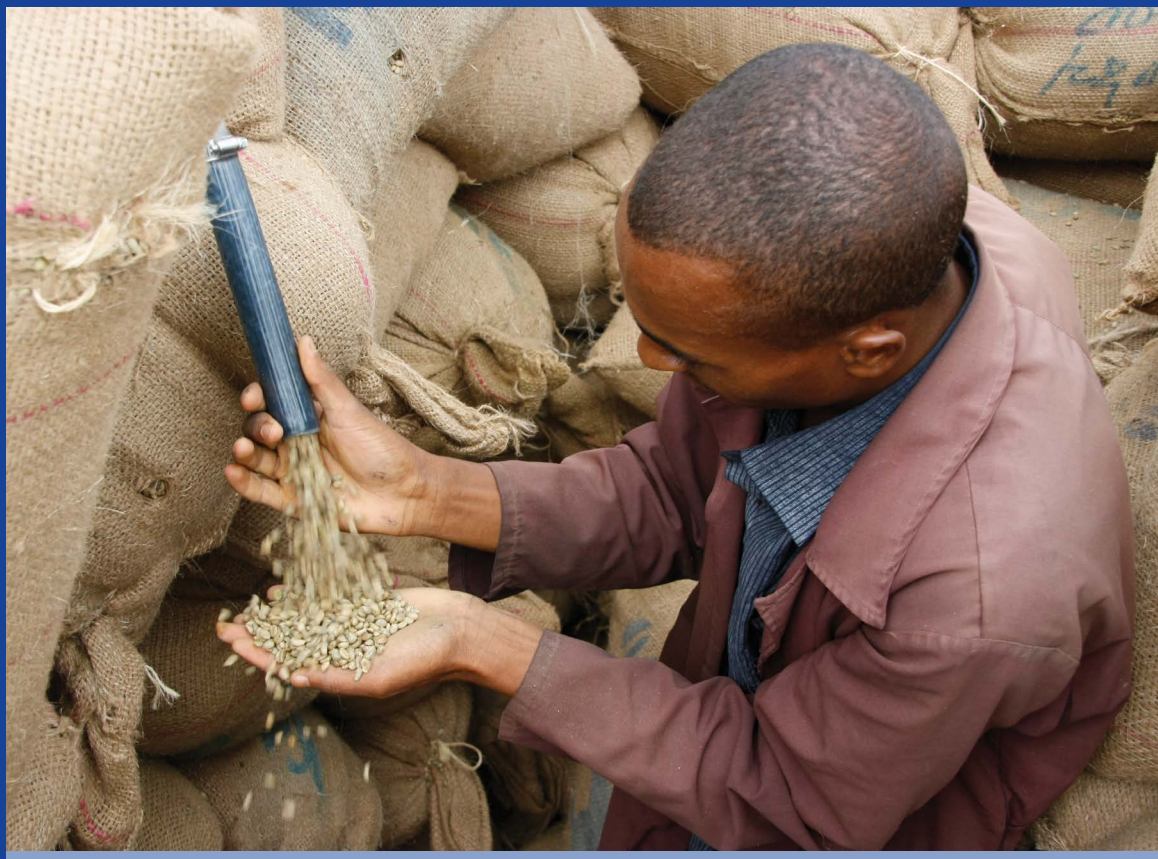
Ethiopian coffee marketing reforms and smallholder coffee producers

A socio-legal empowerment lens

Alban Mas Aparisi



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List of acronyms and abbreviations

ECTA	Ethiopian Coffee and Tea Authority
ECX	Ethiopian Commodity Exchange
EUD	European Union Delegation
GoE	Government of Ethiopia
IFPRI	International Food Policy Research Institute
Int.	Interviewee
NECC	National Export Coordinating Committee
PMC	Primary Marketing Centre
SLE	Socio-legal empowerment
WRS	Warehouse receipt system

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About the author

Alban Mas Aparisi is an agricultural economist consultant with ten years' experience working with international organisations and research institutes. He is also a Development Studies PhD candidate at SOAS, University of London. He specialises in the political economy of agricultural policy in the Global South.

Executive summary

Coffee is Ethiopia's main export crop, contributing to the livelihoods of more than 5 million smallholder farmers. However, these smallholders find themselves at the bottom of a long value chain that includes collectors, traders, processors and exporters.

In 2008, a marketplace, the Ethiopia Commodity Exchange (ECX), was launched with the aim of improving agricultural marketing and shoring up producer prices. In the ECX, registered buyers and sellers meet to agree on a price for agricultural commodity lots. The ECX trading floor is a physical space, located in Addis Ababa, but commodity lots are inspected, graded and stored in ECX-controlled warehouses across Ethiopia's main agricultural production areas. Suppliers store the lots against receipts, which they then auction electronically.

That same year, coffee trading through the ECX was made mandatory for all market participants except cooperatives and large plantations. In 2017, following pressure from exporters, foreign importers and the donor community, further reforms again opened up coffee trading outside the ECX.

Throughout both these reform processes, the research community played an important role, with the idea and design for the ECX stemming from the work of agricultural economist Eleni Gabre-Madhin, and the 2017 reforms shaped by a growing base of evidence, including work funded by the European Union Delegation (EUD) and papers produced by the International Food Policy Research Institute (IFPRI). By contrast, smallholders had no direct participation in the policy process or reforms. Though cooperatives did, to an extent, act as a voice for smallholders, the overwhelming majority of smallholders are not cooperative members, and instead rely on a system in which coffee accounts for a fraction of their livelihood.

Despite a number of apparently positive effects – including greater transparency and security around coffee transactions, and increased price information – there remains no conclusive evidence that either the introduction of coffee trading through ECX or the subsequent coffee marketing reforms have improved coffee smallholder livelihoods.

This report examines the 2008 and 2017 coffee marketing reforms, focusing specifically on the participation of and outcomes for smallholder coffee farmers. The aim is to assess spaces where smallholders and cooperatives may have been able to take part in the reforms, and to highlight policy implications for considering socio-legal empowerment of smallholders in such policy reform.

Findings underline the limited participation of smallholder coffee producers in both reforms. Key implications from the lessons learnt can be structured around

the socio-legal empowerment spheres of action: understanding, organising and engaging (Cotula *et al.*, 2019).

Understanding

- Small producers with marginal direct participation in commodity markets, as is the case with coffee, will inevitably have challenges accessing full information on macro-level marketing reforms like the creation of commodity exchanges and the implications for them therein. Actors involved in the design of such reforms, including governments and donors, may need to invest significant resources to communicate and socialise them at the community level in order to open spaces for engagement and influence.
- Actors aiming to improve producers' livelihoods by improving price information may want to consider the overriding importance of structural constraints on price negotiation between farmers and their buyers.

Organising

- Market solutions in favour of cooperatives can be a way to support smallholder organisation, but cooperatives may also need support to build up their organisational capacity and acquire more capital to compete with traders. The low percentage of smallholders directly represented must also be recognised.
- Support to cooperatives can be an important way of empowering market-oriented coffee smallholders through better prices, technical support and giving them a voice in marketing policies such as the ECX. However, it should be acknowledged that the interests of less specialised coffee smallholders may differ partly from those of cooperatives. Higher monetary incomes derived from better export coffee prices may not be their only path to improved livelihoods. Other paths, for instance, may include pro-poor rural health, education, employment and infrastructure policies.

Engaging

- The methodological underpinnings of the evidence informing commodity exchange reforms can play a critical role in how smallholders are defined and considered. A diversity of research approaches – including research at the basic production level – may be valuable to the design of such reforms, allowing for more sophisticated characterisation of the smallholders who are supposed to benefit from it.

1. Introduction

The global demand for coffee is constantly expanding, growing on average by 2.2% annually between 2016–17 and 2019–20 (ICO, 2020).[1] However, while global consumption is blossoming, prices for internationally exported coffee are decreasing, with many farmers struggling to maintain their livelihoods – a situation often referred to as 'the coffee paradox' (CCSI, 2019; Daviron & Ponte, 2013). The increasing global value of coffee is being captured downstream through 'non-material' attributes, such as narratives of origin, packaging and branding (Daviron & Ponte, 2013). At the same time, coffee roasters and retailers are becoming concentrated through mergers and acquisitions. Furthermore, leading roasting companies are using their oligopolistic position to exert pressure on green coffee buying prices. This pressure particularly impacts smaller, price-taking producer countries, such as Ethiopia (CCSI, 2019).

The 5.3 million Ethiopian coffee smallholders, who between them produce 95% of the country's output (Minten *et al.*, 2014; Tamru, Minten & Swinnen, 2019), find themselves on the wrong end of this paradox. The smallholders earn an estimated 60% of the export price (Minten *et al.*, 2019), which represents a lower share than that seen in most other producing countries, such as Kenya (70%) or Brazil (90%). Ethiopian coffee farmers are at the bottom end of a long value chain, scattered far from markets. They cultivate small plots with limited capital. This puts them in a difficult bargaining position, especially as they have limited information on coffee prices compared to downstream players.

In 2007, the Ethiopian government introduced the Ethiopian Commodity Exchange (ECX) through Proclamations No. 550 and No 551/2007. The ECX was conceived as a market-oriented solution to the marketing issues afflicting Ethiopian agriculture, including the coffee sector.[2]

The ECX aimed to:

- create an "efficient, transparent and orderly marketing system" serving the needs of all market players and promoting "increased market participation of Ethiopian small-scale producers";
- create more secure and reliable value chains, with commodities going through government-controlled warehouses for handling, grading and storing;

1 The COVID-19 pandemic is, however, dampening global demand for coffee, especially the specialty coffee segment. In the first half of April 2020, it was estimated that coffee trade on the Ethiopian Commodity Exchange (ECX) "had declined by 30% compared to the same period in previous years" (Tamru *et al.*, 2020).

2 The ECX takes the form of a marketplace where registered buyers and sellers meet to agree on a price for agricultural commodity lots. The ECX trading floor is a physical space, located in Addis Ababa, but commodity lots are inspected, graded and stored in ECX-controlled warehouses across Ethiopia's main agricultural production areas. Suppliers store the lots against receipts, which they then auction electronically.

- reduce transaction costs in the agricultural sector by conducting trading through warehouse receipts;
- provide timely market information to all market participants, including smallholders;
- put an end to the risk faced by producers of contracts being defaulted on, by introducing instant electronic payment, cleared and settled through the ECX;
- carry out market surveillance to ensure the integrity of market members.[3]

The researchers behind the ECX's creation initially envisaged it as a food security policy instrument, incentivising grain producers through better prices and more secure transactions, while facilitating efficient country-wide food distribution for traders (Gabre-Madhin & Goggin, 2005). Export crops, such as coffee, were supposed to be introduced at a later stage (Gabre-Madhin, 2012; MoA & IFPRI, 2005). However, mere months after the ECX's creation, the government announced mandatory coffee trading. Thus, coffee instantly became the ECX's most traded commodity (Hernandez, Lemma & Rashid, 2015).

The ECX reform aimed to incentivise coffee production by making the value chain more efficient and increasing the share of the export price enjoyed by producers, thereby improving their livelihoods (Federal Democratic Republic of Ethiopia, 2008; PBS, 2009). In turn, the government relied on the increased coffee output and enhanced formalisation of the coffee trade brought about by the ECX to bolster coffee exports. The commodity accounts for more than a third of Ethiopia's foreign exchange (Hernandez *et al.*, 2017) and as such is critical for the country's macroeconomic stability.

The creation of the ECX was considered a major policy event both at a country and even continent-wide level. It was and is Africa's largest commodity exchange, and represents a bold policy innovation aimed at changing the rules of the game for producers across the country. Yet, in 2017, a significant reform opened up coffee marketing outside of the ECX again.

This report examines the 2008 and 2017 coffee marketing reforms, focusing specifically on the participation of and outcomes for smallholder coffee farmers. It forms part of an IIED series documenting cases of socio-legal empowerment and promotion of agency of smallholders in their commercial agriculture relations[4]. This report scrutinises the policy processes leading up to the reforms, as well as their outcomes for coffee smallholders. The aim is to assess key entry points where smallholders and cooperatives may have been able to "understand, engage and organise" (Cotula *et al.*, 2019) around the reforms, both during their design and as they were rolled out. The report draws on an extensive review of the available literature, as well as a series of interviews between the author and key informants

3 Proclamation 550/2017 (Federal Democratic Republic of Ethiopia, 2007).
4 Empowering Producers in Commercial Agriculture, see www.iied.org/empowering-producers-commercial-agriculture-epic

involved in the Ethiopian coffee sector. The informants include representatives of the government, coffee private sector, academia and producer organisations. They are anonymised and referred to by their interview number throughout the reports (e.g., 'Int. 1'; 'Int. 2'). The interviews took place face to face and remotely between December 2019 and May 2020.

The paper concludes by drawing out key lessons from the policy processes and related outcomes and highlights policy implications for considering socio-legal empowerment of smallholders in marketing policy reforms.

2. The ECX reform: a policy big bang for the coffee sector

2.1 At the source: a food security instrument

The ECX was born out of the academic work of Eleni Gabre-Madhin (Gabre-Madhin, 2012; Renkow & Slade, 2013). An Ethiopian national residing in the United States, Gabre-Madhin conducted her doctoral research on Ethiopian grain markets in the late 1990s with the University of Stanford, before going on to pursue the subject in the early 2000s with the World Bank and the International Food Policy Research Institute (IFPRI). The core thesis of her work posits that food insecurity in Ethiopia is first and foremost a market problem (Brinkerhoff, 2016),[5] and that 'market failures' – asymmetries of information, transaction costs, poor enforcement of contracts – can be addressed with institutional reforms, such as a commodity exchange (Gabre-Madhin & Goggin, 2005).

In 2002, Ethiopia experienced a food crisis, which put 14 million people in need of immediate food aid (Everitt, 2012). This came on the back of two bumper maize harvests (Jopson, 2007; Renkow & Slade, 2013) and similar crises in 1984–85, 1992, 1994 and 2000. It was, therefore, both a chronic and acute phenomenon, which production-oriented, budgetary policy responses had failed to solve. The government of Ethiopia (GoE), in looking for new approaches, saw value in the market-centred and institutional perspective put forward in Gabre-Madhin's work. The commodity exchange concept, which had been floating around since the late 1990s (Westlake, 1998), thus proceeded to take shape around Gabre-Madhin's ideas and persona. In 2004, on the invitation of the GoE, Gabre-Madhin returned to Ethiopia to lead a new country programme with IFPRI. Her key assignment was to advise the government on the ECX reform (Gabre-Madhin, 2012; Renkow & Slade, 2013).

2.2 The absorption of the coffee marketing system

The IFPRI team produced a couple of working papers on an Ethiopian commodity exchange and held a watershed workshop on the topic in 2005, attended by key donors and government officials (MoA & IFPRI, 2005). This cemented the GoE's commitment to making the ECX a reality (Brinkerhoff, 2016), and the State Minister for Agricultural Marketing set up a technical committee to work on its design (Int. 10). The committee included representatives from trader associations, banks and key government institutions, though not producers (Int. 10; Int. 18). Committee

5 Traders are not encouraged to buy and sell grains beyond a certain area because of high marketing costs, high risk of payment default and low information on prices across the country and beyond borders. Hence, food does not flow from surplus to deficit areas. When there are localised bumper harvests, prices crash and food rots away in fields.

members met regularly in Addis Ababa and also toured other countries' commodity exchanges – focusing on marketplaces rather than farms (Gabre-Madhin, 2012). The team conducted a survey on agricultural wholesalers in Ethiopian markets to inform creation of the exchange, complemented by an extensive grain and coffee trader survey conducted by Gabre-Madhin in 2002 (Gabre-Madhin, 2009; Quattri, 2012).

Under Gabre-Madhin's leadership, IFPRI's research efforts into Ethiopian agricultural markets expanded through the 2000s (Renkow & Slade, 2013), right up to the ECX's creation. The research included multiple field trips to agricultural marketplaces across the country, as well as interviews with hundreds of market participants, including trading farmers (Gabre-Madhin, 2001; Gabre-Madhin & Goggin, 2005). It thus accounted for the realities faced by producers insofar as they were transacting (or not) in these markets. This leaves aside a significant number of farmers – for instance, Gelaw *et al.* (2016) finds that 59% of coffee farmers sell to their village assembler (collector) rather than directly to a trader.

The Council of Ministers endorsed the ECX establishment proclamation in September 2007, with the exchange proceeding to launch its operations in mid-2008. Immediately, the ECX encountered a severe hurdle: grain trading would not take off (Int. 2; Int. 22). Until then, the grain market had largely been informal and concentrated, meaning the main traders were reluctant to join an institution that, they perceived, put their business at risk. In addition, surging global food prices increased domestic grain price levels and volatility, ramping up uncertainty around the ECX's viability (Gabre-Madhin, 2012; Renkow & Slade, 2013). In parallel, the 2007–08 global financial crisis provoked a contraction in demand for coffee in consumer markets, pulling prices down and threatening the nation's foreign exchange availability (FAO, 2008; ICO, 2009; PBS, 2009) (Int. 4).

In response, the Prime Minister's Office and ECX senior management agreed to rush coffee trading into the exchange (Gabre-Madhin, 2012; PBS, 2009). In August 2008, the government made coffee trading through the ECX mandatory with Proclamation 602/2008 (Federal Democratic Republic of Ethiopia, 2008). The decision was taken swiftly at "the very highest level" (PBS, 2009) and led to the "overnight dismantling" (Renkow & Slade, 2013) of the former coffee auction system, which had been in existence since 1972. Many in the industry were taken aback (Int. 11).

As a result of this action, the ECX – which had primarily been envisioned as a food security, grain-trading instrument – became heavily associated with the coffee sector.[6] Thus, the ECX's raison d'être was somewhat altered. When it came to coffee, the government's overarching objective had always been to maximise foreign exchange earnings (Schäfer, 2019) (Int. 9, Int. 11). This was carried into the ECX, the idea being that coffee producers could earn higher prices through a

6 The ECX continued to trade grains, but in marginal quantities, with trade volumes and values dominated by coffee and sesame (also a seed export crop).

more secure and efficient system, that better rewarded quality. They would produce and sell more and better coffee to the ECX, which in turn would lead to increased foreign exchange earnings. Indeed, Proclamation 602/2008 was adopted "in order to supply quality and competitive coffee to the global market" and to "enable coffee producers to earn better income from coffee transactions" (Federal Democratic Republic of Ethiopia, 2008). The formalisation of the coffee market through the ECX was also expected to reduce coffee smuggling – both for domestic consumption and across borders (Hagos, 2015; Hutz-Adams, 2020) – as well as limit coffee hoarding by traders (USDA, 2013). Such measures would increase the volume and predictability of critical foreign exchange earnings (Int. 11).

Box 1. Ethiopian coffee producers: who are they?

There are four types of coffee production systems in Ethiopia: 1) forest; 2) semi-forest; 3) garden; and 4) plantations. The first three involve smallholders and account for, respectively, an estimated 10%, 35% and 50% of total coffee production (Minten *et al.*, 2019). Under such systems, farmers integrate coffee into a mix of food, fodder and cash crops, with the coffee produced for their own consumption and to earn cash by selling red or dried cherries (BASIC, 2019). Thus, there are very few monoculture coffee smallholders – a 2014 survey of 1,600 coffee producers showed that coffee cultivation accounted for an average 0.91 ha of their 1.76 ha of land, and that they earned 9,064 birr per year from coffee out of a total agricultural income of 18,594 birr (Minten *et al.*, 2019). Large monoculture plantations, on the other hand, account for 5–10% of coffee production, though there are only about 200 of them (AGRER, 2014; El Ouaamari, 2013; Hutz-Adams, 2020; Schäfer, 2019). These plantations may be owned by non-farmer individuals, such as exporters or processors.

Around 10–15% of smallholder producers belong to coffee cooperatives (AGRER, 2014; Hutz-Adams, 2020). Cooperatives tend to offer better prices to producers, as well as technical support to improve their productivity and farming practices (Minten *et al.*, 2019). However, the least well-off coffee smallholders often live in remote sites and produce small volumes of low-quality coffee, which they then need to sell fluidly throughout the year. They thus sell to mobile coffee traders that have more flexible financial arrangements and less of a focus on quality and volume than cooperatives (Hutz-Adams, 2020) (Int. 17; Int. 18). As such, cooperatives tend to under-represent the poorest smallholders (El Ouaamari, 2013). There is also evidence that women's participation in cooperatives is limited, with Woldu, Tadesse and Waller (2013) finding that, in a sample of 73 coffee cooperatives, women accounted for only 20% of members and 18% of leadership positions.

The large 2014 survey referenced above (Dereje *et al.*, 2016) found that women make decisions on the management of coffee plots in 3.5% of cases, compared to 47% for men. Joint decision-making accounts for 48% of cases. Women also manage smaller plots, with poorer soil quality, and have less access to inputs. Surveying 120 coffee farms within a production area, Gashaw, Habteyesus and Nedjo (2017) found that men and women participate in all coffee production activities, but women do most of the work in raising coffee seedlings (48.5%) and coffee picking (50.7%). This bias is even more apparent in processing activities such as the cleaning and sorting of coffee

cherries (72.5%), and coffee cherry drying and de-hulling (70%). Men, conversely, are particularly involved in land preparation and cultivation (65%), loading/unloading of coffee (78.5%), and marketing activities (64%).

Another important distinction between producers is the quality of the coffee they supply to the market. High-quality green coffee beans can be sold at prices several times the average. The quality attributes of the green bean partly stem from the soil and plant themselves as well as cherry growing and picking stage. They however by and large come from the processing stage. There are four measures for coffee quality in Ethiopia: 1) certification (e.g., FairTrade); 2) grade; 3) geographical origin; and 4) post-harvest treatment. In short, higher-quality coffees are certified coffees, washed coffees, coffees graded Q1 or Q2 by the ECX or the Coffee Liquoring Unit (on a scale of 1 to 5), and certain coffees from well-recognised geographies, in particular Harar and Yirgacheffe. These coffees are sometimes labelled under the umbrella term 'specialty' and account for an estimated 25–30% of export volumes (AGRER, 2014; Hutz-Adams, 2020). Given the superior ability of commercial plantation owners to control the processing stage, the total share of specialty coffee produced by smallholders is certainly lower than this.

The high-level and rapid adoption of the reform did not leave much room for smallholders to develop a good understanding of its implications. The government did conduct awareness meetings at regional level to explain the ECX reform, but this was largely carried out with trading constituencies, such as suppliers and cooperatives (PBS, 2009) (Int. 14).

2.3 Outcomes for smallholder coffee farmers

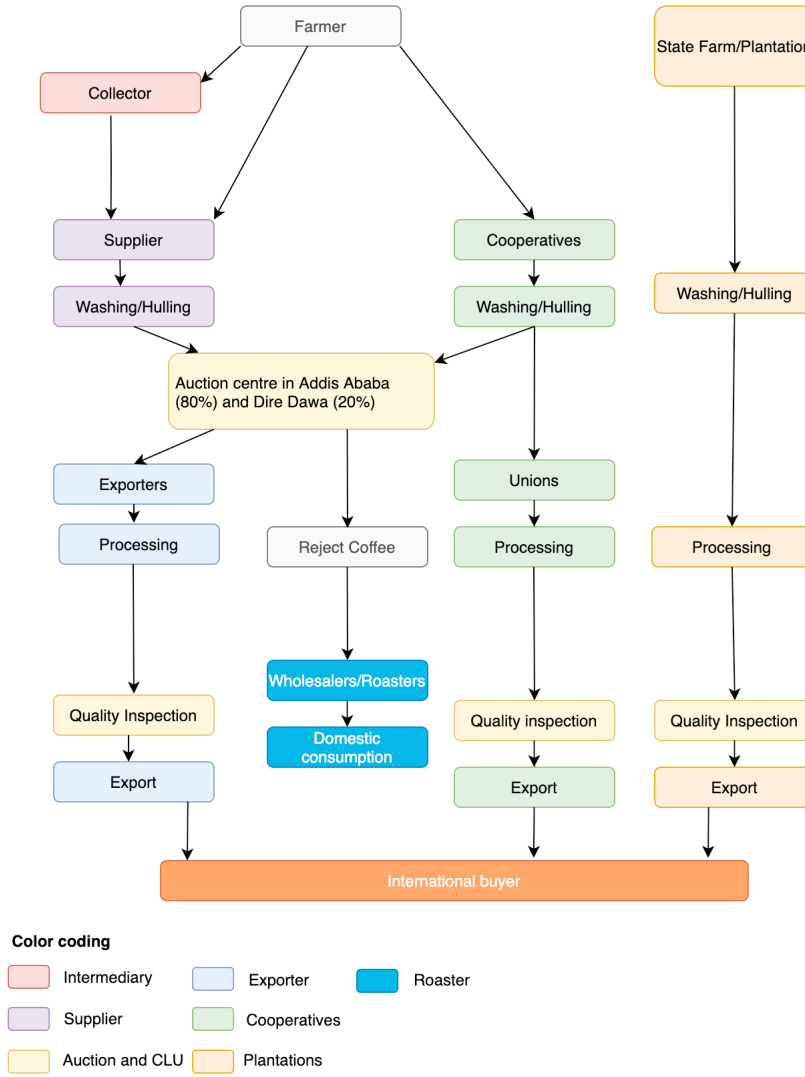
The ECX and government authorities outlined an overarching pathway linking coffee's introduction to the exchange to improved producer livelihoods: more secure transactions, higher prices and better rewarding of good quality coffee. The section below examines whether the three pathways of the reform did indeed contribute to improved livelihood to smallholders. By doing so, it also considers how smallholders and cooperatives were able to engage with the reform process and the extent to which they were empowered by the changes that took place.

2.3.1 Transaction security

The ECX eliminated any defaulting of payment between buyers and sellers. All transactions are electronically processed from one bank account to another, and suppliers are paid the day after the trade ('T+1') (Gabre-Madhin, 2012; Hernandez, Lemma & Rashid, 2015; Minten *et al.*, 2019). This was an important improvement. However, small producers do not trade directly through the ECX. Unless they are a member of a cooperative, their coffee is aggregated by collectors (*sebsabies*) working for suppliers (*akrabies*), who then sell through the ECX and thus benefit from T+1 payment security (see Figure 1 and Figure 2). The reform thus supressed payment defaults between exporters and *akrabies,* which should have reduced the

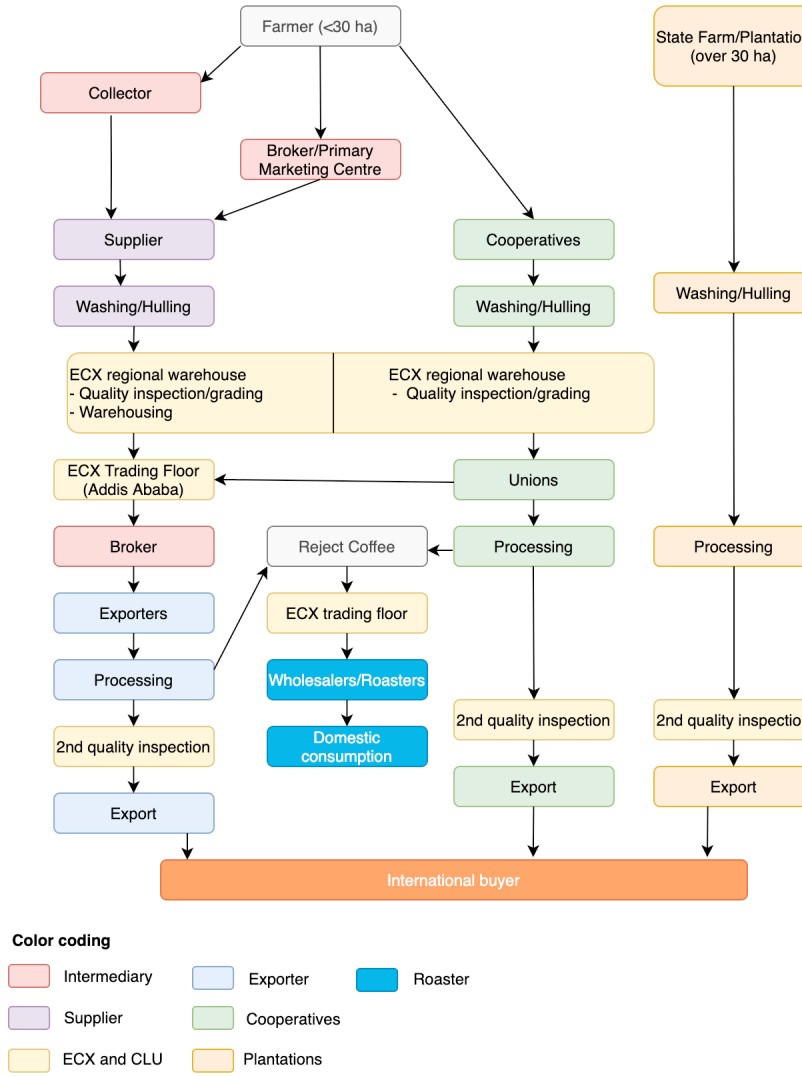
risk of ricochet default to farmers. However, the latter tend to sell their coffee to *sebsabies* or, less frequently, *akrabies* against spot cash payment, it is thus unclear the extent to which the reform benefitted them.

Figure 1. Coffee value chain in Ethiopia before the creation of the ECX



Source: Author, adapted from Petit (2007) and AGRER (2014)

Figure 2. Coffee value chain in Ethiopia after the creation of the ECX (2008–17)



Source: Author, adapted from AGRER (2014)

2.3.2 Higher prices

The higher coffee prices, for smallholders, would have followed from (i) improved market information (ii) increased and more transparent competition at supplier and exporter level and less intermediaries (iii) lower transaction costs.

Improved market information

The ECX provides producers with information on coffee prices – via radio, television, print media and phone, as well as above 80 ticker boards installed in rural areas (Gabre-Madhin, 2012; Gabre-Madhin & Goggin, 2005). It is generally accepted that these reforms have been effective in increasing information for coffee producers (Hernandez, Lemma & Rashid, 2015; Minten *et al.*, 2019). However, this improvement remains modest: 81% of farmers had no access to price information at the auction level in 2014, as opposed to 90% before ECX (Minten *et al.*, 2019). Tamirat *et al.* (2014), having surveyed 200 coffee producing households, go as far as positing that "almost no coffee farmers use the price information, if any, to make cropping and selling decisions".

Even with better price information, smallholders are still in a difficult situation when it comes to earning higher prices, as they are in a weak bargaining position vis-à-vis the collectors and suppliers (Int. 17). Before they became illegal, there were 2,291 registered collectors in Ethiopia. At the same period, there were 1,068 *akrabies* (Petit, 2007). Although numbers have certainly changed since then, the range remains the same. Assuming a number of 5.3 million coffee smallholders (Minten *et al.*, 2014), the ratio of collector to coffee smallholder is 1 to 2,313; for suppliers, it is 1 to 4,963. It is understandable that collectors and suppliers may easily set their price when buying from smallholders selling negligible volumes, "often less than 50 kg at a time" (Gelaw *et al.*, 2016) even if the latter are better equipped with information.

Less intermediaries, increased competition and transparency

The ECX system confronted the uneven market power concentration in the value chain, with Primary Marketing Centres (PMCs) and standardisation/anonymisation of coffee transactions the cornerstone of this effort (Int. 5).

The PMCs are marketplaces set up by the ECX to put producers directly in contact with suppliers (*akrabies*), thereby cutting out collectors (*sebsabies*), who became outlawed (Andersson *et al.*, 2015). While the success of PMCs is subject to debate, it is clear they have not displaced collectors (Gelaw, Speelman & van Huylenbroeck, 2017) (Int. 4; Int. 5). Many producers reside too far from PMCs and so have to sell to collectors. The collectors are also, in many cases, local wealthier coffee farmers whose economic relationships with smallholder farmers are embedded with social relationships and trust bonds that are not easily broken (El Ouaamari, 2013).

Farmers who do bypass them may face new brokers transacting on behalf of the suppliers or processors at PMCs (AGRER, 2014). These brokers obtain their margin by pushing down the prices they offer to producers. One study points to the fact that producers thus obtain similar prices at PMCs as they would at the farm gate from collectors (Minten *et al.*, 2019).

At the supplier-exporter level, the ECX standardised and anonymised transactions, making it compulsory for all suppliers to deliver their coffee to ECX-controlled warehouses, distributed across coffee production areas. ECX agents inspected and graded the coffee, which was pooled into anonymous lots of standard quality and provenance that exporters could buy at the Addis Ababa ECX auction. The assumption was that exporters would be unable to manipulate prices, for instance by forming cartels or colluding with suppliers, as had been reported to happen under the former coffee auction system (Gashaw & Kibret, 2018; Worako *et al.*, 2008) (Int. 4; Int. 5).

There is evidence that the commodification of coffee by the ECX increased transparency in transactions at the supplier-exporter level, allowing new entrants into the market and improving the market environment for suppliers (Leung, 2014; Tröster, 2015) (Int. 14). However, a side-effect of this was that the traceability of specific coffee lots was lost, with exporters and international buyers no longer able to acquire coffee from identified washing stations or farmers (Int. 7; Int. 9; Int. 13) (Adolphe, 2010; Kuma Worako, Minten & Schäfer, 2019; Leung, 2014). This inflicted some damage on the Ethiopian coffee sector, as part of its value lies in its narrative of origin and the distinctive taste of its multiple terroirs (Leung, 2014).

The reform particularly hit those specialty coffee suppliers with a direct and ongoing commercial relationship with exporters, or even international buyers (see Box 1) (Int. 7). A recent study suggests that farmers selling through ECX do not earn any premium on higher coffee quality (Minten *et al.*, 2019). The ECX attempted to remedy this in 2010 with the introduction of monthly Direct Specialty Trade (DST) bidding sessions, reserved exclusively for specialty coffee, but these were discontinued a year later due to lack of interest from buyers and sellers (Handino *et al.*, 2019; Leung, 2014).

Value chain efficiency

The warehouse receipt system (WRS), expanded concomitantly with the ECX, decentralised the transportation and quality assessment of coffee lots from Addis Ababa to the regions, with the aim of slashing handling and transport costs in the value chain (Gabre-Madhin & Goggin, 2005; Gelaw, Speelman & van Huylenbroeck, 2016). While the WRS put an end to the inefficient practice of suppliers having to physically bring their coffee to Addis Ababa before a transaction was sealed, it also introduced new handling, storing and inspection costs, with coffee having to be transported and inspected first at the ECX warehouse and then in Addis Ababa (Andersson, Bezabih & Mannberg, 2015;

Cramer & Sender, 2019). This upheaval came with a number of logistical hurdles that inflated costs – for instance, the rapid building and subsequent maintenance of warehouses and access roads.

Furthermore, warehouse inspection officers became important new players (Int. 14), with the value chain now dependent on their ability to grade coffee according to demanding international standards (so-called 'Q-grading'). There have been reports of inconsistent grading, leading some exporters and foreign buyers to mistrust coffee bought through the ECX. As such, they offer lower prices to cover this risk (Cramer & Sender, 2019) (Int. 14). The officers were also effectively granted the power to alter coffee price upwards (by over-grading it, benefitting suppliers) or downwards (by under-grading it, benefitting exporters) (Andersson, Bezabih & Mannberg, 2015) (Int. 1, Int. 5, Int. 14), creating incentives for suppliers and exporters to engage in collusive practices with them.

New brokers also appeared at the Addis Ababa auction floor, taking a fee to represent regional suppliers during the bidding sessions (AGRER, 2014) (Int. 4).

2.3.3 Rewarding quality

The ECX reform was expected to improve rewards for quality through two pathways. The first one was via better price discovery at the auction, with buyers bidding on lots graded through a more reliable and detailed quality control system than in the past (Berhe, 2010). This pathway was aiming to improve the lives of the bulk of farmers that produce low-grade, unwashed coffee[7], by incentivising and rewarding them for producing better low-quality coffee. Second, in 2009, the GoE granted a monopoly on direct trade of traceable and certified smallholder coffee to cooperatives (Jena *et al.*, 2012). The government aimed to strengthen coffee cooperatives by placing them as the sole purveyors of high-quality, traceable Ethiopian smallholder coffee (Francesconi, 2009), while providing an incentive for their sellers to produce specialty coffee and be rewarded for it through high price premiums.

Quality reward for commercial coffee

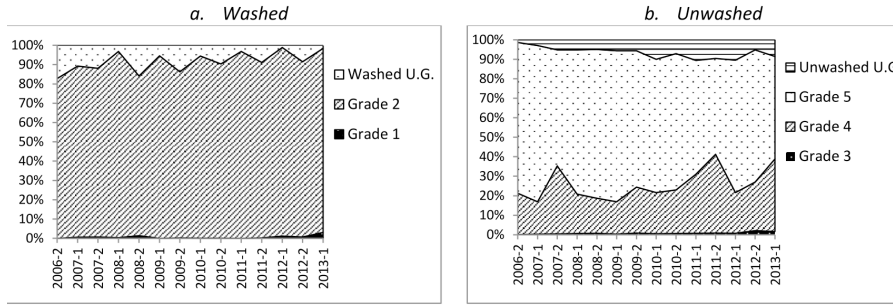
There are conflicting accounts on the effect of the ECX reforms in rewarding the quality of commercial coffee. Dereje, Engeda, *et al.* (2016) found that, among a sample of 206 coffee processors, 44% agreed and 20% strongly agreed that since ECX, there was more attention to quality by producers. On the other hand, Tamirat *et al.* (2014), surveying 200 coffee-producing households, found that 67,5% of them considered that they got the same price for all coffee types since the ECX reform was implemented and that 51% did not think that "quality was being rewarded".

7 So-called "commercial coffee".

A first issue is that coffee traded through ECX became less traceable and that the ensuing commodification of coffee did little to help exporters sell unwashed coffee above the lowest grades 4 and 5. This, in turn, did not raise suppliers' incentives to reward production of higher quality commercial coffee.

There are, however, more structural problems to reward the quality of commercial smallholder coffee in Ethiopia. Most smallholders dry cherries themselves and then sell to the collector or supplier. Once the cherry is dried, much of the defects (e.g. unripe or overripe, mouldy cherries) become difficult to observe until the coffee is brewed and cupped (Gelaw *et al.*, 2016; Hutz-Adams, 2020). In addition, collectors and suppliers mix dried cherries from dozens or even hundreds of farmers to produce one lot, making it impossible to attribute low quality of a cup to a specific farmer (Gelaw *et al.*, 2016). Thus, unable to fully observe quality, *sebsabies*, *akrabies* or PMC brokers favour volume over quality (Hutz-Adams, 2020; Kuma Worako *et al.*, 2019) and offer a price for dried cherries that is a function of the premium associated with the locality (e.g. Harar, Yirgacheffe) more than the intrinsic value of the cherry (AGRER, 2014) (Int. 4). This acts as a disincentive for farmers to select only the ripest cherries, a more labour-intensive process (Hutz-Adams, 2020). As may be expected, unwashed coffee exports, in 2012–2013, remained dominated by Grade 5 and 4 (out of 5 exportable grades), in spite of a slight improvement with the share of grade 4 (Figure 3).

Figure 3. Exports of washed and unwashed coffee in Ethiopia, by grade, 2006–2013



Source: Minten *et al.*, 2014

Quality reward for specialty coffee through cooperatives

The ECX reform promoted a second pathway to reward quality for smallholders: direct export through the cooperatives. In Ethiopia, cooperatives specialise in higher-quality coffee, that comes in various combinations of the following:

- "Single-origin", that is traceable down to the service cooperative that aggregates and processes it;

- Certified, with a voluntary sustainability standard (VSS) label signalling quality and earning premiums at retail, such as Organic, FairTrade, Rainforest Alliance and UTZ. Minten *et al.* (2015) found that certified coffee varied between 72% and 83% of all exports by cooperatives;
- Washed. Cooperatives often own washing stations and buy red cherries from smallholders within the station's radius. Washed coffee[8] is, on average, of better quality that sundried coffee and fetches higher border prices– between 9 and 24% (Tamru & Minten, 2018). Although they historically focus on the washed coffee segment, cooperatives also produce an increasing amount of high-quality sundried coffee. Certified cooperatives procure 90% of red cherries (i.e., to produce washed coffee), while non-certified cooperatives procure 30% of them for an average of 62.3% (Minten *et al.*2015). There is a correlation between the production of washed and certified coffee: since certified coffee entails higher production costs, cooperatives tend to favour certified washed coffee as the premium associated with washed coffee is more likely to cover the cost of certification (AGRER, 2014).

In spite of their monopoly on certified and single origin smallholder coffee, the cooperatives' share of the coffee export market has not increased significantly after the ECX reform – from 4.8% to 6.1% between 2007 and 2013 (Minten *et al.*, 2015). There is evidence that they have been passing around one-third of price premiums earned through VSS coffee to farmers, and also that they have invested in other assets at the community level (Minten *et al.*, 2015). This has undoubtedly contributed to improve the livelihoods of those farmers. However, there are strong constraints to the expansion of the cooperative "specialty coffee" marketing channel.

First, for what regards washed coffee, it entails that farmers grow, pick and sell to the cooperative, within a short time window, fresh and ripe red cherries. As discussed above, this comes with higher production costs for farmers (e.g. hiring labourers, spending more time picking cherries carefully), that they are not all willing or capable to meet. One study finds that labour productivity for wet coffee is, in fact, inferior to that of dry coffee (Tamru & Minten, 2018).

Second, farmers need to live close enough to a cooperative owning a washing station. Washing stations are located where conditions are favourable, in particular with regards to water availability. Farmers who live in more unsuitable areas may not be able to access them: according to Tamru & Minten (2018), 66% of coffee farming communities lack access to a wet mill, and 58% do not have any option to sell red cherries. As such, a mere 19% of coffee, in their sample, is sold as red cherry.

8 Washed coffee accounts for around 30% of Ethiopia's coffee exports (Tamru & Minten, 2018).

Third, smallholder farmers use dried cherries as a saving instrument in the absence of a well-developed financial system in Ethiopia's coffee production areas (Int. 14; Int. 22; Int. 28). According to a survey by Tamru & Minten (2018), this is the reason given by 90% of farmers for why they do not sell red cherries – even with access to a wet mill. The farmers can use the dried cherries to hedge against food price inflation and even to speculate, as the coffee market price may go up after the red cherry harvest period (El Ouaamari, 2013; Hutz-Adams, 2020; Jena *et al.*, 2012).

Fourth, cooperatives are constrained by a low working capital and rigid bureaucratic rules to decide on prices offered to farmers. This puts them in a difficult position to compete with *sebsabies* and *akrabies*, who tend to offer higher and more responsive prices as well as more immediate payment.

Fifth, Hutz-Adams (2020) finds that cooperatives have been struggling to sell their certified and single origin coffee on the international market. The market for single origin specialty Ethiopian coffee is "very small" and cooperatives have been finding it hard to get enough buyers to cover the cost of investing in high quality coffee. Such costs include, for instance, the construction and maintenance of a washing station. Thus, cooperatives have often found themselves selling single-origin or certified coffee via the ECX instead of directly, foregoing their competitive advantage (Int. 17).

Six, the management capacity of many cooperatives is limited, with implications on their ability to pay producers on time and pass the premiums of specialty coffee to them (Jena, Stellmacher, & Grote, 2012; Minten *et al.*, 2015; Mojo, Fischer & Degefa, 2017).

2.3.4 Producer livelihoods

Neither the ECX nor the government established baseline indicators on livelihoods at the coffee farm level before introducing coffee to the ECX (Rashid, 2015; Renkow & Slade, 2013). Furthermore, this research was unable to identify any comprehensive study conducted by any other organisation on the impact of the ECX reform on coffee farmer livelihoods.

Conversely, a number of studies document the effect of the ECX reform on coffee prices, which were the expected pathway to improving producer livelihoods. A recent paper suggests that Ethiopian coffee producers earn 60% of the coffee export value (Minten *et al.*, 2019), compared to an estimated share of 59% just prior to the introduction of the ECX (Worako *et al.*, 2008). This suggests export price pass-through to producers has neither improved nor worsened.[9] Three studies conclude, respectively, that the "ECX has had limited impact in altering Ethiopia's coffee price dynamics" (Hernandez *et al.*, 2017), that its impact in "improving performance of markets in transmitting prices was quite limited" (Gelaw, Speelman

9 Caution needs to be exercised in interpreting these numbers, however, due to volatile international coffee price resulting in fluctuating Ethiopian farmer shares of export price over the years.

& van Huylenbroeck, 2017) and that "difference in farmers' share of coffee prices before and after the establishment of the ECX are not statistically significant" (Rashid, 2015).

Box 2. Where does Ethiopian coffee go?

An estimated 40–50% of coffee production goes to the domestic market (AGRER, 2014), of which around 15–30% is smuggled for cross-border trade and the black market. The remaining 50–60% is channelled to the export market, of which around 80–85% goes through the ECX, 5–10% through direct trade by cooperatives, and 5% through commercial farms (AGRER, 2014; El Ouaamari, 2013; Kodama, 2007; Minten *et al.*, 2015).

In addition, there is no doubt higher coffee prices are a good thing for coffee farming households, but the extent to which it would improve their livelihoods is worth interrogating. Ethiopian coffee farming households derive no more than 30 to 50%, on average, of their total farm income from the sale of coffee (Hutz-Adams, 2020). In a deep analysis of coffee farming systems in Kaffa and Jimma, El Ouaamari (2013) finds strong variance in the coffee share of total farm value added in coffee producing households, depending on the farming system and production region. For instance, when taking into account the value of non-marketed food produced by less specialised households in Kaffa, coffee accounts for 5 to 16% of total farm value added. Furthermore, the value added derived from coffee varies from a factor of 1 to 6.8 between sample households.

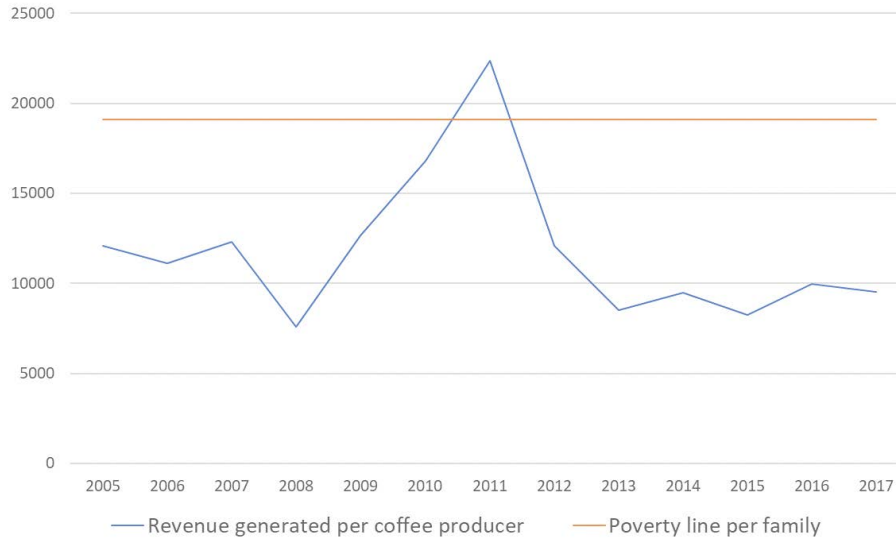
As such, a modest price increase for coffee may bring significantly different windfalls for coffee smallholders, depending on the volume of coffee they produce and the share of their income it represents. The average coffee family income in Ethiopia has been well below the poverty line for the whole period before and after the ECX reform – except for a peak in 2011 when global coffee prices rose significantly (BASIC, 2019) (Figure 4). Even for cooperatives' members, who are richer on average than the rest (Cramer *et al.*, 2014), 86% live below the poverty line, according to (Jena *et al.*, 2012)[10]. Looking at the higher-quality certified coffee segment, Minten *et al.* (2015) calculate that even if cooperatives were to fully pass price premiums for VSS coffee to certified smallholders, their annual income would be 22 USD higher than that of other farmers.

To significantly increase income gains from higher coffee prices, smallholder farmers need to either plant more coffee trees on the limited area they manage or input more labour to produce and pick higher quality cherries. This comes with opportunity costs in terms of food production and wage or non-wage labour on other farmers' land (El Ouaamari, 2013). In short, farmers would need to specialise more in coffee production, with the risk of being more dependent from the delayed

10 Out of a sample of 249.

monetary inflow[11] that comes with coffee production to ensure their livelihoods. The specialisation may prove problematic if and when coffee prices fall, or food price inflation ramps up. The alternative is to increase the productivity of either/and their labour and coffee trees. This requires increased knowledge provided respectively through extension services and public research on high-yielding varieties as well as pest and disease control. These policy areas, although they are critical, fall outside the reform scope of the ECX. Finally, many coffee families are ultimately limited by the size of the land they manage (Cramer & Sender, 2017). Their chances for improved livelihoods, and especially those of their children, may depend more on the development of non-coffee sectors (e.g., rural health, education and energy, higher wages for off-farm employment …).

Figure 4. Average revenue generated per coffee family and poverty line per family in Ethiopia, in real Ethiopian Birr



Source: BASIC, 2019

11 El Ouaamari (2013) shows that coffee producing families may prefer the immediate cash they earn from labour on richer farmers' land to the delayed payment that comes with coffee harvest. This all the more when they sell to cooperatives that tend to offer less immediate payment than traders.

2.4 Smallholder farmers' socio-legal empowerment

This section uses the framework on rural producer socio-legal empowerment (SLE) developed by Cotula *et al.* (2019) which can be succintly presented as three interrelated spheres of action:

- **Understanding:** rural actors acquire socio-legal knowledge and knowhow to help inform their choices on issues related to commercial agriculture: for example, legal rights and applicable law, market analysis, and how to structure business or contractual relations. Information may be accessed through different channels, such as posters, videos, radio broadcasts, village theatre, exchange visits, dialogues, training, social networks and ICT.
- **Organising:** rural people develop organisations for collective or coordinated action. Organisations may involve varying degrees of formalisation. They may be primarily economic – for example, aggregation mechanisms such as rural co-operatives to increase farmers' clout in negotiations with buyers – or primarily political, such as national federations working to reform laws that affect agriculture. Developing organisations may rely, at least in part, on mobilising socio-legal support.
- **Engaging:** rural producers and communities engage with other actors, whether individually or collectively, to alter their position in relation to commercial agriculture, and where relevant partner up with organisations that can provide necessary socio-legal support. Actions can be as diverse as securing land rights, (re)negotiating offtake agreements with buyers, advocating for policy or law reform, or going to court to seek redress.

According to the framework, if enabled appropriately, SLE should promote the agency of smallholder producers in their trading where it is already strong and strengthen it where it is lacking. Producers are always making choices about whether to engage or not in particular production or marketing options. These active choices are not always acknowledged, yet they can be undermined by top-down policy reforms that fail to capture all the drivers for people's chosen options.

The Table 1 below draws on the framework to summarise possible processes of empowerment of coffee smallholders vis-à-vis the 2008 reform.[12]

12 This framework would usually be applied through participatory analysis with small-scale producers themselves to generate the data. In this study, the data on accessing information, organising and engaging is based upon a review of the opportunities provided by the reform processes (through the methods outlined in the introduction). A full analysis of SLE – whether producers sought out information and for what ends, whether they chose to organise or not to influence the reforms or the changes that came into place, and whether or how they chose to engage both with the reforms and the outcomes – would need further investigation involving a significant number of small-scale coffee producers, especially those not linked to coffee cooperatives.

Table 1. Spaces for smallholder understanding, organising and engaging with the 2008 coffee marketing reform

	Understanding	Organising	Engaging
Policy process	The reform and absorption of the coffee marketing system was adopted swiftly at a very high level. Smallholder farmers had limited opportunities to build an understanding of the system as it was being designed.	The impetus for the reform did not come from smallholder farmers or their representatives but from the government. Among other objectives, the government intended to strengthen smallholder coffee cooperatives and their ability to organise production by granting them a monopoly on certified and traceable coffee.	Smallholder coffee farmers and cooperatives did not engage directly with the reform. Instead, coffee farmers' voices have been coded through research surveys, interpreted into academic outputs that informed the creation of ECX. The research surveys were conducted in agricultural markets and reflected the realities of farmers transacting on those markets. Also, they were not specific to the coffee sector.
Outcomes	At smallholder level, there is evidence the reform improved price information, albeit to a limited extent. There is no evidence that it led to higher prices for them. This can be mainly attributed to uneven bargaining power between farmers and collectors/suppliers. At cooperative level, some Unions developed a very good understanding of the possibilities allowed by their monopoly on traceable and certified smallholder coffee, as evidenced by their presence on that market segment.	Cooperatives have organised to benefit from the monopoly on traceable and certified coffee they were granted but did not successfully raise their share of the coffee export market due to low organisational capacities, lack of capital and flexibility to compete with traders as well as difficulty in incentivising quality coffee production and finding buyers for specialty coffee.	Smallholder farmers should have been able to better engage with traders, bypassing the collectors through the Primary Marketing Centre. But the evidence suggests this did not materialize in practice. Cooperatives increased their engagement with international buyers of specialty coffee, who became dependent on them to procure certified and single origin Ethiopian coffee. At the policy level, they have not been a key player in pushing for an overhaul of the ECX system, although it was not benefitting all coffee smallholders.

3. Second wave: the coffee marketing reforms of 2017

3.1 The process and producers' voices

From 2008 onwards, the GoE came under pressure to revamp the coffee marketing system, as it needed more foreign exchange to fund the growing import bill. This was fuelled by higher oil and fertiliser prices, as well as capital goods in support of development programmes (IMF, 2008). In parallel, specialty coffee buyers and exporters were lobbying to increase traceability in the ECX, and also for trading to be allowed outside of the exchange (Gabre-Madhin, 2012; Leung, 2014). Questions about the impact of the ECX on the coffee sector mounted, with donors exerting pressure for an external review of the exchange (Renkow & Slade, 2013) (Int. 9; Int. 19).

In 2014, the EUD, upon the request of the Ministry of Agriculture and Ministry of Trade, funded a study aimed at developing a Coffee Sector Development Strategy (CSDS) document. The report's authors visited every one of Ethiopia's 37 coffee production areas, meeting with all the value chain stakeholders, including smallholders, large coffee farms, coffee estates, cooperatives and unions (AGRER, 2014).

Two key recommendations would be influential (Int. 9; Int. 25; Int. 28). The first was that a Ministry of Coffee be re-established,[13] while the second was that the coffee marketing system be re-assessed to facilitate exports of traceable coffee for all suppliers (AGRER, 2014). Soon after, in December 2015, the Ethiopian Coffee and Tea Authority (ECTA) was re-established under the authority of the Ministry of Agriculture. Prior to this, IFPRI had organised an important coffee conference, at which researchers presented and discussed the results of four important papers on the Ethiopian coffee value chain, drawing on the landmark survey of 1,600 coffee producing households referred to in Box 1. Among other findings, the papers made the case for greater traceability of Ethiopian coffee and for productivity improvements.

In 2017, the GoE launched a consultation process to re-assess and reform the national coffee marketing system. The National Export Coordinating Committee (NECC), a body directly under the authority of the Prime Minister's Office (Cramer & Sender, 2019), led the process (Int. 7; Int. 14). The NECC set up a committee, led by the ECTA, which included the Ministry of Agriculture, the Ministry of Trade, various ECX bodies, and representatives from regional governments, research centres and all relevant private sector players. This time, cooperatives and unions were part of the process (Int. 7; Int. 14).

13 The Ethiopian Coffee and Tea Authority, in charge of managing the coffee sector, had been dismantled in 2004 and its functions transferred to two departments of the Ministry of Agriculture (Petit, 2007).

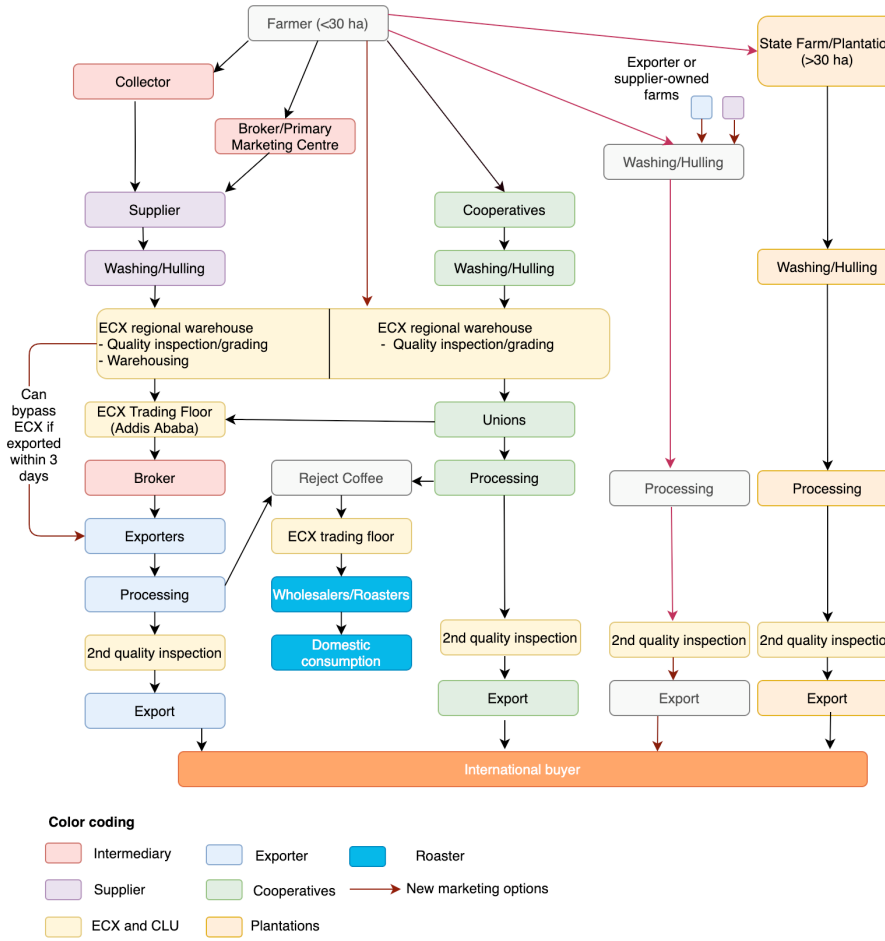
The committee shortlisted 11 reform points, which the ECTA then presented to the Prime Minister (Int. 5; Int. 12). Two major reform areas transpired: first, cutting the number of middlemen in the value chain; and, second, restoring traceability through so-called 'vertical integration' – a reform point that featured prominently in the EUD's report. Next, the ECTA prepared a draft bill in consultation with regional governments in coffee producing areas (Int. 12). In 2017, the coffee marketing system was amended through Proclamations No. 1050/2017 and No. 1051/2017.

3.2 The outcomes for coffee smallholders

The two proclamations specifically refer to producer interests in their introductory paragraphs: "to increase small scale farmers participation in the exchange" for No. 1050/2017 (Federal Democratic Republic of Ethiopia, 2017b) and "to boost the benefits of coffee producers" for No. 1051/2017 (Federal Democratic Republic of Ethiopia, 2017a). To this end, the proclamations bring about two major changes. First, they allow coffee trading outside the ECX – not just for cooperatives and large plantations, as was already the case, but for any producer or supplier processing coffee into green beans. Exporters may also sell coffee directly to international buyers, provided they do so no later than three days after it reaches warehouses in Addis Ababa. Second, the proclamations enhance traceability within the ECX: blending of lots at the ECX warehouse level is no longer possible, and all lots sold on exchange are labelled all the way down to their washing station.

Coffee smallholders now have seven selling options, instead of two (Int. 8). They can sell: 1) directly to the ECX; 2) to domestic roasters; 3) to international buyers; 4) to out-growing farms; 5) to suppliers; and, as before, 6) to suppliers' brokers at the PMCs; and 7) to cooperatives (Figure 5).

Figure 5. Coffee value chain in Ethiopia after the 2017 coffee marketing reforms



Source: Author

The benefits of the reforms for the majority of commercial coffee producing smallholders are unclear. On the one hand, the option allowing direct trade of coffee for all farmers does not affect them directly. They produce small volumes of coffee, cannot process it to high-quality standards and have limited knowledge of the international market, so cannot establish direct trade relationships with exporters or international buyers (Int. 3; Int. 14). They still need to work with trading constituencies to do so: cooperatives, suppliers, exporters or even specialised coffee foreign importers and non-governmental organisations.

On the other hand, the reforms encourage out-growing, as exporters and washing station owners are now incentivised to acquire medium-sized farms to export valuable single origin and certified coffee (Int. 17). Out-growing schemes should provide additional opportunities for smallholders to access capital, training and inputs, thereby raising their productivity and the quality of the coffee they produce. An increase in the number of larger farms and processing stations, meaning a ramping up of the number of coffee buyers competing for coffee cherries, may also increase producer bargaining power and their share of the export price. As medium- and large-scale coffee plantations multiply, however, the unfolding rural transformation process is likely to result in an increasing share of small farmers becoming labourers (El Ouaamari, 2013) (Int. 26).

The position of small specialty coffee producers is more favourable – their coffee is more traceable, and they have a better possibility of earning premiums. The bigger and most market-savvy producers, who own washing stations and boast high-quality coffee, can even sell directly to exporters or international buyers, potentially capturing a greater share of export prices (Int. 3). There are, however, few such producers.

The position of cooperatives has deteriorated. Because exporters and suppliers are now allowed to invest in medium-sized outgrowing farms and export directly, the cooperatives have effectively lost their monopoly on traceable and certified smallholder coffee. Cooperatives already feel the pressure of this competition and are forced into diversifying, for instance by increasing their presence in commercial coffee exports and roasting their own coffee with government support (Int. 17). For smallholder coffee farmers, this outcome goes both directions: on one hand, there is increased competition for their cherries, which should lead to better bargaining power. On the other hand, cooperatives, that may arguably be best placed to serve their interests, are weakened.

3.3 Smallholder farmers' socio-legal empowerment

Table 2 summarises processes of empowerment of coffee smallholders vis-à-vis the 2017 reform.[14]

14 See note 12.

Table 2. Spaces for smallholder understanding, organising and engaging with the 2017 coffee marketing reform

	Understanding	Organising	Engaging
Policy process	Coffee cooperatives developed an understanding of the reform as they were involved in the discussions around it. There were no formal channels for the bulk of coffee smallholders, that are not members of cooperatives, to access information on the reforms upon which to try and influence them.	The impetus for the reform did not come from smallholder farmers or their representatives but from the government, with the involvement of donors and exporters as well as specialty coffee importers. The reform allowed medium-sized farms to export directly, thereby rolling out the monopoly on single origin and certified coffee that had been granted to cooperatives. This worsened their position on the market.	Cooperatives engaged directly with the reform, as union representatives participated in the committee meetings that led to its design. Coffee farmers' voices were once again coded through research surveys, interpreted into academic outputs that informed the reform. Two streams of evidence stand out: a very detailed coffee-specific survey of 1600 farmers led by IFPRI, and an in-depth field study in all coffee producing regions conducted by experts for the European Union Delegation. Both looked at all levels of the value chain, including production, and were translated into reports that informed the reform.
Outcomes	All medium-sized coffee smallholders are now allowed to export directly, but they will inevitably face challenges accessing full information required to do so They will likely continue to rely on cooperatives, outgrowing farmers/processors or NGOs and small foreign importers. Cooperatives have become well-informed participants in the export market and well understand the reform and its implications.	Cooperatives are organising to sustain the competition with new entrants in the direct export market, mainly exporters and suppliers buying medium-sized farms. They are increasing cheaper production of conventional coffee and bigger unions are moving into roasting.	Smallholders are allowed to engage directly with exporters and foreign buyers, cutting out the ECX intermediaries. In practice however, very few smallholders are in a position to navigate the complexities of the export market and would still likely need to engage other players, such as cooperatives, NGOs or specialty coffee foreign importers in order to do this.

4. Key findings and policy implications

Above all, this research underlines the limited participation of smallholder coffee producers in the coffee marketing reforms of 2008 and 2017. The key findings can be structured around the socio-legal empowerment concepts of understanding, organising and engaging.

Understanding

Finding 1. The process leading to the 2008 and 2017 reforms involved, at its heart, government, donors and large trading constituencies (traders, processors, exporters). Efforts were made to communicate the reform at ground-level through consultations with local trading constituencies and cooperatives but the space for smallholders to access information upon which to engage with the reforms, especially for the 90% who are not members of cooperatives, is likely to have been limited.

Policy implication: Small producers with marginal direct participation in commodity markets, as is the case with coffee, will inevitably have challenges accessing full information on macro-level marketing reforms like the creation of commodity exchanges and the implications for them therein. Actors involved in the design of such reforms, including governments and donors, may need to invest significant resources to communicate and socialise it at the community level in order to open spaces for engagement and influence.

Finding 2. The ECX increased market price information for producers but this has not shored up farm-gate prices due to uneven market power in the value chain. There is a very strong imbalance between the millions of farmers selling minuscule quantities of cheap coffee cherries, and the few thousand collectors and suppliers in a position to aggregate and process them into higher value beans. Therefore, these players are in a position to decide on the price they offer to farmers, regardless of the information the latter have.

Policy implication: Actors aiming at improving producers' livelihoods by improving price information may want to consider the overriding importance of structural constraints on price negotiation between farmers and their buyers.

Organising

Finding 3. With the 2008 reform, the government granted cooperatives a monopoly on certified and traceable smallholder coffee to strengthen their position in the coffee market, but this has had a limited success. The cooperatives have slightly increased their share of coffee exports, but their

expansion remains constrained, notably due to low organisational capacities, lack of capital and flexibility to compete with traders as well as difficulty in incentivising quality coffee production and finding buyers for specialty coffee. In 2017, this monopoly was rolled back, as all coffee producers were allowed to export directly and started to compete with cooperatives on the traceable and certified coffee market. Outgrowing farms are becoming another player aggregating smallholder production for direct export. More research would be needed, however, on the agency of smallholders in that process.

Policy implication: Market solutions in favour of cooperatives can be a way to support smallholder organisation, but cooperatives may also need support to build up their organisational capacity and acquire more capital to compete with traders.

Finding 4. Ethiopian coffee cooperatives are an important space for smallholders to engage in large-scale policy reforms such as the ECX, but they do not represent the entire coffee smallholder community and set of interests. Cooperatives group around 10% of coffee smallholders and are particularly well placed to represent and support those more oriented towards the export market, willing or capable to produce sizeable volumes of higher quality coffee. However, for many smallholders, coffee production represents only a fraction of their livelihoods, and is part of a production system that mixes cash, food and livestock crops, as well as wage labour on other farms. These farmers tend to value low input-low output coffee production, picking and drying cherries as a form of liquid capital, which they can sell throughout the year when cash is needed. They may not be able or willing to invest resources in becoming more specialised export coffee farmers or seek to engage in the coffee policy arena.

Policy implication: Support to cooperatives can be an important way of empowering market-oriented coffee smallholders through better prices, technical support and giving them a voice in marketing policies such as the ECX. However, it should be acknowledged that the interests of less specialised coffee smallholders may differ partly from those of cooperatives. Higher monetary incomes derived from better export coffee prices may not be their only path to improved livelihoods. Other paths, for instance, may include pro-poor rural health, education, employment and infrastructure policies.

Engaging

Finding 5. Data, evidence and research on coffee smallholders have played an important role conveying their realities and shaping marketing reforms in a context where direct engagement of smallholders in macro-level policy spaces is limited**.** Academic research has been influential in coding smallholder realities into the coffee reforms policy process, particularly so given there were few organisations capable of carrying their diverse voices. In this respect, it matters that much of the research underpinning the creation, reform and evaluation of the ECX has focused on the transactional aspects of the Ethiopian agricultural and

coffee sector. Smallholders have first and foremost been defined as market agents, with improvements in their lives considered through the prism of prices. There has, however, been a scarcity of knowledge on coffee smallholders at the farm level, with no baseline study on coffee producer livelihoods conducted before the ECX was launched. Only one recent large household survey of coffee producers was identified for this report, dating back to 2014 (Hutz-Adams, 2020). This makes it difficult to assess the reforms' successes (or otherwise) when it comes to improving coffee producer livelihoods, or to identify evidence-based areas of improvement. Furthermore, the scant anthropological and geographical research 'closer to the ground' shows that Ethiopian coffee producers and production systems are highly differentiated, with variable forms of market integration – this has important implications for how they respond to coffee marketing reforms (El Ouaamari, 2013).

Policy implication: The methodological underpinnings of the evidence informing commodity exchange reform can play a critical role in how smallholders are defined and considered. A diversity of research approaches – including research at the basic production level – may be valuable to the design of such reforms, allowing for more sophisticated characterisation of the smallholders who are supposedly to benefit.

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Knowledge Products

Research Report

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Coffee is Ethiopia's main export crop, contributing to the livelihoods of more than 5 million smallholder farmers. However, these smallholders find themselves at the bottom of a long value chain that includes collectors, traders, processors and exporters.

In 2008, a marketplace, the Ethiopia Commodity Exchange (ECX), was launched with the aim of improving agricultural marketing and shoring up producer prices, and coffee trading through the ECX was made mandatory for all market participants except cooperatives and large plantations. But in 2017, following pressure from exporters, foreign importers and the donor community, further reforms again opened up coffee trading outside the ECX.

This report examines both these coffee marketing reforms, focusing specifically on the participation of and outcomes for smallholder coffee farmers. The aim is to assess spaces where smallholders and cooperatives may have been able to take part in the reforms, and to highlight policy implications for considering socio-legal empowerment of smallholders in such policy reform.

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