Theory

It is tempting to say that the preceding paragraphs have outlined only the context within which any analysis of the contemporary situation must take place, and that the analyst must now move on. But this would be to misunderstand, and would tempt the misapplication of abstract models, say of economic behaviour, which are not rooted in the culture and history of Ethiopian social formation. What I have outlined above is not context but the very body of the system in place today. To mix metaphors, the coffee filiere today consists of marketing channels which have become embedded over time in the unique contours of Ethiopian life and polity. The institutions of the filiere are characteristic of a particular Ethiopian evolution and its resulting mutations, and serve a composite mix of direct and indirect purposes. It is this complex body of institutions, channels, norms and histories that the theories outlined in Chapter 2 must be able to address.

It follows that any theoretical account of the role of the coffee filiere in the political economy of Ethiopia must take account of the influence of the past. One is reminded here of T.S. Eliot's phrase where "time present and time past are both perhaps present in time future, and time future contained in time past." (Eliot 1959:13). The historical legacy, whether in organisational, cultural, political or sociological terms is a living and evolving presence and is not to be ignored simply because it is non-quantifiable or without clear boundaries. Its manifestation is in the institutions of society, and the approach of this thesis is that it is the institutions of the coffee filiere which characterise its overall nature, define its operations and decide its impact. Chapter 2 outlined various approaches to understanding the origins of institutional patterns in social, and particularly economic, activities. These included explanations based on institutional
economics, on historical institutionalism, on rational choice theories, and on a political economy of institutions. Let us now return to these themes and assess their potential as aids in understanding the nature of the coffee filiere in Ethiopia as it has been described in this thesis.

11.3.1 The NIE Approach

Although institutional economists would tend to seek an analysis of institutional structures as responses to contemporary transactional costs, as we noted in reference to Williamson's later work this does not preclude the possibility that they are also the current manifestation of an evolutionary process which is subject to slowly changing social and cultural values (Williamson 2000). This is also consistent with the views of the 'evolutionary economics' school. In practice, most New Institutional Economic analysis keeps such longer term aspects in the background and tends to focus on interpreting current institutional practices in isolation. It is instructive to consider how the approach may be applied to the coffee filiere in Ethiopia. Four examples provide an illustration of this.

(i) Property Rights: we may say that the way in which the state has defined property rights in land through the Land Act of 1975 has considerably influenced the rest of the institutional structure of coffee distribution in rural areas. The retention of large numbers of farmers with smallholding rights ensures that individual volumes of output will be small. Moreover, if periodic redistributions of holdings are experienced or feared then investment in new trees and in improving yields will be less than would be the case in a more stable context. Given small volumes of output per holding, it follows that some form of local primary collector of dried beans will find a role. These will act as intermediaries between farmers and bulkers on a larger scale. This becomes important in guaranteeing uniformity of standards, as beans are then sorted under one roof, and in obtaining economies of administrative coordination and bulk transport to Addis and Dire Dawa. The role of the state has been to formalise and regulate these market driven tendencies. Furthermore, those aspects of NIE which deal with principal-agency theory lead us to expect close links between sebsabies and akribies, where written record keeping is likely to be erratic, through bonds of credit and other obligations. The same would also apply to the re-emergence of sharecropping between farmers, as a fairly substantial general literature now indicates (Bardhan 1989, Stiglitz 1989, Otsuka et al. 1992).
(ii) Contracts: the fact that little attempt to grade beans by quality occurs at either farm or primary collector level may be accounted for in terms both of difficulty in enforcing contracts and what they contain, and of the principal-agency problems of control and supervision that follow from this. That is, the costs to primary collectors or bulkers of controlling and of policing the temptation to adulterate (the ‘opportunism’ of Williamson, 1985 as mentioned in Chapter 2) at farmer’s level must at present exceed the cost of grading at the bulker’s go-down, the cost of which tends to be covered by allowing an averaging down of quality and price at the primary collection level. The farmer thus has no incentive to sell higher grade beans. Grading then only begins to take place in the akraby’s go-down where it can be carefully supervised. This is the NIE interpretation focussing on transaction costs. It is interesting to note that market liberalisation does not per se provide a solution to this as it has often been followed by deterioration of farm gate quality as farmers have taken advantage of increased competition for the purchase of their produce (LMC 1999).

(iii) Asymmetric Information: much of the NIE literature also dwells on the role of institutions as a response to an absence of symmetry in the availability of information, and in the uncertainty and risk to which this gives rise. An example of the latter may be found in the support of exporters and urban based wholesalers for the introduction of the auction in 1972. The openness of auction prices undermined the ability of traders to play one exporter off against another through knowledge of what each is offering, knowledge which would not be available to the exporters themselves unless they colluded. The broadcasting of auction and international prices on national radio is an example of state intervention to provide greater symmetry in price information. With regard to risk we noted in Chapter 5 the risk that falls on exporters and akrabies during the period between buying and selling stock. For exporters, the formation of the Ethiopian Exporters Association and the support services it provides is one means of attempting to minimise some of these risks, while for akrabies the price spread between buying and selling will include a premium to cover risk. The extent to which the latter has been feasible will have been encouraged by the licencing system which in the past limited competition in a given area. (It is interesting to speculate whether liberalisation will introduce change such as contract buying or even the formation of forward markets as a means of minimising risk.) The situation for farmers is more complex than for traders as there is often additional uncertainty connected with security of land tenure despite the institutional intervention of the 1975 Land Act. This inevitably adds to known risks with regard to prices from season to season. Many farmers also have the choice of alternative
cash crops in chat, maize or even *enset*. In Williamson's terms, it is thus the exporter and larger *akraby* who would seem to be more constrained by asset specificity through their investment in buildings and equipment, their overseas links and specialised knowledge. Although the peasant farmer may also have invested in coffee trees, few are totally dependent on coffee, and a gradual change in their crop mix, to increase the ratio of chat to coffee for instance, can be managed in the medium term (if the growing conditions are right). Farmers also usually have the alternative opportunity of marketing their coffee output through the institutional alternative of a producers' cooperative or to a pulping station rather than the *akraby*. On the other hand, it is normal for investment costs of curing and grading plants for coffee to be recouped in three to four years, and premises may have been rented: many, though certainly not all, exporters are also involved in other activities or may become so. Asset specificity may therefore be more important in the short run than the long run.

(iv) **Search Costs:** the spate of regulations introduced in the 1950s and 1960s, detailed in Chapter 4, also lend themselves to a NIE interpretation. Obviously their need was dictated by the demands of the international market, but this may be construed on the wider scale as a process common to all commodities as exchange becomes more sophisticated and internationalised. For trade to flow smoothly, and for risk of fraud and adulteration to be minimised some form of certified standardisation becomes necessary. This also facilitates price comparisons and encourages competition. The growth of regulation in the coffee sector can therefore be compared with the appearance of standard units of measurement and definitions of goods across commerce generally that had evolved steadily from the middle ages in Europe (see North 1990). It is one of a number of means of minimising the risk costs of transacting, together with associated search costs, as the size and geographic extent of the market increases.

It would be possible to continue in more analytical detail, and with additional examples, to interpret institutional change primarily as rational response to market failure. As is shown above, this can take the form of prohibitive transaction costs due to such factors as informational asymmetries and associated risks, or to problems of controlling opportunistic behaviour. Enough has been said to illustrate how the methodology associated with the NIE may be used persuasively to account for many observed institutional phenomena. The NIE clearly provides a fairly powerful set of tools, allowing us to identify constraints and structural problems, and to interpret the organisational structure of the coffee market as a response to transactional frictions and
a given pattern of property rights. This is clearly how it is seen by its proponents, such as Bardhan who refers to the "remarkable fruitfulness of the imperfect information approach" (Bardhan 1989:6).

Yet, the approach is not without problems. It has considerable boundary limitations in that it tends to take an initial situation as given - the chicken is there already and the task is to explain how the egg came about. It also approaches this task from an ex post perspective in which a functionalist outcome is inevitable, and in doing so longer term historical processes are sidelined. A third, related, problem arises from examples that are more difficult to interpret in market efficiency terms. For example, a number of consultants (Muir 1997, LMC 1999, Westlake 1999) have regularly identified the role of the primary collectors, the lack of sorting at harvest, the physical presence of coffee beans at the auctions and the extent of regulation at all levels as sources of inefficiency, and yet these are all seemingly entrenched practices. Assuming these observers are right, how would New Institutional Economists deal with such apparent inefficiencies? The obvious answer is to draw on the work of North and interpret them as a legacy of the past, a symptom of path dependence deriving from the later Haile Sellassie period, which may not now be the most efficient but which politically and culturally is difficult to change, at least in the short term. This is akin to the discussions by North and others on path dependence and subsequent 'lock in' to inefficient market structures and associated institutions, which may prevail for lengthy periods (as discussed in Chapter 2).

There is more to this than simple anachronism, as indeed North indicates when he declares that "the increasing returns characteristic of an initial set of institutions that provide disincentives to productive activity will create organisations and interest groups with a stake in the existing constraints" (North 1990: 99). This would include the larger akrabies who prefer to deal through a network of dependent primary collectors rather than organise their own collections directly from farmers. Or exporters who are afraid of change in the current auction arrangements which protect them from more vertically integrated competition. And finally, there is the state and its functionaries who receive payment for licences, and which ultimately accumulates foreign exchange reserves through the existing structure of the filiere. The national ownership of land is another example which would be criticised by neo-liberal economists as an inefficient constraint on the use of resources but which gives considerable control over the use and allocation of land to politicians and state functionaries and appointees at all levels. As I point out below in Section 4.2 there are a number of reasons why the current government would
not wish to repeal the 1975 Land Act, including the threat of a revival of landed
opposition or the economic base that a free land market could potentially give to ethnic
nationalist opposition groups.

However, all this continues to imply the common neo-classical presumption that there
are suppressed market forces striving to break out of inappropriate institutional
constraints at the first opportunity. According to North and others in the NIE school, as
we saw in Chapter 2, it will be changing relative prices which ultimately bring about the
social change that introduces new institutional arrangements. But a social theory in
which market forces are given priority over other social and political factors as the
ultimate underlying power behind social change is open to quite serious charges of
reductionism. As I showed in Chapter 2 it is a view which has its origins in the abstract
formalism of contemporary economics, and reflects the tendencies of that discipline to
see the real world as an imperfect form of the models so constructed. It is a view also
contested by many in a more political, sociological or historical tradition for whom the
institutional environment cannot be taken either as given or as derived solely from an
atomised universe of individual maximisers (viz. the critiques of Bates in Chapter 2,
Section 4). The attempt to account for the nature of institutional forms by deduction
from market processes is also prone to teleological fallacy, even with North who often
appears to take the efficient institutions of advanced capitalism in Western Europe not
only as the outcome of historical processes but as part of the explanation of the path that
was taken. Having said this, there are New Institutional Economists who recognise the
importance of endogenising the institutional environment in a recursive process that
affects the motivations, ambitions, objectives and decisions of market participants
(Stanfield 1999, Steinmo et al 1992, Rutherford 1997), but they remain part of the
neoclassical project and only rarely do they directly address issues of class or elite
power in a contest over resources. What is so seldom addressed by the NIE are the
issues raised by Bates, though a rational choice advocate, (and to repeat a quotation
which I used in Chapter 2) when he says “behind every Pareto optimal outcome, arrived
at by marginal adjustments among maximising agents devising institutional solutions to
problems of market failure, lies a previous act of coercion” (Bates 1995). To this one
might add that it is not always ‘previous’ and it is not necessarily overt.

Let us examine now whether a more explicitly historical approach can overcome some
of these problems.
11.3.2 Historical Institutionalism

The general flavour of this approach has already been indicated in the opening section of the present chapter, though that section had a wider purpose. I noted both there and at the end of Chapter 4 how closely the present coffee marketing structure of Ethiopia parallels that of the past. Before the revolution of 1974 an auction had recently been introduced, and coffee was delivered by licensed *akrabies* who collected from licensed *sebsabies* (Teketel Haile-Mariam 1973). There were inspections and road checks, export taxes, and sorting principally by exporters. Throughout the period 1974-91 this structure was essentially allowed to continue in parallel with the nationalised state system, which of course dominated, but there was nevertheless a line of institutional continuity present which carried over into the new regime of 1991 onwards. In one respect this may be put down simply to institutional inertia, in another to the fact that the broad structure suits the present government politically as much as it did the imperial one, and in a third it remains the best guarantee in the short term that international standards of quality and contract compliance are met.

Other more general aspects of continuity over time have also been indicated. In Chapter 7 the gradual centralisation of state power from the time of Tewodros onwards was traced. Without industrialisation the principal sources of wealth have been from the land and through trade, and every regime of the 20th century in Ethiopia in various ways sought to control and tap the wealth so produced. The gradual transformation of traditional means of raising money through tribute and tithes to forms entailing direct taxation by the government (Shiferaw 1995, p.30) was conducted in such a way that could only strengthen the central powers of the state, whilst also weakening the power of local lords. Likewise, the long tradition of granting concessions to long distance traders, in exacting tribute as they passed through different parts of the country (as I showed in Chapter 7.3), and in taxing market traders (Pankhurst 1968) has continued in modified form through to the present with, as we have seen, the structure of the coffee trade in, and from, rural areas remaining highly regulated. This process also ensures that coffee exports are channelled through specified terminal markets within the country and exit via a limited number of ports, thus enabling a final tax on export to be easily collected, with the additional involvement of centralised agencies such as the National Bank and offices of Customs and Excise.

The prevalence of small scale producers also owes much to the past, and not just to the 1975 Land Reform Act. It is worth recalling that the power of landed wealth throughout
most of the last century tended to have a complex base. As I showed in Chapters 3.4 and 7.6, before the Land Reform Act of 1975 most of the coffee growing areas were in that part of the country where, for historical reasons, a higher proportion of tenant farmers paying cash rent existed (Shiferaw 1995). Landlords were often absent but tended also to be of Amhara descent in contrast to the majority of producers who were Oromo. As Shiferaw points out, throughout the country, land ownership (however defined) tended to be fragmented, for a multitude of historical reasons but mainly stemming from the way in which past Emperors and Kings granted what were then mainly *gult* land rights. The combination of such factors militated against the formation of large consolidated privately owned commercial farms and thus the emergence of a ‘coffee elite’ to the degree that was common in Central America (Paige 1997). Although there was a certain movement in this direction in Ethiopia during the 1950s and 1960s a different historical experience would have accelerated the development of commercial agriculture and the growth of a rural bourgeoisie. It would also have meant a larger number of nationalised farms to be inherited by the present government as a consequence of the 1975 Act. Instead, a structure based upon small peasant producers remains the norm and is an interesting example of path dependence unaffected by the revolution. A contributory factor has been the present government’s decision not to repeal the Land Reform Act and, in retaining national ownership of land, preventing a private market in land from re-emerging.

In taking this longer view we are more able to see, and to incorporate into analysis, the workings of those cultural and political aspects of Ethiopian polity on to which economic institutions have either been grafted or from which they have evolved. Perhaps the principal amongst these has been the drive to centralise power that has been common to every regime since the Northern expansion of the early 19th century and setting a pattern which even today owes much to the decades of ‘modernisation’ under Haile Sellassie’s centralised control.

It may be pointed out that while this may have been so in the past it has now been largely displaced by the new federal constitution and the fiscal decentralisation that goes with it. Several responses may be made to such a view, as I noted in the conclusion to Chapter 9. One is that in granting a degree of devolved, but regulated, power the centre improves its own position (a) through an enhanced democratic legitimacy, and (b) by ensuring that regionally based opposition is diverted into approved channels. It may even be interpreted as a sign of confidence in its own powers. On the other hand, where there are strong traditions of regional ethnic opposition this strategy may be seen as a
sign of weakness or interpreted in more Machiavellian terms. In neither case does federalism imply a deviation from the objective of the centre to retain absolute power in critical national areas. A second response is that the physical infrastructure of the economy, and thus the inevitable orientation of its associated bureaucracies, remain centrally focussed on Addis Ababa. In other words the centralised structural legacy of the past is deeply entrenched. Finally, the central government retains control over what is most important to itself, such as internal security and the means to pay for it through access to foreign exchange. When all these are combined with gradual improvements in administrative capabilities at all levels then it is possible to regard a degree of decentralisation in some aspects of government as being consistent with a continued central grip on other key areas much as in the past, and having similar consequences for the nature of the institutional framework which governs economic exchange in rural, as in urban, environments.

There is some attraction in this historical approach, particularly in its ability to link periods and levels, by which I mean not only the micro, mezo and macro (for example, of peasant operator, coffee sector regulations, and the objectives of central government) but also the structure and agency relationship. It can also provide a useful interdisciplinary perspective. Yet a number of questions remain. How does one avoid description of a sequence of events masquerading as explanation, or implying a linear explanandum? How does one approach the problem of interpretation only through that which has been recorded, or which is readily available? And in supplying an interpretation how does one choose between a method which assumes rational choice, or one which takes class power as its basis, and, finally, how does historical institutionalism avoid the trap of seeing the past through the lense of the unstated ideological values of the investigator?

It follows that any real understanding of actual historical processes will require an input from one or more of the other more conceptual approaches which then assume a time element. Before taking this further, let us first consider the rational choice approach.

11.3.3 The Rational Choice Approach

Although there are some similarities with the New Institutional Economics, the latter owes its origins to debate within neo-classical economics and is in many senses an extension of that paradigm, whereas, as I noted in Chapter 2, rational choice theory in
political analysis appeared as a reaction to the behaviouralist school in political science and sociological literature. Much of the early rational (or public) choice literature was on the workings of the US political system where the conclusion tended to be reached that the primacy of individual rational calculation in pursuit of personal interest would not necessarily produce an outcome in concert with the collective will or the public interest. For many scholars this has provided the grounds for anti-statist policy conclusions to be drawn. If, on the other hand, there is a role for appropriate institutions to constrain and channel these self-seeking motivations then the rational choice approach is capable of offering some insight into the problem of structure versus agency in explaining social action. This is clearly different from the NIE extension of neoclassical economics which deals only with those institutions which relate to markets and are seeking an efficient solution to market imperfections. Insofar as this happens, the state is assumed to act in the public interest.

It is difficult to relate much of this literature to the Ethiopian case unless one diagnoses the actions of Haile Sellassie during the active years of his reign in terms of personal utility maximisation via rational calculation. This is undoubtedly one way of looking at his life, and some observers may be tempted by it, but, put like this, it has the same reductionist limitations as were pointed out in the concluding paragraph of Section 11.3.1 above. It also runs the considerable risk of reducing any interpretation of his relationships with his Ministers, his rivals, the regionally based opposition movements, the armed forces and civil society as purely an exercise in instrumentalism. On the other hand, to the extent that Haile Sellassie and subsequent Ethiopian governments have been able to control the detail of institutional change, then the way in which the Coffee Board and then Coffee and Tea Authority were set up, the rules governing the operations of the auction, and the regulations controlling trade can all be argued in ‘principal-agent’ terms. That is, the various rules in place have the intention of monitoring the behaviour of bureaucrats as much as that of farmers, traders and exporters, and are at heart a means for one or a group of individuals to impose their will on others to their own advantage. Clearly there is some insight to be gained here, particularly into the forms which administrative control have taken.

In a similar way, the various modernising changes to the Constitution and to the workings of major sectors such as the coffee filiere that were introduced by Haile Sellassie from 1930 to 1974 and by the present government since 1991 may be understood (by proponents of this school) not so much as instruments to preserve centralised power, but as a set of rational strategies to guide the transition from a feudal
to a modern society. Yet this need not mean a weakening of central authority, as the process also serves as a legitimising function, and what emerges in fact is a combination of changes ‘for the good of the country’ via an ideology of ‘modernisation’ and careful manoeuvring by the ruling party or individual within the process for the preservation of a privileged and secure position at the top, on the grounds that only they have the vision and power to manage the change (a perception which is evident in Haile Sellassie’s autobiographical writings). The issue of power and control has therefore to be addressed.

Rational choice and historical institutionalism may be combined. Decisions taken at different points in time may be interpreted as the rational choice of various actors (in Ethiopia’s case, mainly the ruling elite or party) responding to incentives, or in a game theoretic contest with their opponents, leading to outcomes which may still have implications for the future in creating path dependent boundaries on future decisions. The continued presence of inefficient institutions would then be the result of calculated decision on the costs and benefits of removing them. As with the NIE, there is a narrowness of focus with the approach, which leaves a number of questions begging, of which that of reductionism continues to be the greatest. As Peters points out, “It is very difficult to find any situation in which individuals could be said not to be acting rationally in the context of some possible set of incentives or another” hence creating an interpretation that is difficult to falsify (Peters 1999: 61). Second, although the individual rationalises within a structured context, and in one sense appears to bridge the structure-agency divide, the psychology of the individual is not truly socialised, with the consequence that the approach can deal only unrealistically, in what amounts to a form of sophistry, with altruism, culture and unequal power relationships (Zey 1998: Chapter 4). Third, there are elements of what Lawson, in critiquing neo-classical economic theory, called empirical realism which, as I showed in Chapter 2, draws on the assumptions of atomistic behavioural conjunctions as the primary basis for its ontology, and which thereby generates a deductivist based closure to our interpretation of the world (Lawson 1997:19). In order to avoid these various problems let us attempt an approach which best captured in the notion of a political economy which will envelop the others.
11.4 Politics, Political Identity and Political Economy

As a starting point we may say that it is the culture of centralised control, dominated by highland ethnic national elites, the history of which has been mapped out in preceding Chapters, that lies behind the pattern of institutional structure that has evolved in Ethiopia, and which includes the various organisational forms of market behaviour and regulation that exist today, including the coffee filiere. This is not to suggest that centralisation of power is unique to Ethiopia in the construction of a nation state; it is rather to point out that there is a characteristically Ethiopian variant, just as there is an English variant (dominating British history) and a French variant. The absence of a marked period of European colonial domination, with its history of indirect rule, or in Mamdani's terms, the formation of a bifurcated state (at least in the Western post-colonial form) gives the Ethiopian case a distinction deriving from its own internal history and driven by the cultural norms and power struggles within and between adjacent linguistic and ethnic groups. In many ways, as we saw at the beginning of Chapter 7, there are closer parallels with the history of the transition from feudalism to capitalism in Europe than with the colonial and post-colonial experience of much of the rest of Africa, despite the fact that the major European states to emerge also developed in a direction which led them to become the core economies of the global system. Although the 19C expansion of highland Abyssinia southwards has some similarities with European settler colonialism, both the motivations and the method are steeped in the internal dynamics of the struggle for control of the highland areas showing more in common with the early processes of state consolidation in Europe than with later. In broad terms, therefore, the similarities with the emergence of European nation states are greater than those with African countries colonised by Europe. Even the politicisation of ethnicity as a by-product of centralisation has its parallels in the history of most of Europe, with the examples of Germany and Italy being prominent.

11.4.1 The Class Process

The contemporary legacy of these centralising trends is found in the structure of property rights in land, usufruct, trade and exchange that is the mark of the current institutional environment, in which the coffee filiere is intricately embedded. As I argued in Chapters 8 and 9 this has not been fundamentally altered, other than at a technical level, by the introduction of federalism. However, to talk of legacy is to imply path dependence and that the institutions and their processes, regulations, laws and
ministerial structures set up principally by Haile Sellassie have locked the system, including the coffee filiere, in to a pattern that is not relevant today (as discussed above in the NIE approach). What is being suggested here however is that this view of legacy only as an anachronism is inaccurate. I am suggesting that the principal factors which lay behind the formation of the system from which the present one is derived are still present today and that, for the reasons explored in Chapter 8, it suits the current regime to continue with most of these same institutions or to adapt them only in minor ways. Hence the relatively unchanged nature of the coffee filiere from the structure that was imposed between the early 1950s early 1970s. One way of putting this notion of continuity, though not without problems, is that there are underlying long-term processes of class formation in Ethiopia which were suppressed rather than destroyed by the revolution.

In Chapter 7 we saw how the collapse of Haile Sellassie’s regime in 1974 could be interpreted as the outcome of a struggle between those of the dominant aristocratic class attempting to limit the pace of change and those in an increasingly demanding bourgeoisie who were driving the relations of production to become more and more capitalistic. The institutional structures of government were by then reflecting in many ways the attempts by the elite to manage their own transition to a dominant role in the bourgeoisie. Examples include the limited nature of Haile Sellassie’s constitutional reforms and the gradual appearance of a market in land in the coffee growing and other areas. One may argue that although the revolution diverted this process from its path it also, paradoxically, prepared the ground for a subsequent acceleration of the creation of a capitalist class by so rapidly destroying the base of the aristocracy. Furthermore, many of the institutions with which the previous aristocracy hoped to control this process, via strong centralisation, also serve the interests of a new elite dominated by a minority party, the TPLF, which continues to struggle with ethnically based opposition and competing ideological pressures with regard to land, foreign investment, and rural development.

In saying all this one has to take care not to over-emphasise parallels with the past. Although these include state power, now in the hands of the EPRDF, that remains highly centralised, a peasantry as impoverished as ever, a bourgeoisie that is still small overall, and the continued presence of politicised ethnic tension, the country is no longer governed by an aristocratic land owning elite, there are now popular parliamentary elections and, despite a number of problems, there is greater freedom of speech. Despite the government’s willingness to encourage capitalist expansion the ideological origins of
the controlling political party, the TPLF, are socialist as well as nationalist and this continues to influence debate within the party (as we saw in Chapter 8). The TPLF is itself a minority group within the parliament and in the country.

One important consequence of these differences with the imperial past is that it is more difficult today to identify a ‘ruling class’ and hence to see the institutions of the filiere as being molded in its interest. With the exception of the vast majority of the country’s population who are peasant farmers, living on state owned land, and a clear but small commercial sector which can unproblematically be termed ‘bourgeois’ an analysis of the wider polity based on class in Ethiopia at the present time raises considerable definitional and practical problems. Yet the bourgeois element is considerable in a specific sector such as coffee. With the gradual withdrawal of state enterprises the coffee filiere consists predominantly of peasant farmers as producers (a number of whom may also be sub-leasing or mortgaging), and of privately owned merchants involved in trading and exporting. Within each of these there are varying combinations of family and waged labour. An analysis of how this essentially ‘petit bourgeois’ element relates to wider processes of class formation in Ethiopia today lies beyond the scope of this thesis, but some comment on the latter as it affects the environment of the filiere, and its likely future direction of change, can be made.

Beyond the boundaries of the coffee filiere, but also embracing it, there is undoubtedly a temporal element, an element of urbanised social change underway in post-1991 Ethiopia to which the idea of class formation as a process may be applied and which in due course can be expected to lead to an expanded and continually growing bourgeoisie in a traditional Marxian sense. In the interim a minority regionally based party remains in power backed by the armed forces. This creates a policy milieu in which ideology seems to be a will-o’-the-wisp and where pragmatism appears to dominate. But pragmatism is not without roots and implicit values and emerges from the culture and history of a society. In Ethiopia today it is also strongly influenced by Tigrean nationalism from within and the ‘Washington consensus’ from without. The latter constrains the degree of choice in a number of economic policy areas, while the former is an additional factor clouding the ambiguous nature of the class position of the governing party. Ethiopian pragmatism appears, at least on the surface, and from the evidence of recent policy, to be based on a limited number of major objectives, which define the boundaries of acceptable policy in the short term. These may be summarised as follows:
- Preservation of the unity of Ethiopia as currently defined
- Achieving a balance between the recognition of ethnic difference and its containment
- Promotion of capitalistic growth as a means of rapid economic expansion
- Minimisation of threats to the EPRP as the dominant party, while promoting its acceptability to the population at large

This is not in any obvious sense a self-conscious class based or elitist set of objectives though they reflect the practical outcome of a compromise between different class and regional interests in the country at the time, and which need further picking apart to arrive at their underlying intent. They may also lead in due course to a society that is more easily recognisable in conventional class terms, one that is essentially capitalistic but, as in Canada or Spain, with important politicised ethnic movements remaining.

Of the four objectives listed above, it is important to note that the first two and the last of these will in general tend to require continued centralised control. It is in these respects that similarities with previous regimes begin to be seen. During the reign of Haile Sellassie the same interests in preserving the greater Ethiopian state and minimising threats to the Emperor's legitimacy existed, though other differences (as in denying ethnic political power) were balanced by the aura of imperial descent and its formal and informal structures of aristocratic power. In both cases strong central control is a natural corollary of the short run aims and long run aspirations of the dominant group. An important element of the former is to create an atmosphere of political and economic stability on which a strategy for achieving the longer term aspirations can be built, insofar as they have been clearly articulated. In the case of Haile Sellassie's government that included the transition of the ruling elite to bourgeois status without losing the privileges of a traditional land-owning class. For the present Ethiopian government, it is not yet evident (in 2002) that the long-run has been clearly, or even skeletally, envisioned in any cogent form. In the meantime, the regulations controlling the coffee filiere have been loosened while the essential structure of its institutions remains in place.
11.4.2 Land and Containment

It does not follow that similarity of short to medium run objectives between two different regimes separated by seventeen years of revolution will lead to a complete set of identical policies in practice: some will be retained, some will differ even quite radically, as the political environment changes. An example of the latter is found in land legislation where the contemporary political elite of the TPLF has decided to adapt the institutional legacy of the revolutionary period to meet its own current interests, and perhaps also to appease radical elements within the TPLF. The relative brevity of the revolutionary period can generate fear by more radical party members of a possible revival of landed wealth if a market in land were to be allowed to emerge. A focus rather on industrial expansion, especially if decentralised, and of building up alternative non-agricultural power bases, may be seen as part of the same concern and is consistent with an analysis of contemporary political issues in terms of problems of inter-elite integration (Tegegne Teka 1998, Mesfin Araya 1991) rather than of land based regional rivalries. The policy of Agricultural Based Industrial Growth also falls into this pattern.

A number of tensions therefore both arise from and lie behind the decision not to re-privatise land, and bring in links with the decentralisation policy of government. On the one hand, the latter has been an attempt to defuse nationalist aspirations in the regions but in so doing it must inevitably, on the other hand, give a momentum to increased ethnic power which could threaten central authority. At present this is contained within the structure of government as defined in the Constitution, but a return to privatisation of land, it may be argued, could enhance the power base of regional opposition. The EPRDF, being itself dominated by the TPLF, also has to maintain a balance between its central and regional interests, though without appearing to over-favour Tigrai. An additional factor in the land debate is how to manage the potential growth of large scale commercial farming, where the economic benefits of scale economies would have to be set off against potential socio-political costs of peasant dispossession. Even a fairly modest market in land will increase inequalities, with the poorest being driven by debt and impoverishment to migrate to the larger towns where there are already severe housing and environmental health pressures, producing an acceleration of rural-urban drift and its consequent social, economic and political problems. In coffee growing areas this process would also be encouraged by periods of excessively low international prices when poorer farmers will be forced into debt. State ownership of land is thus a containment policy at a number of levels.
It does, however, impinge on the production conditions for cash crops such as coffee, and is a contributory factor in determining the character of the institutions that enmesh the market at the early stages of the filiere. As already indicated, a major effect on the coffee sector is to ensure that the cultivation of coffee will remain dominated by smallholders, at least for as long as farm gate prices cover peasant production costs and are competitive with alternative cash crops such as *chat*, where these are feasible. Even where large scale production is capable of producing higher yields and commercial rates of return the security of tenure which, at least in theory, has been given to the small farmer will ensure that this sector remains a significant supplier, and that this will be reflected in the marketing structure. From the government's perspective if this can be accompanied by an improvement in farm incomes as farmers receive a greater share of the export price of coffee, through liberalisation policies, then regional separatist pressures may be contained, particularly from the OLF – as opposed to having a disaffected landless class subject to exploitation by absentee landlords and ripe for recruitment to a subversive opposition movement. The federal and state governments also have a strategic political role here. The collection of revenue and monitoring of regulations, though often unpopular amongst those affected, also generate employment and this reminds us of that traditional aspect of political control which depends upon the patronage, overt and otherwise, of job creation in the public sector (Chanie 1998). Thus, potentially disaffected, and ethnically diverse, intellectuals may also be incorporated into the nexus of the state through the means of coffee generated wealth. The regional states in this way end up serving an intermediate clientilist role between the various interest groups in a region and the federal state itself.

11.5 Revenue and Foreign Currency

The fact that direct state revenue from coffee export taxes has declined in relative importance to total government revenue from 6.0% in fiscal year 1969/70 to under 1% today (as we noted in Chapter 6) does not mean that the sector as a whole is of less significance as a fiscal resource. Gradual improvement in administrative efficiency means that the relative decline of exports as a target for taxation is now balanced by an increase in the capacity of the state to extract a share of the value added at other stages in the production and distribution of the crop, not simply through direct taxes on incomes, land and profits (Shiferaw Bekele 1995 p.65) but also through the entire range of general taxes and licences as coffee generated incomes are spent and spread through the economy at large.
It is also important to remember that the (federal) state, and thus the regime which controls it, depends not only on revenue from taxation but also on foreign exchange to purchase the essential imports that help to keep a ruling party in power. Although, therefore, the relative importance of coffee as a direct source of official revenue has diminished since the middle of the 20th century the same cannot be said of its contribution to foreign exchange. In Ethiopia the export of coffee is central and absolutely crucial to this process.

The problem of foreign exchange scarcity is particularly acute for a government such as that of the EPRDF that is attempting to promote capitalistic development and the economic freedom which this is assumed to entail while its own hold over power continues to be under threat of both domestic and international (mainly regional) destabilisation. Those in government must therefore allow for sufficient foreign exchange to be available to satisfy business and consumer demands, plus general government purchases from abroad, while ensuring that enough is left to finance the essential needs of the security forces, a situation that was compounded in 1998 by the unexpected scale of the Ethio-Eritrean conflict. The Ethiopian government today has also to balance the various ethnic and associated regional interests that have become more explicit through the federal provisions of the Constitution and more open democratic processes. Thus, in order to contain the competing demands from its own regional base in Tigre with those from Amhara, Oromia, Somali and the SNNP, many of whose representatives do not at present discern fairness in the distribution of state resources, the EPRDF (and TPLF) are greatly helped if the flow of foreign exchange from all sources is both maximised and centralised. An additional merit of export earned exchange is that it is untied, as distinct from international aid and borrowing. The more that is earned, moreover, the more will be left after debt servicing.

A number of additional observations follow from this. First, to restate an earlier point, it will be to the government’s advantage if as much of the coffee that is marketed is done so in such a way as to make tax and licence income easily collectable, while minimising the disincentive effects. Second, that as much of the foreign exchange that is earned passes through the national bank as possible. Together, these imply either an extensive and efficient administrative network throughout the country, or if this is lacking, a centralised system which allows administrative resources to be more easily concentrated. In Ethiopia it is the latter which has predominated, and the various regulations affecting the collection, distribution and selling of coffee can be interpreted
accordingly, as much in the structure of those rural institutions which constrain and regulate agricultural behaviour as in those nearer to the centres of government itself. This interpretation applies also to the regulations which have been introduced to govern the activities of private commercial banks, many of which now have branches in rural areas. In other words, the institutions which govern the production and trade of coffee beans retain an important political purpose in ensuring the centralised collection of the foreign currency which these activities generate.

Clearly there is also a conventional economic argument to the effect that maximising foreign currency earnings is an important factor in both maintaining macroeconomic stability and sustaining economic growth. Appropriate institutions must be in place to allow government to measure and monitor this and for the implementation of policy, but what mainstream economic analysis fails to pick up is that access to foreign exchange is also a prime political resource (as was clearly evident during the period of the Derg). It is a political asset not only in regard to the international spending power which it provides for the government itself but as an instrument of patronage which can be disbursed regionally, ethnically or sectorally (by economic activity). Foreign exchange as a political parameter thus complicates the economic policy agenda considerably, and will significantly influence the shape which it takes.

Attention to the key role of foreign exchange also highlights an important point of conjuncture of three aspects of centralisation in Ethiopia: the interests of the ruling party, its means of control over the state, and the structure of the coffee filiere. These take us back to the discussion of the state at the beginning of Chapter 7 where it was suggested that the Ethiopian state had evolved in such a distinctively different way from the post-colonial African states that the models used to analyse these were not wholly appropriate. While I believe this argument still to be valid there have been certain convergences in which similarities with other states may be discerned. A major source of this in recent years has come from the implementation of Structural Adjustment Programmes which follow the IMF's standardised formulae. The pressure to contract the size of the state itself, together with the spread of market liberalisation has tended to reduce the powers of the state at the same time as the demands on its ability to manage such major restructuring have been increasing. The history in Africa of collapsed or corrupt states whenever extra stress is introduced has led the major donors to concentrate much of their assistance on 'good governance'. The danger in Ethiopia is perhaps not so much collapse at the centre as irredentism in the peripheries, where the emergence of warlordism could be a reality in the face of diminished federal powers
A tight hold on the channels from which foreign exchange is derived is therefore a continuing imperative for the EPRDF, which must have in mind the lesson from examples such as the DRC and Angola where loss of control over mineral exploitation gave vital fuel to regional opposition movements.

11.6 International Factors

Finally, any analysis of the political economy of coffee in Ethiopia must also take account of the way in which the national coffee filiere is linked with international, and hence globally administered, markets, as described in Chapter 10. There we saw that the continued dominance of three major processors in the instant coffee market, the history of barriers to processed imports in the major industrialised economies, the market power of a small number of large international traders, the buying practices of roasters, and the dependence on prices set by terminal markets in New York and London, when taken together ensure that a minor producer like Ethiopia remains locked into raw material production under a system of price discrimination that is reinforced by a rigid system of quality control. The retention of the major share of value added in coffee processing within the industrially advanced countries (Talbot 1997; Fitter & Kaplinsky 2001) means that the contest for access to the remainder within most producing countries, and certainly within Ethiopia, will be between rural and trading activities, and between state and private interests, rather than between the class constituents of an emerging industrial sector. International factors in this way preserve the essential character of the environment from which the pre-1974 Ethiopian institutions emerged.

In Chapter 10 I also showed that although the degree to which major processors and traders were able to influence international prices is unclear, in the highly standardised futures markets the role of speculators was as likely to be destabilising as stabilising. How this reverberates down the filiere was shown in Chapter 5 where we saw that on average the relative variation tended to be higher for primary producers of coffee beans than for others further up the chain, implying that it is the farmer who carries the brunt of the risk associated with international uncertainty. This is reinforced by the calculation, also in Chapter 5, that the farmer’s share of export price in Ethiopia is only 46%, due in part to the incorporation of an implicit premium to cover merchants’ risks plus a discount to reflect low average quality standards at the farm gate. The latter is
related to the former, of course, in a vicious circle where the peasant has no incentive to improve quality while the rewards remain so low and volatile.

The processes which characterise the domestic filiere therefore derive from an interaction of regional, national and international forces. The first two of these have a dynamic arising from the social, cultural and political history unique to the peoples of the country and this determines their responses to the international. A concrete example is provided by the continued insistence by the Bank of Ethiopia that all trade must be transacted by means of Letter of Credit, regarded by many exporters as unnecessary, but serving also as a way for the state to retain an influence (by ensuring National Bank involvement). Other examples include the continued presence of export taxes, through to how exporters use their knowledge of world prices and international standards, while the government itself finds legitimacy in continued membership of the International Coffee Organisation. Farmers are most remote from international connections, but even here the attempt by the Oromia regional state to encourage producers' cooperatives to export directly is part of a local struggle, at a number of levels, to engage directly with the international. Stefano Ponte (2002) has shown how the range of experiences in the three countries of Kenya, Tanzania and Uganda illustrates that the impact of international changes can be mediated by national-level policy. Much of the content of Chapters 3-9 of this thesis demonstrates the degree to which this has been the case in Ethiopia.

11.7 Summary and Conclusion

The essential details of the history and present nature of the production and marketing of coffee in Ethiopia, together with the political context from which its institutions emerged, have been described in Chapters 3 to 9 and summarised at the beginning of the present chapter. At a superficial level the present arrangements can be said to follow a fairly conventional and expected structure whereby coffee is gathered from a large number of small farmers by local agents who sell on to bulkers who then, after some basic sorting, ship to the terminal markets in Addis Ababa and Dire Dawa for auction prior to further sorting and export. This is for sun-dried coffee. A slightly different process is involved for the 15%, or so, of production that is cleaned and prepared by the wet method. On closer examination, however, it becomes evident that this is not the only institutional structure that is possible and that, despite recent liberalisation, it continues to be strictly regulated by the state. It also in essence remains the system that
had evolved during the decades preceding the political upheaval of 1974 and which the intervening military regime found useful to retain, albeit in a much reduced and marginalised form.

The history of coffee production, trading and export in Ethiopia before the revolution of 1974 showed a close alliance between members of the aristocracy, officials and politicians at various levels, and wealthier business families, with these categories often overlapping, in order to gain access to the wealth and foreign exchange from this key cash crop. In pointing to institutional similarities between this period and the present, it is not simply in terms of legacy or path dependence that there is significant meaning but more fundamentally in the social processes that underlie the institutional form. The structure of the marketing system at any one time is deeply embedded in the wider institutional structures of the state, while these in their turn are the product of an evolution reflecting class, ethnic and national struggles for dominance over the body politic. In such a context, rather than the analogy of a ‘chain’ the French tradition of a ‘filiere’ which focuses on channels of distribution and their regulation is more apt.

It is clear therefore that any attempt to understand the present marketing structure and how it may or may not be made to change requires a prior understanding of the filiere which defines it, and this entails sensitivity to political and historical antecedents. The approach of new Institutional Economists is likely to be lacking in this regard, driven as it is by the imperative of drawing all phenomena into the ambit of a neoclassical economic universe. So too, is that of rational choice protagonists where a calculative approach of cost and benefit, whether at individual or collective level, can only give at best a partial interpretation of social process. What distinguishes Ethiopia from Kenya, and Kenya from Brazil, and all of these from Britain or Germany, is their history, and in ‘history’ we have a record of events and processes which encapsulates the outcomes of struggles to survive by ordinary men and women, of contests for political power between elite groups who depend on the degree of ethnic support which they can command, and of a pattern of local cultural and ideological norms which permeate the institutional and social fabric of that society.

The outcome in every case is a set of institutions, widely defined, which have evolved under the direction of those in control, whose class position may not always be clearly discernable. Inevitably, the nature of these institutions has implications for the distribution of income and wealth, both at the level of the individual and in the coffers of the state. Thus the particular shape of the coffee filiere in Ethiopia reflects not simply
(or even) a set of objective requirements for the 'modernisation' of an inefficient traditional system but a mechanism for ensuring that coffee generated wealth is diverted through channels which can be tapped, regulated or manipulated as required by those in government. At times this intervention may be relatively benign and distributionally neutral in its impact, while at other times it will favour one group rather than another, but it will seldom lead to a lessening of control by the dominant group or clique in control of the state. However one defines these groups, as classes, elites, ethnic nationalities, party cadres or military-bureaucratic oligarchies it is the political economy of the processes that remains important to our understanding of how such institutions are created, adapted and sustained over time and even through changes of regime.

In placing the marketing structure in this way into its historical and cultural context we are in a better position to understand why it has its present form, and to appreciate the constraints that will inhibit attempts at change or reform. The present structure is thus the product of a complex meld of market forces and their internal political manipulation, responses over the years to external institutional pressures, and to a history of regional conflict, control of long distance trade, and the centralised transformation of a traditional polity. In attempting to understand the political economy of coffee in this process at any one time, the concept of the 'filiere' with its implication of channels of distribution embedded in a socio-political environment provides a basis for analysis that is more grounded in the reality of what happens in a country like Ethiopia than does that of the conventional commodity chain. I hope to have demonstrated this convincingly in this thesis.

In Chapter 12 I summarise briefly and consider the implications for future policy.
Chapter 12

A Reflection on The Future

12.1 Resume and Objective

In this thesis I have shown how the contemporary marketing structure of coffee in Ethiopia, which I have analysed as a filiere embedded in the wider institutional polity, is the result of a process of evolution which began in the early years of the last century. In political terms it reflects the aims, objectives and characteristics of three regimes — those of Haile Sellassie, of the Derg and, from 1991, of the EPRDF. To the degree that the objectives, at least within the first and third of these, may from time to time have included improved economic efficiency, then the structure of the filiere and its institutions can be analysed within the framework of New Institutional Economics or rational choice analysis. However, as I have argued, these do not pay sufficient attention to political motives nor to the importance of historical legacy in the form of path dependence. This critique has implications for that type of policy recommendation which assumes that the same model fits all countries, such as the ‘Washington consensus’ model, where there is a failure to recognise that markets in practice are social phenomena defined by the institutional nature of property rights and a regime of regulatory control. On the other hand, the economic incentives which market prospects can provide are an important motivating factor that is often neglected in alternative approaches.

In a country like Ethiopia where a primary policy objective must be to increase the income and food security of farming households, and where there is marketable surplus, it is imperative that that market should work in their favour. This is not guaranteed in a broad brush open market framework of the kind promoted in standard neo-liberal formulae. In other words, while the presence of market forces has to be recognised, the challenge is to harness them to work in favour of the weaker players while avoiding the simultaneous neglect of efficiency at other levels. In terms of the coffee filiere the former means increasing the value added at the farm gate stage, which will involve a combination of policies including direct state intervention, carefully regulated liberalisation, and the creation of an environment in which farmers have security of tenure and which facilitates cooperative endeavour. To this may be added the encouragement to direct more of the harvest to the higher value pulping stations.
12.2 Policy Options, State Response and State Responsibility

As far as direct public investment is concerned the results of the EDE-CTA Survey referred to in Chapter 5 give clear pointers. Around half of all farmers in the project area live more than an hour’s walk either from a market, a grinding mill or pulping station, or an all weather road. The power of roads to generate higher levels of market activity is well attested in the development literature and this is an obvious target for priority investment. Likewise they facilitate transport of freshly picked berries to washing stations. Other areas of support include grants and subsidies to improve storage facilities at farm and collector level, to increase the number of pulping stations, to improve management and financial skills in cooperatives, and to raise the level of provision of communications in general in rural areas, including a reliable infrastructure for internet access.

At the marketing level itself the way forward is more complex. After the highly regulated structure of the Derg period between 1974 and 1991, and its associated failures, a significant degree of market liberalisation was inevitable. Precisely how much, of what kind and in what areas becomes problematic, however, in seeking a balance between the targets of allocative efficiency and social equity. At one extreme the advice of neo-liberal observers is clear, and would include the following:

- Allow buyers and sellers to by-pass the auction or even eliminate the auction as a needless additional stage
- Allow vertical integration where it naturally emerges, even (or even especially) if it subsequently encourages foreign capital.
- Remove all licence conditions (including those which separate the domestic market from the export market), except the minimum required for regulation of standards and collection of taxes.
- Privatise the inspection and monitoring of quality control: that is, let the industry take over the responsibility.
- Decentralise and simplify export procedures
- De-nationalise land in order to properly reflect market values and guarantee the property rights seen as essential for capitalist expansion
- Encourage the development of forward markets.
Clearly such a list of policies would encourage market efficiency with no specific regard to distributional equity. It is tempting to take them as benchmarks or starting points from which policies with greater social content may be derived, and in this way both economic and social equity concerns would be consciously included in the policy making process. Although there is a logic in this, there is also an implication that the undiluted neo-liberal agenda is the ideal which is being compromised by social concerns. With such qualifications in mind, what are we to make of a list such as this in the context of the present study? Clearly, the various suggestions are aimed at maximising economic efficiency as understood in neo-classical theory of market behaviour. There are two levels at which further comment may be made: (a) that of the likelihood of their adoption by the current government and (b) that of their impact on the distribution of income and wealth amongst those involved in the filiere.

With regard to the first of these we have seen in this thesis how a tradition of strong central control has been a dominant theme of Ethiopian state development since the late 19th century up to the present. This has been in large part motivated by the spatial distribution of ethnic groups and their history of dominance by some and subjugation for others. The federalism introduced in the 1990s is a contemporary attempt to contain the tensions to which this has given rise. The arguments of Chapter 11 indicate that, despite federalism, the current Ethiopian government is likely to consider only policies which liberalise without granting too much decentralisation of control, especially over access to foreign exchange. Thus the auction may gradually become optional while all documentation, perhaps in simplified form, will still be required to pass through the national bank. Likewise, if vertical integration attracts foreign capital or increases the power of regionally based capital then any changes that make it likely will be resisted or discouraged. The government’s cautious approach to collaboration with the private sector in general was evident in the address to a joint workshop, the first of its kind, by the Prime Minister, Meles Zenawi, in July 2002 when he expressed a fear of ‘rent seeking’ and rejected a World Bank report on taxation (Fortune, 3, 114, July 7 2002).

This history of control means that even if it is accepted in government that liberalisation can have desirable effects on economic efficiency the government is still likely to move extremely slowly in that direction. This will be the case in two areas in particular: the large domestic market and the auction. The former is such a potential threat to the supply of
Second point, (b) above, of who gains and loses from alterations to the filiere, recall that there are four major stakeholders: exporters, merchant middlemen, farmers and government itself. In terms of numbers and the generally low standards of living of rural populations in Ethiopia a priority policy objective must be to raise the incomes of peasant farmers. The set of neoliberal measures listed above does not directly address this, though assumptions of Pareto optimality in the operation of free markets could be brought to bear in neo-classical economic arguments which stress the mutual benefits of exchange. In somewhat looser terminology, the dynamic aspects of this would appear as ‘trickle down’ effects. Only the last two of the list (denationalising land and encouraging forward markets) would (or could) directly involve farmers and of these the second is unlikely in the short to medium term. The issue of privatisation of land is more problematic as any move in this direction would lead gradually to the disappearance of many small plots, as inefficient or heavily indebted households sold out, a subsequent acceleration of rural to urban migration, and a widening of income distribution. Despite its bureaucratic elements, the strategy of regulated leasehold that has been adopted by the government offers an alternative with potentially less drastic consequences. The history of the years since 1991, as discussed in Chapter 5, shows that security of tenure as much as ownership is important, and that regular re-allocations should be avoided.

Yet the problems faced by farming households are considerable. The EDE-CTA Survey discussed in Chapter 5 revealed that even in the coffee growing areas surveyed 65.8% of
households had no toilet facilities whatsoever, 75% have grass or bamboo roofing, only 41% are within ten minutes of a water supply (of which only around 10% is from an improved spring), and the primary source of energy is from wood burning. And this is in areas where a marketable crop having internationally sophisticated consumption patterns is produced. In considering how this might gradually change as a result of local initiatives there is one policy area which has been successful elsewhere, though with a mixed history in Ethiopia, and that is the encouragement of producer cooperatives. The experience of other countries, both ‘developed’ and ‘developing’, shows that producer-owned cooperatives and related form of organisation, if efficiently managed can be powerful representatives of small farmers. There are examples from France, South Africa (for white farmers), Brazil, Guatemala and elsewhere of producer cooperatives that have had considerable success in economic and political terms, given appropriate state encouragement. In Ethiopia the damage done to the image of cooperatives during the period of the Derg will have to be overcome, their relationship with banks improved, and their general management rendered more efficient, before they can evolve into a significant force for change. Despite such problems there have been encouraging moves by the Oromia regional government in providing organisational and logistical support to coffee and other producer cooperatives which generally also run washing and pulping facilities, while the CTA has permitted coffee cooperatives to by-pass the auction if they are selling to ‘fair trade’ outlets in the West.

Where the objective, as seems to be the government case, is to encourage the motivational aspects of market incentives while reining in the worst exploitative elements of capitalism, then some attention must also be given to the rest of the filière. Rather than simply allowing merchants, for instance, to sink or swim in the competitive system of which they are classically central players, we should take note of the uncertainties which they experience between the purchase and sale of coffee beans, and of the risks of making a loss should prices fall dramatically in that interval. As I noted in Chapter 6 their attempts to cover such contingencies will impinge on prices received by farmers. There will therefore be a mutual benefit if such risks can be minimised by policies which improve informational efficiencies, transport efficiencies, and bureaucratic delays. The provision of forward contracts for physical deliveries and access to future markets for hedging, and the upgrading of managerial skills to enable their use, will all be to the benefit of both merchants and farmers in the long run.
Allowing exporters to integrate their operations with those further back in the chain would also help to reduce uncertainty and would overcome chronic problems of quality at farm level. As long ago as 1961 Hufnagel commented that "no apparatus existed for persuading the farmer to produce, and the trader to sell, high quality coffee beans" (Hufnagel 1961:226) and in 1999 the World Bank was still reporting that "quality is often spoiled as a result of improper picking, drying, processing and storage, and with the current licensing system exporters have little control over quality in the interior" (quoted in LMC 1999. Ethiopia Country Profile, p11). As the passage of time between these two observations indicates, this has not proved to be an easy problem to address. Even by removing many of the licensing regulations and allowing exporters to by-pass the auction and to deal directly with larger farms and cooperatives, and to insist on minimum standards, would not necessarily achieve the desired results. Experience elsewhere of the removal of regulations has been of a deterioration of quality at farm gate level as an increased in the number of buyers has resulted in greater competition for available supplies (LMC 1999). An alternative lies in contract farming but this has implications for security of tenure and would be administratively complex to apply widely in a traditional institutional environment. Only through considerable detailed consultation with all participants in the domestic chain is a satisfactory solution to the joint problems of quality and price at farm gate level likely to be found, and, given the complexity, gradual change introduced through pilot projects.

Any proposals for alteration to the coffee filiere in Ethiopia must take account of the very severe fall in international prices which began in late 1999 and which showed little sign of a turnaround by mid-2002. The cause has been a combination of increased world supply, particularly from Vietnam (as we saw in Chapter 10) and sluggish growth in demand. The latter is likely to be cyclical but the former is more likely to reflect a long term trend. The choices for farmers are to do nothing, to increase yields or areas farmed, to diversify to other crops, or to leave farming altogether. Increased use of fertilizer and pesticides would threaten any attempts to market Ethiopian coffee as 'organic'. Diversification can be something of a two-edged sword as far as government, the fourth stakeholder, is concerned. While it may benefit farmers and reduce national dependency on one major export crop, it may lead to a reduction of foreign exchange earnings (say if more subsistence food is produced) or to a loss of control by government over these earnings (if the alternative is exported via informal channels or with less rigorous documentation). It is sometimes
suggested that coffee farmers will switch to the production of the soft drug, chat, but this is mostly confined to the Harar region where growing conditions are favourable and markets for the fresh produce close, or in parts of Sidama. On balance, in the short to medium term, the majority of the country’s coffee growers, situated in the highlands of Western Oromia and of the SNNP region, will continue to rely on mixed farming, holding out until coffee prices rise again.

Although the international market has been oversupplied for most of the period 1998-2002 and international prices have been at historically low levels, it is paradoxical that this has coincided with an expansion of what might be called a ‘coffee culture’ in Western consumer circles, where value added at the retail end has remained at high levels. There is scope here for the best Ethiopian coffees, such as Yirgacheffe and washed Sidama, to be sold as ‘gourmet’ coffees to niche markets, and for the ‘coffee ceremony’ to be promoted as part of the image. This is a competitive market, however, and not only is considerable investment in promotion at a sophisticated level required but regular supplies of good quality coffees have to be guaranteed. An alternative would be the fair trade market, but this too requires guarantees of consistent quality in sufficiently regular quantities to justify the processing, packaging and promotion for sale in Western supermarkets and other outlets. Some progress has been made here by the Oromia Coffee Farmers Cooperative Union with the support of the Oromia State Cooperatives Division, and by mid-2002 some 80-100 tons per year had been exported to Peace Coffee in the United States.

Finally, there are possibilities for small-scale production of vacuum packed roasted ground coffee for export, but this is likely to be confined to limited volumes. At some point production of instant coffee could be considered though it has to be remembered that the usual major ingredient elsewhere is the Robusta variety of bean. Export markets must also compete with the industry leaders such as Nestle and Maxwell House, though as a strategy to limit the penetration of the Ethiopian domestic market by these transnationals, an alternative good quality locally produced instant coffee may have to be considered in due course. Nescafe is already on the shelves of even the smallest supermarkets in Addis Ababa.
12.3 Conclusion

Despite the possibilities of developing niche and gourmet markets the reality is that the country will continue to depend on traditional sun-dried coffee production, though with a steadily increasing proportion being washed. The vast bulk will come from small peasant holdings in a combination of garden and semi-forest production. It is with this community of farmers that the preservation of the region’s rich genetic inheritance of coffee depends. The genetic variety and intrinsic high quality of Ethiopian coffee are assets to be protected and developed for the benefit not only of all those whose livelihoods depend on the local coffee filiere, but also of consumers around the world whose enjoyment of coffee can only be enriched by having the choice of purchasing the best Ethiopian highland coffees. It is essential too that the intellectual property rights on the genetic stock is protected. Finally, it may be a platitudinous note on which to conclude, but it would not be over-dramatic to claim that Ethiopian coffees collectively comprise a ‘world heritage’ of genetically unique coffee strains whose future survival, incorporating adequate rewards to growers, depends on the political will and wisdom of elites who must see beyond the political economy of self-interest, and who are prepared and able to negotiate a sustainable future for that heritage against the ever encroaching global powers. One hopes that in Ethiopia today space has been created for such broader perspectives to emerge.
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Notes:
Columns (1) and (3) are for dried undecorticated beans. Columns (2), (4), (5) and (6) are for green beans.

Sources:
Appendix 1

Dates of Fieldwork; Persons Interviewed and Organisations Visited

A1.1 Dates of Fieldwork:

Between December 1997 and July 2002 I made seven visits to Ethiopia. These were on the following dates:

15 December 1997 – 10 January 1998
3 September 1998 – 19 September 1998
23 May 1999 – 3 June 1999
6 September 1999 – 15 September 1999
30 November 1999 – 11 December 1999
2 November 2000 – 15 November 2000
7 July 2002 – 11 July 2002

A1.2 People interviewed were as follows:

Coffee and Tea Authority
Tsegaye Berhane*, General Manager
W/o Aster Stephanos*, Head, Planning and Programming Department
Abraham Begashaw, Liquoring Unit
Head, Public Relations Department
Gunther Herhaus*, Team Leader, EU Coffee Improvement Program
(E.D.E. Consulting)
Dr Birru*, Local Consultant, EU Coffee Improvement Program (Former Minister of Agriculture).

Ministry of Economic Development and Cooperation
Worku Yehuasher*, Head, Regional Planning Department
Berhanu Legesse, Team Leader, Regional Development Plan Coordination

Ministry of Finance
Department Officials, Federal Budget Division

Ministry of Agriculture
Ato Tamiru, Planning Officer, Jimma Regional Office
Ato Teshome, Jimma Regional Office

National Bank of Ethiopia
Tarekegn Assefa, Head, Balance of Payments Division
Ato Gebeyehu, Head, Exchange Control Department

Commercial Bank of Ethiopia
Miraw Esetu (formerly with NBE and member of Price Differential Committee)
Oromia Regional Government

Wassie Birhanu, Head, Planning Bureau
Yoseph Abdisa, Head, Finance Bureau
Tadessa Meskela*, General Manager, Oromia Coffee Farmers’ Cooperative Union
Dessalegn Jena*, Export Manager, Oromia Coffee Farmers’ Cooperative Union

Coffee Exporters and Merchants

Fadel Saad*, Export Dept. Manager, Paul Ries & Sons (Ethiopia) Ltd
Dawit Daniel*, Assistant Manager, Export Dept., Paul Ries & Sons
Geoffrey Wetherall*, General Manager, Ambessa Enterprises
Abdullah A. Bagersh*, S.A. Bagersh Coffee Exporters
Omar A. Bagersh*, S.A. Bagersh Coffee Exporters
Abdulrezak Sheriff, General Manager, Ethiopian Commodities
Busha Assefa, Head, USA & Middle East Desk, Ethiopian Coffee Export Enterprise
Hussein Mohammed Asharafi, Asharafi Coffee, Jimma
Argaw Kebede, Export Manager, Nejat International PLC

Addis Ababa University

Dr Tegegne Gebre Eghziaber*, Director, Institute for Development Research
Dr Adal Yigremew*, Institute for Development Research
Professor Bahru Zewdie, Department of History
Dr Dejene Aredo*, Department of Economics
Dr Tegegne Teka, Organization for Social Science Research in Eastern and Southern Africa

Other Interviews:

Karl Harbo, Head of Delegation, European Union, Addis Ababa
Guisepppe Vitillo, First Counsellor, European Union, Addis Ababa
Dr Befekadu Degefe, Director, Centre for Economic Studies and Policy Analysis
Mike Westlake, Coffee Consultant (on WB/CTA assignment)
Director, Central Statistical Organisation, Addis Ababa
Manager, Ethiopia Hotel, Ambo
Manager, Taloco Coffee, Addis Ababa

A1.3 Libraries and Archives visited in Ethiopia:

Coffee and Tea Authority Library* (Hailu Mekuria, Chief Librarian)
Documentation Centre*, Institute for Development Research, Addis Ababa University
Central Statistical Organisation Library*
Addis Ababa Chamber of Commerce Library

(In none of these was a useful index available and considerable time was spent trawling shelves and speaking to librarians, particularly in putting together complete series of auction and farm gate prices for coffee)
A1.4 Sites Visited for Observation and Informal Information Gathering

In Addis Ababa:
- Addis Ababa mercato – coffee section
- Central Coffee Auction, Mekanissa, Addis Ababa
- CTA Coffee Liquoring Division, Mekanissa, Addis Ababa

Outside Addis Ababa
- Coffee Inspection and Weighing Station, Jimma
- Warehouse and grading premises, Asharafi Coffee Merchants, Jimma
- Garden Coffee Cultivation, Jimma district, Keffa
- Garden Coffee Cultivation, Wondo Genet, Sidama
- Plantation Coffee Cultivation, Wondo Genet
- District market, Welkite

A1.5 Field Work in the UK

Interviews:
- Keith Holdup, Coffee Buyer, Priory Coffee Importers, London
- Osman Imam Beshir*, Representative to the ICO, Embassy of Ethiopia, London
- Wagaye Berhanu, Commercial Section, Embassy of Ethiopia, London
- Dealer, London International Financial Futures Exchange (LIFFE)
- Chief Buyer, Pollards Coffee Roasters, Sheffield
- Proprietor, Farrers Coffee Roasters, Kendal
- Fair Trade Foundation, Netherlands
- Café Direct, London

Libraries Consulted:
- International Coffee Organisation*, London
- School of Oriental and African Studies Library*
- Leeds University Library*
- Sheffield University Library*
- Sheffield Hallam University Library*
- London Business Library, London Wall

(In addition to general material Leeds and SOAS libraries were also useful in trawling for early and mid-20th century accounts of Ethiopia with references to coffee. Sheffield Hallam library held useful material on Monopolies Commission Reports and on the operation of futures markets)

Original Documentation consulted:
- Public Records Office, Kew, London
  (Foreign Office files on Ethiopia in the 1950s and 1960s)

* Note: People and organisations marked with an asterisk were consulted or interviewed on more than one occasion.
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