ICO/CFC Study of
Marketing and Trading Policies and Systems in Selected Coffee Producing Countries

Country Profile

ETHIOPIA

Common Fund for Commodities

International Coffee Organization

The World Bank

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BACKGROUND

Before 1991, Ethiopian agricultural policy was centrally planned and controlled by a system of quotas and price fixing. Coffee production and marketing were heavily controlled by the state, under the Ministry of Coffee and Tea Development (MCTD). Producers had to sell at a fixed price and there was little flexibility for them to choose when they sold. While private traders were permitted, licensing requirements, fees and taxes severely constrained their activities and the majority of the crop was handled by the Ethiopian Coffee Marketing Corporation (ECMC). All coffee, whether handled by private traders or the ECMC, had to go to auction where a price fixing and quota system allocated the ECMC with all the washed coffee and the largest quota for unwashed coffee, and prevented competition between public and private buyers.

Since 1991 there has been a transformation from a centrally planned economy to one which is market oriented. This was a result of the replacement of the military government by a democracy in 1991 which brought marxist economic policies to an end. Also, production and exports of coffee had fallen drastically due to the lower international prices after the collapse of the International Coffee Agreement quotas. With the consequent lower export revenue, and facing strong pressure from the private exporters, the new government, with a different political ethos, sought to address these issues. Liberalisation of the coffee sector was initiated as a means to increase grower prices which would both promote production and reduce the incidence of smuggling. Coffee exports form more than 60% of Ethiopia's foreign exchange earnings.

With liberalisation, the ECMC was split into two public enterprises in 1992/93, one which purchases coffee internally and delivers it to the auction, and another which purchases coffee from the auction and exports it. Various policies have been introduced to encourage private traders to compete with the state owned companies. Licensing fees have been lowered, the quota system at the auctions has been abolished, private traders are allowed to trade in washed coffees and *Akrabies* (suppliers) and exporters are allowed to sell coffee domestically at market prices, instead of through parastatals.

THE REFORMS

The reform of the coffee marketing system brought many new exporters and intermediaries into the sector. The proportion of coffee handled internally by private traders has increased to 85% of deliveries at the auction while the number of licensed private exporters has increased from 14 to 240 (around 75 of which are active) and they currently handle 75% of exports, compared to 10% before liberalisation. With increased competition and lower taxation, grower prices as a proportion of the export price increased. Between 1980/81 and 1989/90, grower prices averaged 40% of the f.o.b. value, while export taxes accounted for 30% to 35% of the f.o.b. value. By 1997/98, the grower price had risen to 60% to 70% of the f.o.b. value, while the level of export tax had declined to 6.5% of the f.o.b. value.

Management of price risk is probably the biggest issue opened up by liberalisation in Ethiopia. The requirement that domestic traders must sell their coffee at the auction and not directly to exporters means that domestic traders (both public and private) are subject to all the price risk between the time of purchase from the farmer and its sale at the auction, a period of between ten days to one month. Many exporters and domestic traders have tried to overcome this risk by unofficially establishing their own *akraby* (supplier) or export firms. These export firms then "buy back" the domestic trader's coffee from the auction. However, the fact that this system does not have a legal base must restrict their flexibility. There are plans to allow any trader to purchase directly from the farmer after June 1999 which would address this issue.

The exporters also face complications with risk management since they are not allowed to hedge on the New York futures market and they are not able to trade price fixing contracts easily in quantities smaller than 500 tonnes. The main means of hedging available to exporters is to trade back to back. However, as specialty coffee buyers often prefer to see samples before they purchase, and since exporters can only send samples after they purchase coffee from the auction, they are forced to hold unhedged coffee for a period before the buyer commits to the purchase.

While the quality of Ethiopian coffee is inherently good, 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. Before liberalisation, both washed and unwashed coffees were subject to a number of inspections and quality controls throughout the marketing chain. Now internal quality control is left to the market. In an attempt to improve quality, all unwashed coffees as well as the washed coffee are to be cupped by the Coffee and Tea Authority (CTA) before the auction. This may alleviate quality problems as the auction price will become more closely related to quality.

Supporting Services

Coffee research is provided by the National Coffee Research Centre (NCRC) which is part of the Ethiopian Research Organisation. However, despite the good intentions and the fact that salaries and training have improved since the end of the military regime, the coffee research programme is very weak and suffers from a shortage of funds and well-trained manpower. The NCRC currently operates a seed project under the EC funded Coffee Improvement Project (CIP), whereby seed is distributed free of charge to farmers who establish a nursery and a charge of between 0.16 and 0.20 birr per seedling is levied to farmers for use on farm.

Between 1974 and 1991 coffee extension was carried out by the MCTD and agricultural extension was carried out by the Ministry of Agriculture. Extension services were generally weak and the security situation seriously constrained extension work. Under the military regime many extension workers were moved out of their home regions and they had language and cultural problems when dealing with local farmers. Even when extension workers were able to establish a good relationship with farmers their extension messages had little impact and the adoption rates of recommendations were low. Following the decentralisation, extension is now carried out and funded by the regional councils and there is no coffee specific service, although the CTA is responsible for training extension officers and providing technical assistance for coffee.

There are many challenges in the field of financing. The growers have no access to crop finance, even for purchasing CBD pesticides. The minimal use of inputs has partly limited the demand for credit by farmers. The extent of local borrowing is constrained by a lack of available finance from domestic banks. Furthermore the interest rate is not fully liberalised. There are, however, isolated incidences of new private banks beginning to investigate opportunities of extending small loans to farmers.

The government's land policy creates difficulties for traders and exporters to obtain loans for capital investment. The policy allows them to buy a lease for the land from the government but does not allow them to use the lease as collateral.

Ethiopia

INTRODUCTION

Ethiopia is a producer of arabica coffee and prior to liberalisation was an example of a government parastatal marketing system with a compulsory auction. Liberalisation of the coffee sector began in 1992/93.

In Ethiopia, the transition to a liberalised market is not entirely complete, and strict government controls remain in several areas including: licensing to separate each function in the marketing chain; setting of the minimum export price by a committee at the National Bank; and maintaining the compulsory auction. Plans for further liberalisation of the sector are in the pipeline.

The Ethiopia profile firstly provides an overview of the Ethiopian coffee sector and the macroeconomic setting under which the marketing system operates. The profile then details the supporting services that are provided to the farmer and how the provision of these services has changed with liberalisation. The marketing system, both before and following liberalisation, is then described and the effects of the changes to the marketing system on pricing policy, regulation, crop finance, risk management, taxation and institutions are then discussed. Finally, the reforms are evaluated by examining changes to grower prices, quality and production.

OVERVIEW

Trends in Coffee Production and Exports

Production

Ethiopia produces only arabica coffee, over 90% of which is natural (unwashed). An accurate estimate of production is difficult because a large proportion of the harvest is gathered from semi-wild forest plantations and a large part of the crop is consumed on-farm. Production estimates suggest that average annual production increased from 2.2 million bags in the 1960s to around 3.0 million bags in the 1980s. Output peaked in 1983/84 when 3.9 million bags were produced. Production declined in the second half of the 1980s, but has since been increasing; total production stood at 3.7 million bags in 1997/98 (Table 1 and Diagram 1). Smallholder yields are around 500-600 kg per hectare.

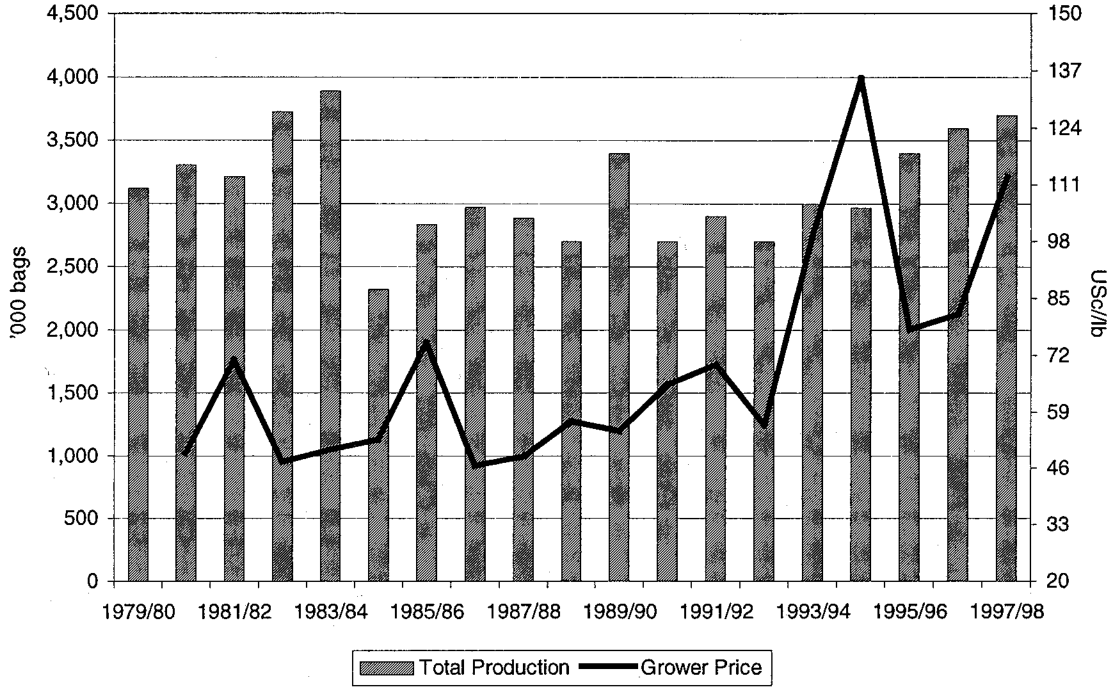
Table 1: Ethiopia — Trends in Production, Trade ('000 bags) **and Prices** (USc/lb)

	Arabica Production	Exports	Grower Price	Export Unit Value
1960s (average)	2,217			
1970a (average)	2,982			
1979/80	3,120	1,248		
1980/81	3,304	1,466	49.6	120.8
1981/82	3,213	1,328	70.9	137.3
1982/83	3,725	1,513	47.6	126.8
1983/84	3,888	1,631	50.4	136.0
1984/85	2,322	1,149	52.7	140.5
1985/86	2,833	1,220	74.9	214.1
1986/87	2,973	1,232	46.7	126.3
1987/88	2,883	1,376	48.7	146.8
1988/89	2,700	1,401	56.9	139.1
1989/90	3,400	1,381	54.8	101.6
1990/91	2,700	850	70.5	105.1
1991/92	2,900	668	75.8	110.7
1992/93	2,700	1,161	62.1	84.1
1993/94	3,000	1,332	104.3	107.8
1994/95	2,965	1,321	129.5	173.4
1995/96	3,400	1,777	75.9	118.7
1996/97	3,600	1,853	83.2	143.2
1997/98	3,700	2,090	112.9	193.0

Source: ICO, LMC

Coffee production in Ethiopia is concentrated in the Oromiya and Southern regions. The area under coffee production has increased from around 350,000 hectares in the 1980s to around 450,000 hectares in the late 1990s. Smallholder producers are responsible for about 95% of production. Arabica coffee is indigenous to Ethiopia and some still grows wild in the forests. This therefore provides various cultivation options for farmers. Wild coffee can be simply picked and marketed without the need of any other cultivation, or alternatively some farmers weed the forest coffee once a year to facilitate coffee picking in a semi-domesticised system. Forest and semi-forest coffees come from south-western Ethiopia (Keffa, Illubabor and West Wollega) and the total area under this mode of production is 220,000 hectares and it contributes about 55% of national production. A more intensive system involves using traditional cultivation methods, with reproduction by seeds, a system known as garden coffee production, which is coffee produced as an extension of the homestead. Typically this coffee is often intercropped with food crops (e.g. *ensete*, a staple food for more than 20% of the population, yams, tarrow, maize, beans) and is grown on plots of around 0.5 hectare. This accounts for around 40% of production and occupies a total area of 160,000 hectares. In addition, there are modern plantations (state farms) farming coffee on a larger scale with greater input use, accounting for 5% of production and occupying 20,000 hectares.

Diagram 1: Ethiopia — Coffee Production and Grower Prices, 1979/80-1997/98

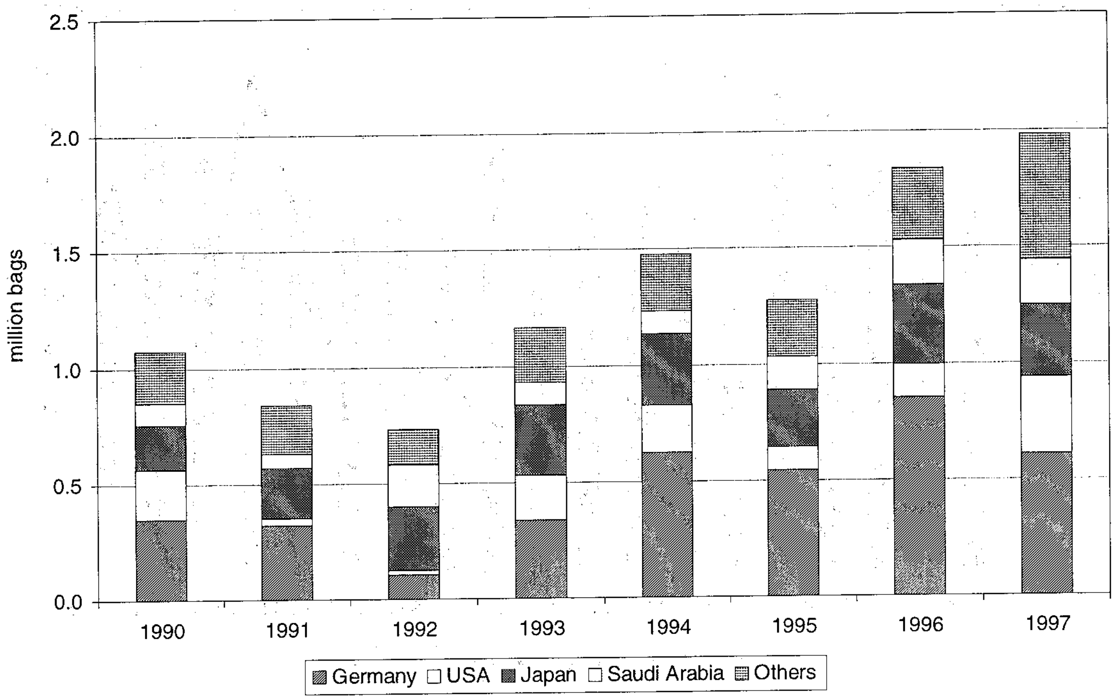


Exports

Coffee exports fell from an average of 1.4 million bags in the 1980s to just 0.7 million bags in 1991/92. Export volumes have since increased, with 1996/97 exports at 1.85 million bags (Table 1). The bulk of Ethiopian exports go to Western Europe (mainly Germany), Saudi Arabia and Asia, mainly Japan (Diagram 2).

Changes in export volumes do not entirely reflect changes in exportable production, owing to the prevalence of coffee smuggling, which was previously estimated to be around 11% of production (through Djibouti, Kenya and Sudan). Some of the increase in exports over the past few seasons has been the result of higher producer prices which has considerably reduced the incidence of smuggling recently.

Diagram 2: Ethiopia — Main Export Markets, 1990-1997



Coffee in the Economy

Agriculture accounts for around 60% of Ethiopian GDP. Coffee is the most important export earner and accounts for between 60% and 70% of total export revenues. Moreover, export tax from coffee is a significant proportion of government revenue. Approximately 700,000 households are involved in coffee production and it is estimated that 15 million people, around a quarter of the population, are dependent on coffee for their livelihoods.

GOVERNMENT POLICY

Macroeconomic Environment

Between 1974 and 1991 the Ethiopian economy was based on a centrally planned Marxist state under dictatorial rule. This period is known as the *Dirge* (military) regime. The country was plagued by civil war and periodic droughts. Dissatisfaction with economic performance prompted sweeping economic reforms in 1991. Political reforms aimed to transform Ethiopia from a highly centralised authoritarian state, under civil war, to a Federal Republic made up of nine ethnically defined regions (Eritrea broke away from the Federation in 1993).

The government's economic objective was to reduce poverty through rapid labour-intensive growth, achieved through the transition to a market based economy with a dominant private sector. The policy has centred on the rehabilitation of existing economic and social infrastructure (especially the road network), macroeconomic stabilisation, structural reform and the establishment of a safety net to cope with the current social crisis. The birr was devalued by over 50% in 1993, price and market controls were abolished and the private sector encouraged. The economy, assisted by a major inflow of foreign aid and loans under an Emergency Recovery and

Reconstruction Programme, grew by 7% in 1992 and 12% in 1993. Since May 1993, a flexible exchange rate, established through frequent foreign exchange auctions, has been adopted. Good harvests in late 1996 pushed up real GDP growth to 18%, but this slowed considerably in 1997 to 2% (Table 2). IMF loans were suspended in late 1997 after the first phase of the Structural Adjustment Programme, since the Ethiopian government and the IMF failed to reach agreement on the content and pace of financial sector reform.

Ethiopia is the world's second poorest economy (after Mozambique). GDP per capita was around US$112 in 1997. The population, currently around 60 million, one of the largest in Africa, is forecast to nearly double by 2015. Famine is a major threat; even without rain shortages, Ethiopia's food deficit is substantial, although considerable efforts in the area of food security enabled Ethiopia to have a food surplus in 1996.

Table 2: Ethiopia — Macroeconomic Conditions, 1990-1997

	1990	1991	1992	1993	1994	1995	1996	1997
Exchange Rate, Birr per US$	2.07	2.07	2.80	5.00	5.47	6.16	6.35	6.71
Real GDP Growth	0%	-6%	7%	12%	-1%	9%	18%	2%
GDP (1995 prices) Billions Birr	28.01	26.32	28.26	31.58	31.18	33.89	39.96	40.76
GDP (1995 prices) Billions US$	9.69	10.81	8.30	5.98	5.60	5.50	6.25	6.64
Per Capita GDP (US$)	200	216	161	112	102	97	108	112
Interest Rate (lending rate, annual %)	6%	6%	8%	14%	14%	15%	14%	-
Annual Inflation (CPI)	5%	36%	11%	4%	8%	10%	-5%	4%
Population (millions)	48.36	49.95	51.57	53.24	54.94	56.68	58.10	59.51

Source: IMF, LMC

Agricultural/Coffee Policy

While growth has been strong in the industrial sector in recent years, poor agricultural practices, low input use and the threat of severe drought three years in every ten, hold agricultural growth and therefore GDP growth back. Agricultural land remains the property of the government (although the government makes no claim on its produce). The land is leased to farmers by the regional government, and farmers have absolute freedom to choose how to use the land once lease terms are agreed, but they cannot sell it. This limits tenants' investment in the land and reduces productivity.

The Ministry of Agriculture is responsible for determining agriculture policy. Coffee policy was set by the Ministry of Coffee and Tea Development (MCTD) between 1979 and 1992, and the Ministry of State Farms, Coffee and Tea Development between 1992 and 1995. The Ministry was abolished in 1995 and replaced by the Coffee and Tea Authority (CTA) which is independent of the Ministry of Agriculture and operates under the Administrative Board of the Coffee and Tea Authority which is assigned by the Prime Minister's office. The CTA is responsible for making recommendations about coffee policy to the Administrative Board of Coffee and Tea.

Before 1991 agricultural policy was centrally planned and farmers were told what to produce, how to produce it and for whom. The system was controlled by quotas and price fixing. Since then there has been a transformation from a centrally planned economy to one which is market oriented. After 1991 the emphasis of the government is more towards strengthening the grass roots institutions and since 1995 much responsibility has been devolved to the regional offices. The regional governments are more or less autonomous, acting within the framework of federal policy, except for aspects such as foreign exchange control, foreign affairs and the military, which are still determined at the federal level. Some of the regional budget is financed by the government (according to population, income and area of the region) and the rest is financed by the region (from taxes and other revenues). The Ministry of Agriculture's inputs to the regions are technical, providing assistance and advice. The Regional Agricultural Bureaus are directly responsible to the Regional Councils. The people of each region elect their regional councils.

The main focus of agricultural policy since liberalisation has been to:

- Increase food security;
- Increase the supply of agricultural raw materials to the local industries;
- Expand local manufacturing industries to supply the rural areas;
- Increase foreign exchange earnings.

Both the World Bank and European Commission have funded programmes to support the development of the coffee sector. The World Bank projects (First Coffee Improvement Project 1972-1980 and the Second Coffee Improvement Project 1983 to 1992) concentrated on improvements to marketing and processing, in particular the rehabilitation and establishment of washing stations for wet processing. The European Union projects (three Coffee Improvement Projects, CIP — starting in 1977) focussed on production. The EU funded CIP was established in Ethiopia at a time when the outbreak of Coffee Berry Disease (CBD) was threatening production. The initial aim of the programme was to supply seedlings of the new resistant cultivars and nurseries were established to produce coffee seedlings for this purpose. There was an infrastructure component to the CIP and feeder roads were constructed with a grant and washing stations were built with a loan. There was also an input supply (tools and chemicals) and a training component. The current CIP, which is funded from remaining money from the previous CIP still has a training component for development agents (DAs), which are low grade extension agents, who live in the village where they work. A micro project has recently been added to satisfy the basic needs of the rural population in coffee growing areas. Funding for the CIP officially ends in June 1999, but an extension of EU funding is likely. The extended funding will not be in the form of a CIP but coffee will remain as the focal point.

The Swiss government has provided a loan of 5.2 million Swiss francs to improve the quantity and quality, mainly of washed coffee. The loan is disbursed through the Development Bank of Ethiopia and the beneficiaries of the loan are private investors and service co-operatives. The disbursed loans have gone towards improving existing washing stations, or establishing new ones, and for the purchase of mobile hulling machinery for dry coffee processing.

Research and Extension

The Institute of Agricultural Research (IAR) was founded in 1968 as a semi-autonomous body within the Ministry of Agriculture. The structure and name of the Institute changed in 1997 when the different branches of agricultural research (e.g. coffee, maize etc) were brought under one organisation, the Ethiopian Research Organisation (ERO). The National Coffee Research Centre (NCRC) (part of the ERO and previously called the Melko Research Centre) is responsible for coffee research and also carries out a small amount of research in spices and food crops (sorghum, maize, beans, teff). A number of sub-stations (namely, in Teppi, Gera, Wonago and Haru) have been developed since the mid 1970s and there are plans to open two more sub-stations, in Wallega (supported by the EC) and Sidama (supported by the Swiss government). The programme of the NCRC includes processing (e.g. technical aspects of washing, pulping and fermentation practice) and crop protection as well as agronomic research.

During the 1970s research concentrated on developing varieties resistant to CBD. Since 1985, the research approach has changed from looking at material nationally to being more directed towards regional requirements. The aim now is to develop cultivars for each of the many agricultural ecological systems that exist in Ethiopia. Similarly in all the regions, the research station aims to implement a more adaptive research plan. The main aim of research has been to continue to produce and ensure good quality, with increased yields, and for the coffee types distributed in the field to be resistant to Coffee Berry Disease (CBD).

However, despite the good intentions and despite the fact that salaries and training have improved since the end of the military regime, the coffee research programme is very weak and suffers from a shortage of funds and well-trained manpower. The World Bank has recently established a research and manpower strengthening project and it is believed that coffee will receive a substantial part of the available funds.

The NCRC currently operates a seed project under the EC funded Coffee Improvement Project (CIP), whereby seed is distributed free of charge to farmers who establish a nursery and a charge of between 0.16 and 0.20 birr per seedling is levied for use on farm.

Between 1974 and 1991 coffee extension was carried out by the Ministry of Coffee and Tea Development and agricultural extension was carried out by the Ministry of Agriculture. Extension services were generally weak and the security situation seriously constrained extension work. Under the military regime many extension workers were moved out of their home regions and they had language and cultural problems when dealing with local farmers. Even when extension workers were able to establish a good relationship with farmers their extension messages had little impact and the adoption rates of recommendations were low.

Following the decentralisation, extension is now carried out and funded by the regional councils and there is no coffee specific service, although the CTA is responsible for training extension officers and providing technical assistance for coffee. A "New Extension Package" was initialised in 1992/93 financed by Global 2000 on a pilot basis for two years. The project was successful and the government decided to continue the programme. The package, which is provided free of charge to participating farmers, is managed by the Ministry of Agriculture and includes improved seed, fertiliser, pesticides and better agricultural practice (ploughing, proper and timely sowing etc.), credit and advice on post harvest technology. The farmers under the New Extension Package receive intensive extension supervision for two years.

Distribution of Inputs

Most coffee farmers do not use fertiliser (apart from on the state farms), and the practice of using fertiliser is not encouraged by the CTA. Pesticides and herbicides are barely used for coffee even though CBD is spreading and destroying between 20% and 25% of the harvest in some high elevation areas.

All chemical inputs are imported and are expensive, although prices prior to 1992 were subsidised by the government. High prices and a centralised distribution system limited usage. Prior to liberalisation, agricultural inputs were provided by the Agricultural Inputs Supply Corporation (AISCO). However, few inputs were distributed to the coffee sector. During the initial stages of the CIP some pesticides were distributed but the quantities were negligible. Also in the 1970s and 1980s the Swiss government provided a chemical to combat CBD. In most rural areas before liberalisation, farmers were organised in peasant associations (which were part of the service co-operatives) which acted as primary marketing agencies and also provided inputs and credit.

The input distribution system was liberalised in 1993 and private companies were allowed to compete with AISCO. The AISCO changed its name to the Agricultural Inputs Supply Enterprise, maintaining the same acronym AISCO, and remained a public enterprise competing with the private sector. However, the supply of fertiliser is still determined by the regional governments, which submit input needs to the federal government body, the National Fertiliser Agency (NFA) which was established in 1996. Once the level of input requirements have been decided for the coming year, the NFA floats a tender for foreign exchange (to the value of the estimated input requirement) and AISCO and the other importers bid for a share of this foreign exchange for imports. However, in 1997/98 this system led to an oversupply of inputs (361,000 MT were imported but only 279,000 MT were consumed) and therefore in some cases importers have been forced to sell below cost.

In 1994 AISCO was ordered by the government to import the CBD chemical urgently by air freight, at huge cost (around 98-99 Birr per kg). Initially this chemical was distributed free of charge, and when AISCO later started charging for it no farmers bought it, since it was not cost effective. AISCO still has unused supplies in their warehouses.

Input subsidies were progressively reduced and completely abolished in 1997. AISCO still imports around 50% of the total inputs used for the agricultural sector and still has the best distribution network. The input supply system is lacking in adequate rural storage and distribution facilities, particularly for the private suppliers.

Credit

The minimal use of inputs has limited the demand for credit, and there are now (as well as before liberalisation) few credit opportunities available to farmers. The extent of local borrowing is constrained by a lack of available finance from domestic banks.

During the *Dirge* regime the National Bank controlled the working of the three main banks, the Commercial, Development and Mortgage Banks, almost entirely through government directives. The roles of the three main banks were also quite strictly delineated, as their names suggest, between development, commercial and mortgages. The banking sector was liberalised in the early 1990s, when private banks were encouraged to compete against the government banks.

Before liberalisation, the Development Bank was ordered to finance the state owned enterprises in agriculture and industry, without consideration of the viability of the investments. The Development Bank also lent short term crop credit to producers and service co-operatives. Various donors, including IFAD, OPEC, EC and the International Development Association (IDA), provided credit for the Development Bank to finance the service co-operatives. Prior to liberalisation the service co-operatives received loans at an interest rate of 4.5% and the private sector received loans at 8% to 9%.

The Development Bank for Ethiopia no longer receives grants from the government but it borrows from local financial institutions and is an autonomous body. Since 1992 the lending of the Development Bank has been mainly to the private sector and between the beginning of 1996/97 and the end of November 1998 it extended 238 mn birr to the coffee sub-sector primarily for investment in processing equipment (wet processing factories, drying processing units and coffee cleaning and exporting plants). Its lending is primarily for capital investment although it provides loans for working capital to clients who have already taken out investment loans.

In order to qualify for a loan from the Development Bank, potential investors must provide a large amount of paperwork. This includes an investment licence, a trade registration licence, a licence from the Ministry of Agriculture or the CTA, proof that they legally own the land on which they want to invest, proof that the construction design has been approved, bill of quantities (for construction items), proof of personal status (guarantees of credit-worthiness, knowledge of the field etc.). If the Development Bank approves a loan, it finances a maximum of 70% of the investment, and the investor must generally provide collateral to the value of 125% of the value of the loan.

Before 1991, the Commercial Bank (CB) used to finance agricultural crops mainly through agricultural co-operatives, never directly to individual farmers. The military government made the policy decisions for crop finance. The government directed the CB to lend specified sums of money to the various state farms and co-operatives according to estimates carried out by the rural offices of the Ministry of Agriculture. The government guaranteed the loan for the CB. If any of the co-operatives were delayed in repayments, the rural offices of the Ministry of Agriculture, who kept close track of the money and agricultural produce movements in their localities, assumed responsibility for ensuring that the loan was repaid. The repayment performance was generally good.

With liberalisation of the banking sector, the CB makes its own credit policy decisions in competition with the other local private banks. The CB has expanded since liberalisation and now has a total of 170 branches, 70% of which are in rural areas. The CB generally finances at the grower level through the service co-operatives, rather than directly to the farmer. When financing growers, CB does not give overdrafts but only short term credits.

Since 1994/95 private commercial banks have begun operating, such as the Awash Bank, Wogagen Bank, Abyssinia Bank, and Nyala Bank. No foreign banks are currently allowed to operate and the government would need to further liberalise the banking sub-sector and interest rates and foreign exchange rates before international banks would wish to enter.

Commercial banks currently have little involvement with coffee producers. In the West of the country some small farmers received credit from a private rural credit bank for one year at 8% interest rate. Before extending the loan the bank had visited the area for one month to orient itself in the village, and then it extended credit to 150 farmers through the peasant association. However such schemes are rare.

Infrastructure

Inadequate infrastructure is a major constraint; the road network in Ethiopia is one of the poorest in the world, with an average density of 21km per 1,000km^2. Around 75% of farms are inaccessible during the rainy season due to a lack of all-weather roads. This problem is especially acute during the rainy season (March-August). November to March is when the washed coffee is marketed, and February to March is the peak period, while sun-dried coffee is marketed throughout the year.

The main port for export is being changed from Assab to Djibouti. Since this change occurred in 1998 there is uncertainty as to how the logistics will work, but Djibouti should be a more convenient port to use. For example, Djibouti has 13 alongside berths compared to six in Assab, and so barges need not be used to load vessels as had been the case with Assab. Coffee is taken to Djibouti in trucks on a newly renovated road. The port of Djibouti offers 45 days rent free storage facilities. The CTA export quality control unit has now been moved from Assab to Djibouti and renovated. Coffee does not use the rail line, which is used largely for exports of tea and imports.

MARKETING SYSTEMS

Since the 1960s, three distinct periods can be identified with respect to coffee marketing:

- Throughout the imperial government, until 1974, the marketing structure was free market-based. The industry was regulated by the National Coffee Board of Ethiopia;
- After the revolution in 1974, the National Coffee Board of Ethiopia was replaced by the Ministry of Coffee and Tea Development (MCTD) and coffee production and marketing were heavily controlled by the state. While private traders were permitted, the majority of the crop was handled by the state owned Ethiopian Coffee Marketing Corporation (ECMC), also known as ETCOMAR.
- Since 1991/92, reformist government has encouraged private traders to compete with the state owned companies for coffee.

Table 3 : Ethiopia — The Sequencing of Marketing Reform

Date	Event
1957	National Coffee Board of Ethiopia established to regulate the industry
1974	Ethiopian People's Revolutionary Democratic Front come to power, replacing Mengistu Dictatorship. Economic policy based upon Marxist lines
1977	Ethiopian Coffee Marketing Corporation (ECMC) established to handle the crop. Controls introduced on private buyers
1979	Ministry of Coffee and Tea Development (MCTD) created to regulate the industry, replacing the National Coffee Board of Ethiopia
1991	Commencement of the process of devolving power to the regions
1992	Ministry of State Farms, Coffee and Tea Development created to replace the MCTD
1993	Start of Coffee Sector Reforms: ECMC split into 1) Ethiopian Coffee Purchase and Sales Enterprise (ECPSE) and 2) Ethiopian Coffee Export Enterprise (ECEE). Private sector traders are encouraged
1995	Ministry of State Farms, Coffee and Tea Development is replaced by the Coffee and Tea Authority (CTA)

Marketing Channels

Pre-liberalisation

Until 1975, coffee was bought by traders at various stages of the marketing chain and exported. A proportion of the crop was auctioned by traders at voluntary auctions in Dire Dawa and Addis Ababa. Government intervention, carried out by the National Coffee Board of Ethiopia, was limited to regulation of the auction process and quality control.

In 1977 a government agency, the Ethiopian Coffee Marketing Corporation (ECMC), a corporation within the MCTD was created and took on substantial responsibilities in the internal and external marketing of coffee. It was responsible for handling 90% of officially handled supplies. Producers had to sell at a fixed price and there was little flexibility for them to choose when they sold. There were different marketing channels for washed and unwashed coffee (Diagram 3).

Washed Coffee

Farmers producing washed coffee had to deliver the fresh cherry to washing stations within 24 hours of harvest (this was to maintain an acceptable level of quality). All washing stations were under the control of service co-operatives or a state corporation. Once processed, the resulting parchment was sold to the ECMC branch markets or taken directly to the auction. There were 109 modern washing stations in 1992 plus 56 old stations with a capacity of 35% to 40% of the modern ones. No private traders were allowed to trade in washed coffee.

Sun-dried Coffee

Farmers, having picked and sun-dried coffee could sell it to co-operatives (normally their own service co-operative), to private traders or the ECMC at nearby village markets. Farmers could sell hulled coffee, but it was more common to sell it unhulled. The co-operatives then had to sell to the ECMC.

Primary licensed private collectors (*sebsabies*) were registered with the MCTD and competed with the ECMC to acquire coffee from farmers. However, they were only permitted to buy from farmers at designated local market places and were required to sell either to larger local registered private suppliers (akrabies), of which there were around 500, or the ECMC (there were 56 ECMC purchasing stations throughout the main coffee producing regions). In turn, the akrabies were only allowed to purchase coffee from sebsabies operating in their province. For unhulled coffee, the akrabies would either use their own hullery or use the services of private hulleries.

After hulling, the akraby could sell to the ECMC or could bring the coffee to the auction. To transport coffee the akraby required a licence as well as the authority from the local MCTD office. In the mid-1980s, a shortage of transport meant that most trucks were commandeered by the ECMC or other government operators which made it difficult for akrabies to market their coffee at the auction.

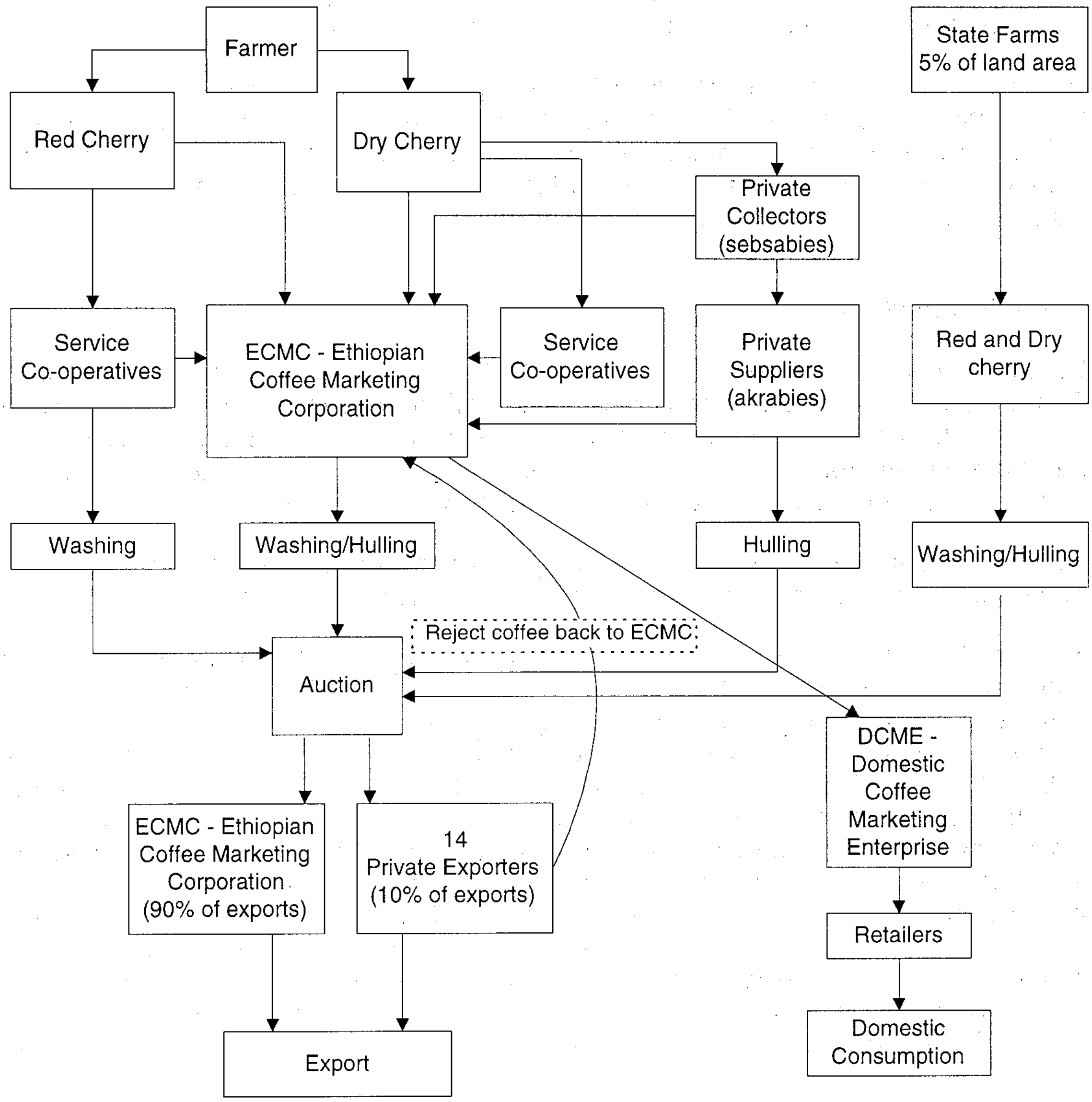
The state farms washed their coffee or sun-dried and hulled it and sent it directly to the auction.

Auctions

With the establishment of the ECMC all coffee, whether handled by private traders or the ECMC, had to go to auction. In 1977 the government started to control the auction as the ECMC was being outbid by the private exporters for coffee. A price fixing and quota system was introduced.

Before auction, coffee was registered, sampled and graded (by defect count) by the Marketing, Inspection and Control Department of the MCTD. All washed coffee was also cup tasted. The auction was regulated by the MCTD and there was no competition between public and private bidders as participants were issued with a quota. The ECMC bought all the washed coffee and had the largest quota of the unwashed coffee, and private exporters were not allowed to compete for coffee until the ECMC's quota had been met. The individual private exporter's quota was determined by the frequency of arrivals, the size of the trucks and the capacity of each private exporter's factory. The coffee that was offered to private buyers was generally of a poor standard. The non-purchase of lots by private exporters was penalised by a reduction in future quota.

Diagram 3: Pre-liberalisation Marketing Chain



Domestic marketing was organised by the Domestic Coffee Marketing Enterprise (DCME), a subsidiary of the ECMC. Only coffee below export quality (Grade 7) was allowed to be marketed domestically. This coffee was purchased by the DCME and sold to retail outlets (e.g. Urban Dwellers Association shops) to be sold at prices fixed by the state. Strict control over the flow of coffee, together with an inadequate quantity of coffee released by the DCME, pushed domestic prices to twice the official price in 1985/86.

Liberalisation Process

The impetus for liberalisation came with the change in government in 1991 and the ending of the marxist economic policies which were believed to be untenable. Coffee liberalisation was seen as part of moves to introduce the market into the whole of the economy. These moves were backed by the IMF and World Bank. In addition, production and exports of coffee had dropped drastically due to the lower international prices after the collapse of the International Coffee Agreement quotas. The incidence of smuggling due to the high "taxation" of coffee was also high. With the consequent lower export revenue, the new government, with a different political ethos, sought to address this by using liberalisation as a means to increase grower prices which would both increase production and reduce the incidence of smuggling.

However, there is still hesitation within the government to allow the process of liberalisation to go too far. For example, the government wishes to avoid monopolies and is wary of vertical integration, (such as allowing exporters to buy directly from farmers) since it believes that it could lead to a few major private power centres within the industry. Thus the liberalisation was only partial.

Post-liberalisation

Liberalisation in 1992/93 saw the ECMC split into two public enterprises, the Ethiopian Coffee Purchase and Sales Enterprise (ECPSE) which purchases coffee internally and delivers it to the auction and the Ethiopian Coffee Export Enterprise (ECEE) which purchases coffee from the auction and exports it. Increased opportunities have opened up for private participation in the market (Diagram 4).

Following liberalisation, for washed coffee production, farmers sell cherry to akrabies or service co-operatives. The ECPSE does not purchase washed coffee.

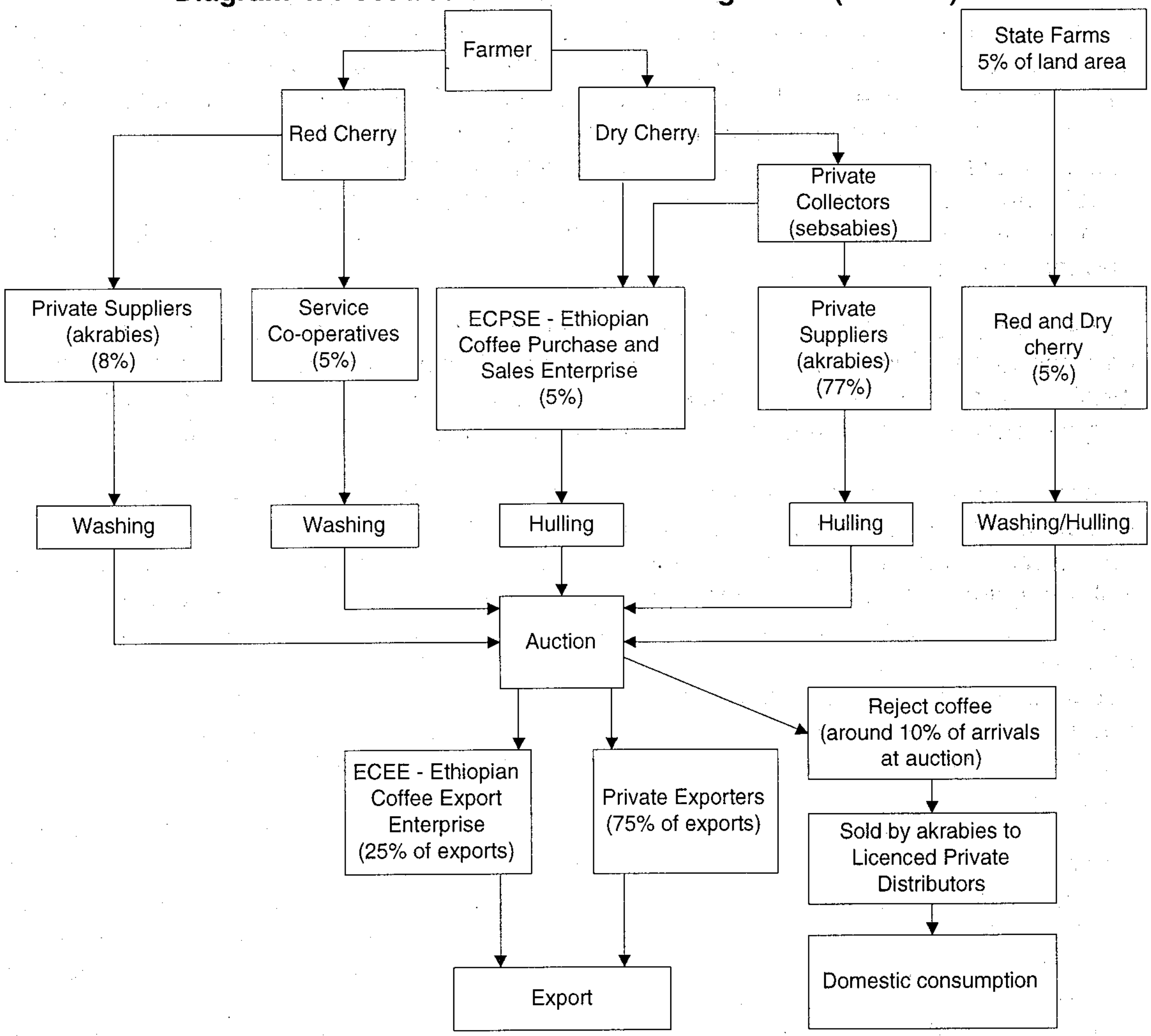
For sun-dried coffee, farmers take the dry cherry to marketing centres for sale to sebsabies, who are required to sell it to either akrabies or the ECPSE. The ECPSE can also purchase unwashed coffee directly from the farmer. Only in Eastern Hararge do some farmers hull sun-dried coffee on the farm by pounding it. All other farmers deliver dry cherry to the market. Sebsabies have a monopoly on primary marketing of sun-dried coffee in the private sector (excluding production handled by co-operatives) since growers are not permitted to deliver unwashed coffee directly to the akrabies. Akrabies, sebsabies and exporters are all licensed separately. Sebsabies are permitted to buy from farmers but can only sell to akrabies or the ESPSE, and cannot take coffee to the auction. Akrabies are permitted to buy coffee up country from sebsabies (but not from farmers) and deliver it to the auction but not export it and exporters are only permitted to buy coffee from the auction and not from sebsabies or farmers. The state farms wash or sun-dry and hull their coffee and send it directly to the auction.

Total arrivals at the auction have increased from around 102,000 MT in 1994/95 to just over 155,000 MT in 1997/98. As a result of liberalisation, the proportion of total coffee brought to the auction by the akrabies has increased in recent years, at the expense of all the other internal traders. For example, akrabies brought 61% of all coffee to the auction in 1994/95 (1% of washed coffee and 72% of unwashed) and this had increased to 85% by 1997/98 (47% of washed coffee and 92% of unwashed). The share of coffee brought to the auction by the service co-operatives has fallen from 8% of all deliveries in 1994/95 to 5% in 1997/98 although in 1997/98 they delivered around 35% of all washed coffee to the auction and a negligible amount of unwashed coffee. The ECPSE's share has also fallen substantially, from 20% of total coffee in 1994/95 to 5% in 1997/98. Finally, the state farms delivered 11% of coffee to the auction in 1993/94 (69% of washed coffee and a negligible amount of unwashed coffee), and 5% in 1997/98 (just under 20% of washed coffee and 2% of unwashed coffee).

Auctions, which are conducted by the CTA, are held at regular times, every day from Monday to Friday, and twice a day during the two to three month peak season. In the peak season there can be as many as 150 to 200 trucks at the auction at any one time, and sometimes trucks have to wait in a queue for three to four days before the coffee can be auctioned. Coffee is sold at the auction by the truck load and payment for the coffee should occur within 48 hours of the auction, although this does not always happen in practice. Akrabies have the right to withdraw coffee from the auction. When the coffee is sold at the auction, the akrabies lose possession of it and if the exporter does not pay for the lots, akrabies must pursue the claim through the legal system, which can take years.

Purchased coffee is then processed, sorted and graded by the exporters. As a result, of the reforms, the number of licensed private exporters has increased from 14 to 240 (around 75 of which are active) and their share in total exports increased from 10% prior to liberalisation to 75% in 1997/98.

Diagram 4: Post-liberalisation Marketing Chain (1997/98)



The international tradehouses are prohibited from buying coffee at the auction (they are not issued with a license from the Ministry of Trade and Industry). However, they have agents based in the country who purchase coffee from the exporters.

Pricing Policy

Prior to liberalisation grower prices were set by the MCTD. For example, for washed coffee the price for red cherries was 0.40 birr/kg in 1990/91 and 0.45 birr/kg in 1991/92 (1.10 birr/kg for Sidamo and Yirgacheeffe). The difference between the grower price and the export (f.o.b.) price (less marketing costs) was taken by the government. During the period of low prices (1989-1993), support was given in the form of an amendment to the surtax (implemented around 1989/90) which specified that if the New York "C" contract price fell below 60 c/lb, then the surtax would not be levied.

Immediately following liberalisation, payment to farmers is determined by the market although a floor price continued to be set, but prices offered to growers could rise above the floor. For instance, the floor for red cherry was 1.65 birr/kg red cherry. After 1996/97 no floor price was set for red cherries and pricing at the grower level was completely left to the free market. For washed coffee, the price the service co-operative pays to the members has to be competitive with that being paid by the private akrabies who have pulping stations in the area, which would be commensurate with the market price and the quality of the region. The akrabies have become price setters. However, the attraction for the members to continue with their co-operative has been the normal practice of a second payment from any additional profits, which is usually paid at Christmas time. The co-operatives do not find it easy to function in the competitive environment, but many manage by co-ordination with the regional office and the rural bank.

For sun-dried coffee, farmers are guaranteed the minimum government-set price, but can negotiate a higher price with the sebsabies. Minimum prices were set in October 1992 in birr, and have not been revised since. Growers are kept informed of international price movements by daily radio broadcasts conducted by the CTA.

Prior to liberalisation, the National Bank set the floor price for exports. The MCTD then calculated the auction price based on the New York futures price minus the differential for Jimma 5 minus freight and marketing costs worked back to an ex-auction price. Following liberalisation, the Coffee Price Differential Setting Committee, chaired by the National Bank, sets daily minimum export differentials, but no floor prices are set at the auction. Other members of the Committee include members of the exporters association, the ECEE and the CTA. The committee meets whenever a member deems it to be necessary (this can be every two days or once every two weeks). For washed coffees, the minimum export price is set against the New York “C” price and recently the differential is set also in relation to Kenyan coffee. For example, Kenya AB FAQ prices have been similar to Limu grade 2. Prices for Yrga Cheffe and Sidamo are much higher than Limu. For unwashed coffees, the differentials are set against Jimma 5 except for Harar coffee (Ethiopia's most expensive unwashed coffee), which is set by the Prime Minister's office. For example, on 10 December 1998, the minimum export price for Jimma 5 was the New York futures price (111.85 c/lb) plus a differential of 16 c/lb for Europe and the USA and 14 c/lb for Japan. Exporters are obliged to register at least this minimum price at the National Bank when they make a sale. Exporters, including the ECEE, have complained of being unable to sell sufficient volumes of washed coffee due to the differences between market and minimum prices.

While the decision making power at the committee is nominally democratic, some exporters feel that the National Bank exercise most leverage in setting the price. This can sometimes lead to prices which are higher than the market price. For example, on

10 December 1998 the price set by the committee for Sidamo was 215 c/lb which was much higher than the market price of around 180-190 c/lb.

From June 1999 the system of fixing minimum prices will be abolished, but registration of exports with the National Bank will remain obligatory for statistical and monitoring purposes.

Taxation

Prior to liberalisation, with the government setting the grower price, the implicit tax rate rose to almost 45% of the f.o.b. value. This encouraged large scale smuggling of coffee through Djibouti, Kenya and Sudan. There were four kinds of taxes levied on coffee export prior to liberalisation. These were an export duty of 150 birr/ton, a cess tax of 50 birr/ton, a transaction tax of 2% of the f.o.b. value and a surtax paid in proportion to the export price of the coffee, based on ICO indicator prices. There were also municipality taxes levied on movement of coffee in the interior and in some regions there was a municipality fee of 400 birr per 10 tonnes. Following liberalisation, the level of tax has been reduced. In order to widen the tax base, additional taxes in the form of income tax and land use fees have been introduced. In 1997/98 all export taxes were combined into one tax of 6.5% of the f.o.b. price. Coffee is the only agricultural commodity which is subject to an export tax. However, coffee exporters are also given more incentives than those of other commodities. For example, they are permitted to hold 10% of their foreign exchange earnings in hard currency.

The tax on the movement of coffee in the interior is known as a "development" tax and is charged on all arrivals at the auction at 5% of the purchase price. This development tax is paid to the regional states.

Regulation

Post-liberalisation, the number of restrictions on private traders have been reduced although all market participants are required to be licensed and all coffee (whether export quality or not) must pass through the auction. Licences are required for every function in the marketing chain, whether it be buying direct from farmers, delivering coffee to the auction, hulling/washing coffee, exporting, or domestic marketing of coffee rejected from the auction. In particular, the regulations mean that exporters (including the ECEE) cannot buy coffee directly from akrabies, sebsabies or farmers but must purchase coffee at the auction. Similarly, akrabies have to deliver coffee to the auction and are not permitted to export it. However, these controls are set to change and proposals have been made to allow any trader to purchase directly from the farmer after June 1999. In this way traders will have more control over the quality of coffee which they buy, and the level of risk faced by each participant along the chain will change.

The regional trade bureaus are responsible for licensing sebsabies, akrabies and the domestic traders, and the Ministry of Trade and Industry is responsible for licensing exporters. Licence fees have been reduced since liberalisation, which has encouraged a greater number of market participants. Licence and renewal fees have fallen from 25,000 birr for exporters and 10,000 birr for akrabies and 5,000 birr for sebsabies prior to liberalisation, to 200 birr for exporters and 150 birr for akrabies and sebsabies since 1994/95.

The domestic wholesalers (previously known as *Changi*) are licensed for a particular region. Purchases of reject coffee from akrabies and exporters are permitted for sale only in the region from which the licence was issued. Following liberalisation, restrictions continue on the quality of coffee that can be marketed domestically. Coffee can be sold on the domestic market only after auctioned coffees or pre-export processing rejects are inspected and certified unsuitable for export. This aims to minimise competition between domestic roasters and exporters. However, domestic consumption in Ethiopia is estimated to be as high as 35% to 40% of production (i.e. around 1.5 mn bags), while coffee rejected from the auction was only 460,000 bags in 1997/98 (i.e. around 12% of production). This shows that there is a considerable amount of coffee (over 1 mn bags) consumed domestically which has either been "unofficially" traded or which has been consumed on farm. There are around 14 domestic roasters, all of which are based in Addis Ababa.

Before liberalisation, as well as paying a large licence fee, exporters had to fulfil certain criteria before they were granted a licence. These criteria included having 500,000 birr in capital, owning a millhouse and a warehouse. This has changed since liberalisation and currently exporters do not have to meet any criteria in order to be granted a licence from the Ministry of Trade and Industry. They do, however, have to fill in a form about their level of capital and facilities at their disposal, but this is purely for information purposes. The CTA maintains some regulatory control on exporters through its control of the auction. Once an exporter has obtained a licence from the Ministry of Trade and Industry, the CTA check whether the exporter has a minimum level of capital and sufficient facilities to operate. Only if the CTA is satisfied that the minimum requirement is met will the exporter be allowed to purchase coffee at the auction. Exports of coffee are also regulated in terms of quality and for foreign exchange control.

The current export procedures involve registering an export contract with the National Bank of Ethiopia. Exporters must present the National Bank with a letter of credit before they are granted an export permit. The National Bank then issues them with a price registration document. This enables the government to maintain some control over foreign currency flows. Other documentation which is required for export includes a Chamber of Commerce certificate of origin, invoice, GSP (General System of Preference) certificate, weight and quality certificates (issued by the CTA) and the shipping bill of lading.

Quality Control

Prior to liberalisation both washed and unwashed coffees were subject to a number of inspections and quality controls throughout the marketing system. For washed coffee, the first inspection occurred when the fresh cherry was delivered to the wet processing plant. Technically only ripe and newly harvested cherries were purchased, older and under/over ripe cherries were rejected and the farmer had to sun-dry the cherry for it to be marketed as unwashed coffee. A further quality test occurred after wet processing. Washed coffee failing quality control after processing was marketed on the domestic market.

Quality control of unwashed coffee prior to liberalisation was less stringent than for washed coffee. During the pre 1974 imperial period, extension officers were strict in ensuring that ripe coffee was picked and that the coffee was dried on mats or a concrete floor. The extension officers were entitled to burn the coffee if they saw any being dried on bare earth. During the *Dirge* (military) regime, this practice continued but was not so strictly enforced. The practice of drying coffee on mats continued, and still does today. However, bad habits such as picking fruit that is not quite ripe or even at times strip picking have crept in. Before liberalisation, the ECMC checked the moisture content at the 56 market centres. Now the private akrabies have also joined the co-operative units in hulling coffee, however, not all units have moisture meters. Previously and now, the coffee has to be dried to 12% moisture content, and is strictly checked just prior the auction, where it has to be 11.5% or slightly below. Now that it has been announced that all unwashed coffees will be tasted, the akrabies have already, in anticipation, started being more vigilant about handpicking their coffees to a better standard prior to submission for auction.

Currently quality of washed coffee is checked at the time of purchase prior to pulping, although the fruit cherry purchased is not always ripe. Neither the service co-operatives nor the akrabies carry out careful inspections to ensure that only red cherry is delivered to the washing station.

Grading standards are set according to the number of defects and type of processing (washed, unwashed). The coffee producing areas for washed and unwashed coffee include Yrga Cheffe, Sidamo, Limu and Bebeka. For mainly unwashed coffee they are: Harrar, Teppi, Lekemti, Jimma, Kaffa, Wollega and Illubabor. The main export grades are grade 2 washed and grades 4 and 5 unwashed. Each region has a particular taste characteristic and considerable emphasis is placed on keeping consignments from different regions separate in order to maintain the distinct flavours.

Table 4: Ethiopia — Export Grading Standards

Arabica	Defects	
Grade 1	0-3	Usual Good Quality (UGQ)
Grade 2	4-12	
Grade 3	13-25	
Grade 4	26-45	
Grade 5	46-100	
Grade 6	101-153	
Grade 7	154-340	Export prohibited
Grade 8	over 340	Sub standard

Source: Jobin.

The CTA is responsible for regulating the quality of coffee that is exported, and they have a liquoring unit at the auction centre. Previously only washed coffee was cup tasted prior to auction and the unwashed coffee went through a physical inspection. In 1997/98 the unit also cup tasted all Sidamo and Wellega unwashed coffees as well as the washed coffee. From 1998/99 they will cup taste all unwashed as well as all washed coffee that passes through the auction. There is some concern about the capacity of the liquoring unit to cope with the volumes that will pass through the auction, which will increase from around 40,000 tonnes to over 200,000 tonnes. Exporters are not permitted to cup taste the coffee themselves prior to auction, and this means that exporters cannot make their own full commercial assessment of the quality and therefore premium potential of individual washed coffees. Akrabies pay 150-200 birr per truck at the auction to cover the cost of liquoring, and the exporter pays 100 birr per 18 tonne container.

After the auction and prior to export, coffee is cup tasted for one final time. Coffee that is rejected at this stage is sold by the exporter to the licensed domestic trader. Before liberalisation the exporter used to have to sell the coffee to the ECMC but now the exporter can sell direct to the domestic dealer. The CTA still has to make sure that the quality is below export standard.

The liquoring unit of the CTA provides training on cup tasting. In 1997 the unit trained 10 exporters. However, only around 25 to 30 exporters have liquoring skills, whereas if quality is to be maintained or improved all active exporters should be able to carry out their own liquoring.

Crop Finance

Exporters buying coffee at the auction do not receive pre-finance from international buyers. Most have an overdraft with the commercial banks to cover holding coffee. As exporters only take ownership of the coffee at the auction, financial requirements are limited to covering costs during processing, grading and shipping the coffee.

Very little of the coffee crop is officially pre-financed since the structure of licensing inhibits this. However, since the early 1970s, when one exporter tried to divert the funds from entering the country, the rules have insisted on a letter of credit as a method of payment for exports. This helps export financing. Payment against documents, presented to the buyer through his bank, is the normally accepted mode of payment. With this method, the buyer's contract rather than his bank's letter of credit forms the guarantee. Therefore the letter of credit from the buyer's bank facilitates financing from the exporter's bank.

The Commercial Bank (CB) is very active in financing coffee exporters. The CB finances the entire operations of the ECEE and the ECPSE as well as 50 private exporters. The criteria CB uses for assessing their client risk include knowledge of business and management operations, financial performance and the client's handling of the bank account, and past banking experience.

There are various ways in which the CB finances exporters. For some good clients who know how to handle their affairs well, the bankers have direct lending against turnover, or as an overdraft. The client provides collateral and is allowed to work within his own limits. Another type of lending is called "post export financing". This involves collection of money from the international buyer's bank, against the invoice and all export documents. The turnaround for this is about 15-20 days. A third financing service is "pre-export financing", which is provided when the coffee is ready for shipment, in export bags, at the exporter's warehouse, awaiting transport to the port. In this instance the bank keeps some control over the loan by keeping a copy of the key to the warehouse and also retaining all export documents, except the shipping bill of lading, which would not be available at that point. For this type of financing the CB provides up to 90% of the value of the sales contract of the coffee. This lending mechanism can also work in co-ordination with a shipping company's container bill of lading, which is issued after loading the container before transport to the port of shipment. The fourth financing mechanism is by a "Merchandising Loan", whereby the goods are ready for shipment, but the documents are not all at hand. In this case the CB holds its own key for the warehouse, and lends only 70 to 80% of the value of the sales contract of the coffee.

The maximum interest rates for lending are fixed by government policy, but most banks have charged the fixed lending rate of 10.5% for all the different types of transactions. The CB has just started charging ¼% or ½% lower rates of interest to their lower risk coffee exporter clients who borrow large sums of money.

As akrabies, sebsabies and co-operatives cannot sell coffee directly to exporters, officially at least, they receive no crop finance from exporters and their funds must be from their own sources or from local borrowings. Nonetheless, in cases where exporters have established "subsidiary" companies, there is clearly pre-financing available. Akrabies also pre-finance the sebsabies.

Many service co-operatives receive short term loans from the commercial banks to purchase the new crop from the farmers. The CB finances the short term crop financing requirements of these service co-operatives for hulling and pulping coffee, since they believe that they trade sensibly and, since 1991, the regional government offices (Regional Bureaus) gives letter of undertaking to the CB. When arranging the loan, the co-operative committee discusses the market prospects with the bank and together they decide on the amount of loan and also the price range to be paid for the fruit. Some co-operatives have co-ordinated with the CB to use their own savings as a source of crop financing. The CB's rural branches monitor local co-operative bank accounts and often, after an exceptionally good profit year, advise the co-operatives to save some of their profits (in order to finance some or all of the following years' crop) rather than distribute them all to farmers.

The CB also currently finances about 200 akrabies. Unlike the service co-operatives, the akrabies do not receive finance from the CB at the primary marketing stage, but only when coffee has been brought to the auction. Akrabies are also expected to provide a large amount of collateral (100%-150% of the value of the loan).

There is almost no pre-financing of growers. The Development Bank is planning to set up a scheme similar to a warehouse warrant scheme, but simpler, and which will apply to food crops rather than coffee. It planned to start the scheme as a pilot project with a small amount of funds at the end of December 1998 with one service co-operative. Under the scheme the co-operative members would bring their grain to the co-operative store and would receive a loan (from a short period fund deposited at the bank) for the grain according to the quantity and quality. The bank would take the grain in the store as collateral. The bank would not lend to individuals in the co-operative on this scheme, but would lend to the co-operative as a whole or to groups of farmers within the co-operative, to benefit from peer pressure in providing a further guarantee for repayment. When the farmer chooses to sell the grain, the prospective buyer would inform the bank, and the bank would ensure that the buyer has deposited the amount he had agreed to pay for the grain. If the bank is satisfied that the loan has been repaid, then it would inform the co-operative to release the grain, deduct the expenses and interest, and release the funds to the co-operative. The Ministry of Agriculture is the technical adviser to the co-operatives under this scheme, and they will remain so until the co-operative has sufficient understanding of the financing arrangements and of marketing.

Risk Management

Risk management usually refers to price risk management, although there are many other types, such as quality (which is related to the price), logistics, contractual, loss of weight/theft and insurance, as well as trading counterpart risk.

Management of price risk is probably the biggest issue opened up by liberalisation, as the marketing system moves from one with relatively fixed prices and margins to one which is exposed to the vagaries of volatile international market prices. The requirement that domestic traders in Ethiopia must sell their coffee at the auction and not directly to exporters means that domestic traders (both public and private) are subject to all the price risk between the time of purchase from the farmer and its sale. The price volatility becomes a huge burden to them. Furthermore, there are no means by which they can sell the coffee forward to the auction, and it can only be sold when it is physically brought to the auction. The akraby or service co-operative is forced to hold coffee for a period of between ten days and one month, which is the time it takes to collect, process and transport the coffee to the auction. If, for example, the market rises between the time of the purchase and the auction, the local trader gains, but if it falls, he has to cover the losses. The system prevents the buyer from covering price risk by trading the coffee "back to back" (i.e. selling to an exporter as soon as it is purchased from the grower for delivery at some future date). As the coffee has to go through the auction, the local trader cannot commit coffee to a particular exporter.

The extreme risk which is faced by the domestic traders has several consequences on their behaviour. It constrains them in their buying activities, forcing them to buy less in a period of price volatility and it reduces their ability to make investments in new or upgraded plant and structures. It also encourages them to concentrate on "standard" coffee instead of paying a premium for better grades, since the higher prices for better grades exposes them to potentially greater risks, profits and losses. The only option open to akrabies for covering their risk is to purchase small amounts of coffee from farmers every day and sell small quantities of coffee at the auction every day. Many exporters and domestic traders have tried to overcome this risk by unofficially establishing their own akraby or export firms (for example, establishing a subsidiary company in the name of a family member). These export companies then "buy back" the domestic trader's coffee from the auction. The export company is then able to sell coffee "back to back" if they choose, to reduce price risk. However, the fact that this system does not have a legal base must restrict their flexibility.

The fact that some akrabies and exporters have started doing this increases the pressure on others to do so. For example, since akraby and exporter are the "same" company, the exporter can afford to pay any price at the auction in order to gain possession of the coffee, and this tends to push up the price that other exporters must pay for coffee. These difficulties would be reduced if the system were liberalised further to enable exporters to buy directly from the farmer. In this way they could hedge their price risk at the time they purchase coffee from the farmer. This would also make the auction superfluous.

The price risk faced by the various players also affects the financing possibilities, since it limits the willingness of banks to provide finance. The ability to manage price risks through forward delivery auctions, or the ability to sell directly to an exporter, or the creation of a forward contract market for a quality such as Jimma 5 (a definable grade which can be traded in volume), would considerably alleviate many problems. A properly legalised, licensed and regulated warehouse warrant system could solve price risks faced by many traders.

Compared to other traders in the chain, exporters have more tools and opportunities available to them to manage their price risk although they are not permitted to participate in the international futures market in New York to hedge their risks. Some exporters sell directly after buying from the auction, while others are required to process coffee and send samples to buyers before it can be sold. Most coffee is sold on an outright basis up to a maximum of 90 days forward.

Previously only the ECEE had been allowed to enter into forward contracts, with the seller's option to fix the price. Before liberalisation ECEE used these contracts extending forward up to six months. In 1996 ECEE used forward price fix sales for 20% of their exports. They avoided price fixing in 1997 due to poor weather affecting quality, and resumed in 1998 for around 15% of their exports. In the last two-three years arabica and Ethiopian differentials have become very unpredictable, creating large losses one year and huge profits the next for ECEE, particularly for the washed coffees affected by reduced Kenyan supply and continued strong demand. Normally price fixing differential contracts reduce price risk. The ECEE has always held large open positions and it currently speculates with a large amount of unfixed stocks.

In 1997 ten exporters were permitted to use forward contracts, but this was introduced with the specification that these price fixing contracts could only be used for a minimum of 500 tonnes. This makes it impractical for most exporters to exploit the opportunity. This restriction is, however, expected to be removed sometime in the future. Some exporters with good relationships with their buyers are able to conduct price differential fixing contracts for smaller quantities, even one container, in case of uncertain outright price circumstances, and adjust the differences with the registered minimum price later through future transactions. However, this requires a lot of trust.

INSTITUTIONS

The main government institutions involved in coffee production, processing and marketing after liberalisation are: the Coffee and Tea Authority (CTA), which regulates; the Ethiopian Coffee Export Enterprise (ECEE) which exports; the Ethiopian Coffee Purchase and Sales Enterprise (ECPSE) which buys internally; the Coffee Processing and Warehouse Enterprise (CPWE) which stores and processes coffee for akrabies and exporters; and the Coffee Plantation Development Enterprise (CPDE) which is in charge of the state farms. The Regional Bureaus have taken over the role of coffee extension. The Agricultural Inputs Supply Enterprise (AISCO) competes with the private sector in supplying inputs to the agricultural sector, but it has very little to do with the coffee sub-sector.

The CTA is independent of the Ministry of Agriculture and operates under the Administrative Board of the Coffee and Tea Authority which is assigned by the Prime Minister's office. Members of the Board are: the Vice Minister of Trade and Industry (who is the chairman of the Board); the Vice Minister of Transport and Communications; a member of parliament; the heads of the agricultural bureaus in two regions (Oromia and the Southern region); and the CTA General Manager. The CTA is responsible for making recommendations about coffee policy to the Administrative Board of Coffee and Tea. It also manages the auction and controls quality through its liquoring unit before and after the auction and trains extension officers in coffee. It has a budget of around 6 million birr and employs around 470 people. The departments in the CTA are: Planning and Programming; Trade and Control; Project Co-ordinating; Finance and Administrative Service; Organisation and Management; and Public Administration.

The CPWE was established in May 1994 and has taken over a warehouse and processing unit at the auction site which were built with a loan from the World Bank. Initially the warehouse and processing unit was part of the ECMC, and after liberalisation it remained under the ECEE (and was used only for washed coffee) for around 18 months. The CPWE has a new role in providing storage and processing facilities for private traders. It also processes unwashed coffee. CPWE currently provides storage or processing services for 1,000 akrabies and around 45 active exporters.

The CPWE is earmarked for privatisation during in the 2nd Strategy Plan (1999-2000). It currently has a total turnover of 10-17 million birr per annum. The amount of washed coffee they are processing is falling as exporters set up their own plants for this purpose. Furthermore the CPWE is facing competition from private exporters who have established more modern processing plants and warehouses and rented them out to exporters.

The Coffee Plantation Development Enterprise (CPDE) is in charge of the state farms, which account for around 5% of total area devoted to coffee, and produce around 5% of coffee. Before liberalisation this organisation was called the Coffee Plantation Development Corporation. Around 20% of the land area devoted to state farms was from farms which were nationalised at the beginning of the military regime in 1974. The rest was created during the military regime. Many farms were rehabilitated with CBD resistant varieties, funded by loans from the African Development Bank (ADB) and Oil Producing and Exporting Countries (OPEC). This rehabilitation was completed in 1993. Before liberalisation, in 1991, the Coffee Plantation Development Corporation received the budget for the state farms from the National Planning Office, and little consideration was given to whether or not the state farms were profitable. If they made a loss they were funded by the Ministry of Finance, and if they made a profit they paid it to the Ministry of Finance. Currently the state farms are autonomous, coming under the umbrella of the CPDE, which itself is under its own Board which is accountable to the Supervisory Authority of Development Enterprises. The CPDE supplies fertiliser, pesticides and other inputs, and provides technical support to the state farms. The state farms prepare their own budget and risk being shut down if they are not profitable. State farms sun-dry or wash all the coffee they produce, and deliver coffee directly to the auction. The 1997 National Plan states that in the following three to five years (i.e. by around 2002) the state farms would be privatised.

Prior to liberalisation there were two types of co-operatives, producer co-operatives and service co-operatives. These co-operatives were organised by the central co-operative offices in Addis Ababa. Producer co-operatives shared their produce or output and marketed it collectively. Service co-operatives had a variety of functions, one of which was distributing basic goods to farmers, such as food, soap, salt, sugar, clothes and fertiliser (the fertiliser was from AISCO and was for food crops and not for coffee). They also had an important marketing function and purchased cherry from the farmers, washed it and delivered it to the ECMC or directly to the auction. They also bought unwashed coffee from farmers and delivered it to the ECMC. Another role which they used to play was to extend short term crop finance to farmers. The military government previously encouraged the formation of both types of co-operatives, and supported their running with funding. However, the support was phased out around the end of the Dirge regime. Only the service co-operatives still exist and they are now voluntary organisations. New rules have been designed which specify that cooperatives are subject to the same laws as other corporate entities. Under the new law, cooperatives do not have the full government support they previously enjoyed, although they are supported by local governments through technical assistance in the area of budgeting and auditing. They no longer distribute basic goods to their members, nor do they provide short term credit to farmers. Now they have only a marketing role, and they compete directly with the akrabies and the ECPSE, mainly for washed coffee. Many own washing stations and warehouses, and farmers choose between delivering to the co-operative or the akraby for processing of washed coffee. The central co-operative organisation previously arranged the trucks to take the parchment for auction, and bring the supplies. Now the service co-operative often has to hire trucks privately from their district.

There are currently between 3,000 and 4,000 service co-operatives. Each co-operative is made up of three to four peasant associations and covers a total of around 1,500 to 2,500 farmers. Membership appears to have fallen somewhat since before liberalisation. The executive committee of the co-operative is elected by the members who serve a term of two years (for which they receive no salary). Farmers pay an annual membership fee of around 10 birr.

Reports about the success of the service co-operatives are mixed. While many have not been successful, there are a few success stories. Some service co-operatives suffered from financial problems during the military regime, and in some banks re-scheduled loans and injected new working capital. They do, however, have a role to play in areas where private traders have not been able to go because of lack of accessibility. In these areas they play an important role in terms of organising farmers, negotiation and transport. In the main producing areas, it is unlikely that the service co-operatives will be able to effectively compete with the akrabies and the amount of coffee they are buying is ever decreasing.

The exporters established an Exporters' Association in order to coordinate the views of private exporters. The association was first formed in the 1960s and was closed down by the government between 1976 and 1991. However, the 14 exporters who were operating during the military regime continued to meet in secret. The office of the Association is now run by the Executive Secretary and a board (which consists of 7 members). Exporters pay a fee to the association of 5 birr per tonne of coffee exported. The association represents the exporters on the Coffee Price Differential Setting Committee, carries out promotional activities for Ethiopian coffee, accompanies the CTA to meetings held at the ICO and provides access to a Reuters terminal to its members. While there are 240 licensed exporters, the 76 active members are the only members of the association. Some exporters feel that the association should provide more technical assistance and should be expanded to include incorporate akrabies and other parts of industry in a federation.

EVALUATION OF REFORMS

Although liberalisation started in 1992/93, the process of liberalisation is not yet complete and controls still remain, particularly in terms of setting minimum prices and separating the roles of the traders at different stages of the marketing chain by licensing. However, the liberalising of the auction and thus creating a level playing field for akrabies and the government-owned exporter, allowing the private sector to trade in washed coffee and allowing akrabies and exporters to sell reject coffee domestically at the market price occurred quickly with liberalisation. Furthermore, there is a feeling of optimism amongst exporters that the process of liberalisation will continue. Many also share the politicians' opinion that they would prefer to see a gradual process of change.

While there are undoubtedly advantages to phasing in liberalisation instead of rushing reforms through rapidly, the period of transition, if extended for too long can lead to confusion and inconsistencies in the system which force growers or traders to bend the rules in order to operate effectively. This is currently occurring in Ethiopia, as akrabies unofficially establish export companies (or vice versa). Given that traders are forced to operate outside the system to some extent, this prevents further strengthening of the structures which support and improve the sector. The problems are likely to continue even after the rigid licensing system is lifted, enabling all traders to purchase coffee directly from the farmers. If the obligatory auction is maintained in such a system, which would make for a system similar to that currently operating in Tanzania, then it would tend to serve very little purpose apart from pushing up the costs for the exporters, and consequently lowering the price to the grower. This is because exporters would undoubtedly purchase coffee directly from the farmer, and would simply buy back their own coffee at the auction. In such a system, the auction would not guarantee increased competition or openness of price setting, since the price setting would have occurred already at the farmgate, and the exporter could sell (and buy back) at any price.

Grower Prices

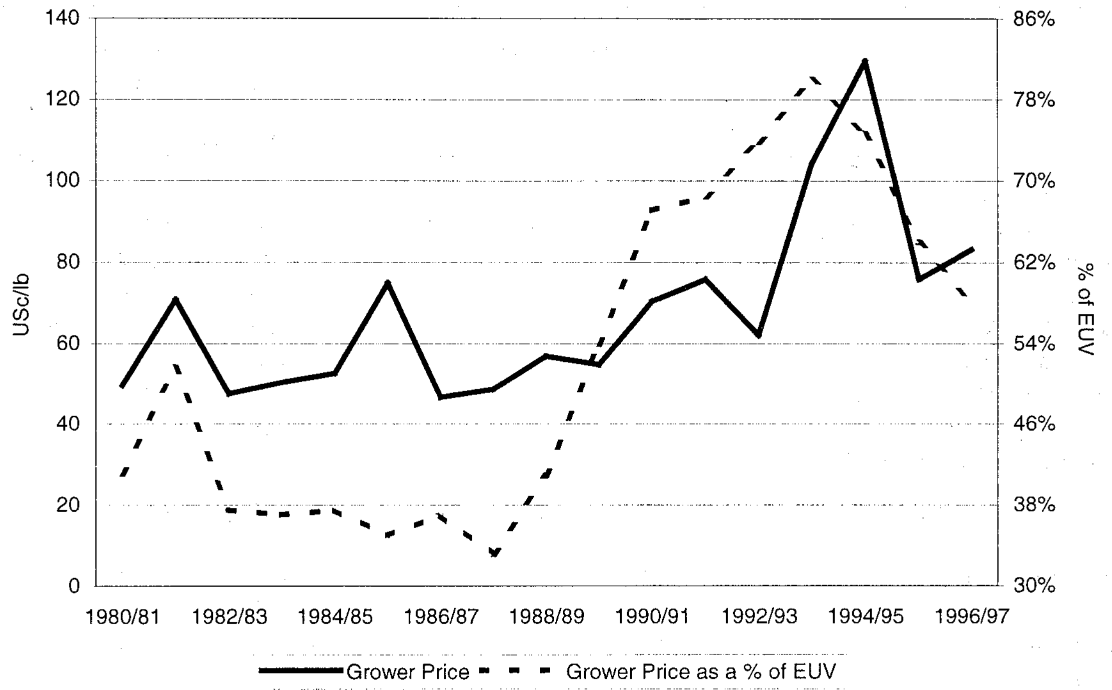
Prior to liberalisation with grower prices determined by the government, prices received by growers were a relatively low proportion of the export unit value, averaging between 30% to 50%. The relatively high quality and high export value of Ethiopian coffee meant that this translated to a grower price of around 55 US c/lb over the 1980s (Diagram 5).

Liberalisation increased the proportion of the export price received by growers to over 60%. Grower prices increased (in USc/lb terms) despite the collapse in international prices following the ending of ICA quotas. The devaluation of the Birr further increased grower prices in local currency terms. The grower price rose to nearly 130 c/lb in 1994/95 as international prices boomed. However, grower prices have subsequently fallen and the proportion received by farmers has fallen to around 60% (Diagram 5).

For both washed and unwashed coffee strong competition ensures that the price offered to the farmer by all domestic buyers is the same and farmers are always paid at the time they bring coffee for processing. The akrabies tend to be the price setters for coffee in the rural areas. For coffee that is marketed through co-operatives, if the co-operative makes a profit, the farmers who have delivered coffee receive a share of the profit at the end of the season.

Producers do not receive a premium for higher quality coffee although a higher price (in green bean equivalent terms) is paid for cherry that is wet processed. The difference in price between the washed and unwashed depends on changes to the f.o.b. price which is influenced by international demand for washed and unwashed coffee. CTA data shows that the grower price for red cherries was 2.5 birr/kg (124 c/lb g.b.e.) between 1996 and 1998 compared to 8.9 birr/kg for clean sun-dried coffee (59 c/lb g.b.e.).

Diagram 5: Ethiopia — Grower Price as a % of Export Unit Value



Marketing Costs

The following tables show indicative calculations of pre- and post-liberalisation marketing costs for washed coffee and sun-dried coffee. This snapshot look reveals that total export marketing costs (including margins), were around 51 c/lb pre-liberalisation compared to 29 c/lb in December 1998. However, it should be noted that the existence of an artificially high exchange rate in pre-liberalisation times makes direct dollar comparison difficult. Nonetheless, increased competition and the devaluation of the birr have contributed to reducing marketing costs in US dollar terms. In the latter case, this is because the devaluation has reduced local wage costs in US dollar terms. These factors have led to an increase in the auction price as a proportion of the f.o.b. (from around 55% to 85% in the case of washed coffee and from around 55% to 70% in the case of unwashed coffee), and this has meant that a higher proportion of the f.o.b. price has been passed on to the farmer. Another major area in which costs have fallen since liberalisation is in the level of export tax imposed. In the pre-liberalisation scenario taxes were over 30% of the f.o.b. price, compared to 6.5% since 1997.

Table 5: Post-Liberalisation Marketing Costs (washed coffee)

	Pre-Liberalisation			Post Liberalisation		
	Birr per Feresula (17kg)	c/lb	% of total f.o.b.	Birr per Feresula (17kg)	c/lb	% of total f.o.b.
Grower price (cherry cost)-2.5x17				59.50	21.2	
Outturn 6:1-price for clean coffee	46.55	60	50%	357.00	127.0	67%
Washing				30.00	10.7	
Transport				8.00	2.8	
Tax (0.67 birr/kg)				11.39	4.1	2%
Overheads (Inc.financing costs)				25.00	8.9	
Auction cost (150 birr/10 MT)				0.26	0.1	
Total akraby marketing cost				74.65	26.6	
Other costs, including akraby's margin				23.36	8.3	
Auction price (clean coffee)	52.75	68	57%	455.00	161.9	85%
Auction cost				0.34	0.1	
Cleaning/grading	2.33	3		4.00	1.4	
Tax	31.03	40	33%	34.81	12.4	6.5%
Overheads	0.78	1		4.00	1.4	
Insurance				0.50	0.2	
Interest on 2 months (10.5% of auction price)				7.63	2.7	
Other costs, including exporter's margin	3.10	4		23.27	8.3	
Transport to Port	1.55	2		3.40	1.2	
Transit	0.78	1		2.55	0.9	
f.o.b.	93.10	120		535.50	190.5	
Total export marketing costs	39.57	51		80.50	28.6	

Source: Industry, CTA and mission estimates.

Table 6: Post-Liberalisation Marketing Costs (Sun-dried Sidamo)

	Pre-Liberalisation			Post Liberalisation		
	birr per feresula (17kg)	c/lb	% of total f.o.b.	birr per feresula (17kg)	c/lb	% of total f.o.b.
Grower price (per kg clean coffee)	29.48	38	48%	212.50	75.60	56%
Cost of transport (collection sites to hullery)				0.34	0.12	
Transport (auction to Addis)				6.80	2.42	
Machine and warehouse depreciation				4.25	1.51	
Coffee hand pickers				1.02	0.36	
Loading/unloading				0.17	0.06	
Interest on purchased coffee				3.74	1.33	
Local tax				11.39	4.05	3%
Other costs (inc. overheads and akraby's margin)				29.96	10.66	
Auction price	34.14	44	55%	270.00	96.05	71%
Waste (2%)				5.40	1.92	
Processing cost (grading/cleaning)				4.76	1.69	
Bag	0.78	1		1.98	0.71	
Cost of holding coffee (2 months @ 10.5%)				4.53	1.61	
Liquoring				0.17	0.06	
Insurance (1500 Birr/18 MT)				1.42	0.50	
Other costs including exporter's margin	6.21	8		56.86	20.23	
Transport to Port				3.74	1.33	
Container handling	1.55	2		4.72	1.68	
Tax	19.40	25	31.3%	24.58	8.74	6.5%
f.o.b.	62.06	80		378.17	135.90	
Processing loss undergrades (12% sold at 10.5 Birr/kg)				20.99	7.47	
Total export marketing costs	27.93	36		87.17	31	

Source: Industry, CTA and mission estimates

Quality

Washed Ethiopian coffee is among the best in the world and is used to improve blends. All washed and the better unwashed grades come under, and are drunk individually as, gourmet or speciality coffees. Although the genetic variability of Ethiopian coffee frequently causes the size and shape of the beans to vary considerably within a consignment, this does not affect the price premium for Ethiopian coffee. Most exported Ethiopian coffees are screen 14-17 and are judged much more on cup quality than physical appearance.

Quality is often spoiled as a result of improper picking, drying, processing and storage. Many older washing facilities need to be improved as faults are affecting output and quality. Pulping machines are often faulty or not adjusted correctly. Water pollution can be a problem. Problems have also been encountered in the lack of sampling and a failure to keep quality beans separate. The other downfall for quality is the system of akrabies advancing money to sebsabies. At times, when sebsabies fail to obtain sufficient quantities of the correct qualities, they submit inferior qualities which the akrabies are bound to accept just to obtain reimbursement for the cash advance. This could be an area where quality mixing might occur. As a consequence of reduced controls, inexperienced new akrabys might also knowingly or unwittingly mix coffees from different regions, including those from prized areas. Such inconsistency can give exporters a bad reputation with roasters, especially when they have paid high premia, at times as much as 30% more, for Ethiopian tastes. With the current licensing system exporters have little control over quality in the interior. Once the system is further liberalised, when all traders will be permitted to purchase directly from farmers, traders will have more capacity to check and control the qualities.

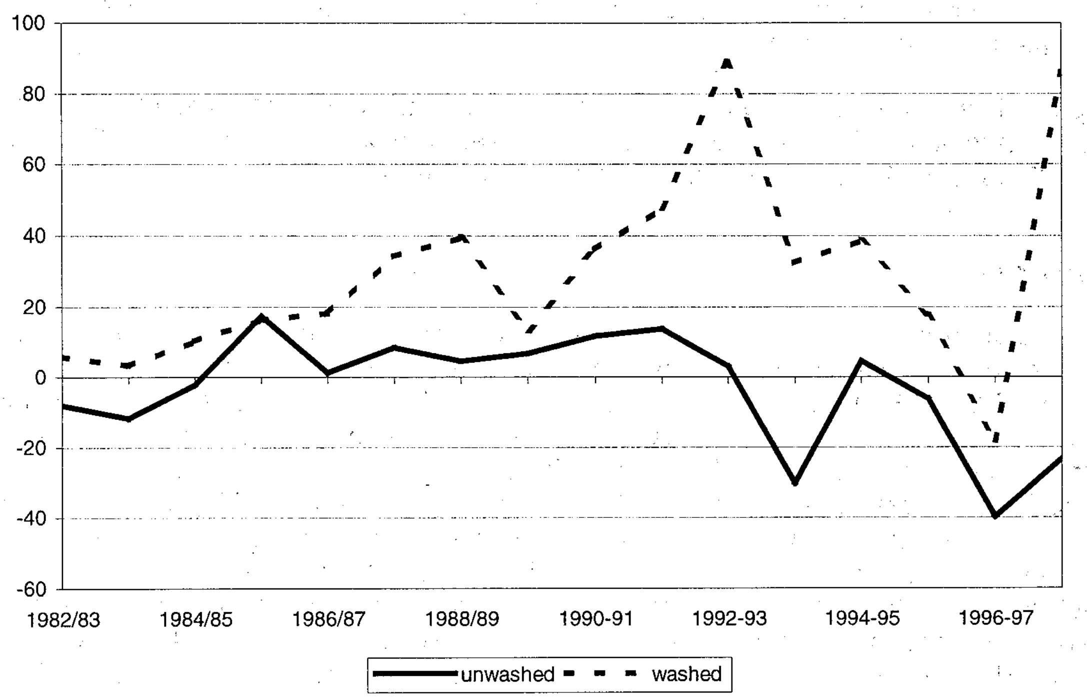
The severe Brazilian frosts, occurring at about the same time as the first years of liberalisation, did not help quality. Many "new players" accepted coffees which were too wet. The farmers were also in a rush to cash in on lucrative prices, often stripping coffee off the bush before fruit ripening, partly to avoid thefts. On the other hand, the recent years' drought in Kenya had the opposite effect. With overall coffee prices declining, washed coffee prices surged ahead. Consistently good prices for washed coffees can only be achieved for special qualities, which have been properly tended and produced.

The quality of unwashed coffee is very variable. One reason for this poor quality is that processing plants are poorly equipped and many co-operatives and akrabies are unable (or unwilling) to invest in renovation. More investment may occur if exporters were allowed to take an interest in local processing plants. This is already occurring in cases where exporters have unofficially established akraby companies.

At the auction, dry-processed coffee is only subject to physical checks of a few random samples drawn from a fully loaded truck of bags with coffee. Sometimes coffees do not correspond to the description on the grade certificate. This often puts an added burden on the exporter, to process and prepare a proper quality for export, on top of the normal responsibility of secondary or export processing. Soon all unwashed coffees will be cupped, and this may resolve many quality problems. Exporters find akrabys are already exercising better control in better handpicking of discoloured and sour beans, now that all coffees will be liquored.

Diagram 6 shows the difference between the washed and unwashed e.u.v. and the OM Indicator price for the past 15 years. The premium or discount of the unwashed coffee is affected heavily by production in Brazil. For example, there was a smaller discount for the unwashed (e.u.v. under the OM indicator) 1994/95 and 1995/96 owing to the fall in Brazilian production due to frost. Alternatively, the premia of washed Ethiopian coffees (e.u.v. over the OM Indicator) are heavily influenced by production in Kenya. For example, the premiums peaked in 1992/93 when the Kenyan crop fell by 25% on the previous year, and again in 1997/98 when the Kenyan harvest was 30% lower than in the previous year as a result of drought. However, the premium of washed Ethiopian coffee over unwashed has increased almost twofold during the 1990s over the 1980s. Therefore the potential for more washed to be produced to increase foreign exchange revenue and fulfil the heavy demand for the excellent flavours of Ethiopian coffees could be exploited, as this trend is likely to continue.

Diagram 6: Ethiopia — The Difference Between the Washed and Unwashed E.U.V. and the OM Indicator Price, 1982/83-1997/98



Regulation

While the sector is heavily regulated, there is a strong feeling amongst exporters that there is confusion in the market and the sector is still in a period of transition. The exporters had three main complaints about the system:

- The licensing procedures create confusion and need to be streamlined. Furthermore since exporters are not allowed to buy from farmers they are prevented from establishing a relationship with growers in the region and this places a restriction on the market. It also creates quality control problems

- The committee of the National Bank is too slow in setting the price. Furthermore, there is a feeling exporters do not have any weight in the differential price setting committee. However, it is expected that in June 1999 minimum prices will no longer be set.

- The government's land policy creates difficulties for traders and exporters to obtain loans. The policy allows them to buy a lease for the land from the government but does not allow them to use the lease as collateral.

Overall Effect of Reforms

Production

Higher prices since liberalisation and the ending of farmers' quotas have encouraged the overall production as farmers have switched to coffee from competing crops. Annual coffee production increased by almost 10% in the two years following the reforms. When the prices for coffee were low, many farmers had switched from producing coffee to producing Chat, a stimulant. However, recently there has been evidence that many farmers have uprooted the Chat and re-planted coffee. The use of inputs, however, remains negligible, despite the fact that CBD is posing a severe threat in some high altitude areas.

Exports increased even more significantly, directly after the reforms, owing to the reduction in smuggling as grower prices increased. Ethiopia exported 1.8 million bags in 1995/96, a 23% increase on the volume exported in 1994/95.

Investment

Liberalisation has increased investment in post-harvest processing of coffee and the number of wet coffee processing units has increased dramatically. However, the quality of the1998/99 harvest is considered disappointing by some, and it is possible that the new operators do not have sufficient knowledge about producing optimal quality. Previously processing facilities could only be owned by co-operatives and state farms, with private enterprises excluded, and there were 100 washing stations: 60 in the south and 40 in the west. Since 1992 over 400 more washing stations have been developed, mainly by the private sector and in the south of the country. Currently in 1999 there is a total of around 510 washing stations. Given the fact that there are so many wet processing factories, the proportion of wet coffee marketed in 1998/99 is expected to reach 30-40% of the total crop. Signs of interest in investment in private plantations are also appearing.