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Revisiting the agrarian question: coffee, flowers and Ethiopia's new capitalists

Florian Tomas Schäfer

Thesis submitted for the degree of PhD

2016

Department of Development Studies
SOAS, University of London

Declaration for SOAS PhD thesis

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Abstract

This thesis examines the development of agrarian capitalism in the coffee and cut flower sectors of contemporary Ethiopia. Particular emphasis is placed on processes of capital accumulation by large-scale domestic producers, and how their operations interact with the Ethiopian 'developmental state', which is striving for a rapid structural transformation of the economy. Chapter One introduces the research question, develops research themes, and presents the main argument. Chapter Two discusses the relevant literature on economic development and agrarian change. It points to the main shortcomings of institutional approaches, and, drawing on different formulations of the agrarian question, develops the theoretical framework used here: historical political economy. Chapter Three presents the methodological operationalisation of this framework in mixed methods fieldwork, describes the fieldwork and discusses data sources and constraints. Chapter Four shows how Ethiopia's political economy developed across three very different political regimes and illustrates how policies affecting capital accumulation have to be understood in the light of their contribution to the strategic interests of the governing elite. The history of the coffee trade, both in Ethiopia and globally, is examined in Chapter Five. Large-scale private plantations are shown to have important historical antecedents in Ethiopia. Coffee sector regulation is presented in relation to the strategic aims of the government. Chapter Six presents key findings from the mixed method survey in the coffee sector. It discusses the characteristics of large-scale domestic plantation owners, including their patterns of capital accumulation, and their control over, and access to, land and labour. Chapter Seven presents evidence on patterns of capital accumulation in the flower sector. This accumulation is positioned within the context of international flower markets and the industrial policy regime put in place to support the sector in Ethiopia. Chapter Eight compares accumulation patterns in both sectors and summarises the main findings.

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Acronyms and abbreviations

ANDM	Amhara National Democratic Movement
CBD	Coffee berry disease
CETU	Confederation of Ethiopian Trade Unions
COP	Code of practice
CSA	Central Statistical Agency
CSR	Corporate social responsibility
DBE	Development Bank of Ethiopia
DFID	Department for International Development
ECEA	Ethiopian Coffee Exporters Association
ECGPEA	Ethiopian Coffee Growers, Producers and Exporters Association
ECX	Ethiopian Commodity Exchange
EDRI	Ethiopian Development Research Institute
EHDA	Ethiopian Horticulture Development Agency
EHPEA	Ethiopian Horticulture Producers and Exporters Association
EIC	Ethiopian Investment Commission
EPRDF	Ethiopian People's Revolutionary Democratic Front
ETB	Ethiopian birr
FDI	Foreign direct investment
GDP	Gross domestic product
GlobalGAP	Global good agricultural practice
GRIPS	National Graduate Institute for Policy Studies
GTP	Growth and transformation plan
ICO	International Coffee Organisation
IMF	International Monetary Fund
ITC	International Trade Centre
JARI	Jimma Agricultural Research Institute
METEC	Metal and Engineering Corporation
MOFED	Ministry of Finance and Economic Development

MPS-SQ	Milieu Programma Sierteelt
NBE	National Bank of Ethiopia
NECC	National Export Coordination Committee
NGO	Non-governmental organisation
PASDEP	Plan for accelerated and sustainable development to end poverty
PVC	Polyvinyl chloride
SNNPR	Southern nations, nationalities and peoples region
SOE	State-owned enterprise
TPLF	Tigray People's Liberation Front
UNCTAD	United Nations Conference on trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization

Now that we have considered the forcible creation of a class of free and landless proletarians, the bloody discipline that turned them into wage-labourers, the disgraceful proceedings of the state that employed police methods to accelerate the accumulation of capital by increasing the degree of exploitation of labour, the question remains: where did the capitalists originally spring from?

Karl Marx (1990, orig. 1867: 905)

Chapter one

Introduction

1.1 Agrarian change and capitalist development

Ever since its birth as a discipline after the Second World War, development economics has been concerned with the relationship between agrarian development and economic development. The ways in which this relationship has been studied and conceptualised have, however, changed dramatically over the years. A greater emphasis on microeconomic issues and less interest in social relations, in particular in the sphere of production, have led to a narrowing of our understanding of processes of agrarian change. Early development economists explored the inter-sectoral nature of economic development and viewed agriculture as a provider of cheap wage goods (primarily food), a source of investible funds for industrial development, a pool of labour supply, and at the same time a market for capital and consumption goods (Lewis 1954; Johnston and Mellor 1961; Hirschman 1988, orig. 1958). At the heart of these ideas lay models and stylised facts about structural transformation, whereby the relative importance of agriculture in an industrialising economy was expected to decline even as agricultural output and productivity increased (see Johnston 1970 for a review of the early literature). Implicit in many of these models was the notion that ‘traditional’ agriculture was backward – even irrational – and would have to give way to ‘modern’ mechanised farms.

This focus on inter-sectoral dynamics and macroeconomic development was slowly displaced as the intellectual fashion swung towards neoclassical economics, with its emphasis on methodological individualism. The neoclassical hegemony over development economics brought with it not only a change in method and an increasing focus on microeconomic problems, but also a fundamental and long-

lasting shift in ideas about how agrarian development should proceed¹. Beginning with Schultz's (1983, orig. 1964) landmark study, researchers swung their attention towards small farms, which came to be viewed as the (potential) agents of agrarian change and development, due to their apparently superior efficiency. This increasingly exclusive focus on small producers came at the expense of the study of agrarian capital accumulation, which was no longer viewed as important. New economic models instead sought to describe the production and consumption behaviour of individual farming households². Productive linkages between sectors became less important than individual choice behaviour in frameworks of constrained optimisation (Singh, Squire, and Strauss 1986)³. Mainstream agrarian political economy focused increasingly on documenting and explaining the deleterious effects of agrarian policies on small producers (see Binswanger and Deininger 1997 for a review).

While research into agriculture was pushed out of the economic mainstream in the era of structural adjustment programmes, the focus on small farms in both research and policy proved enduring. In a review of 50 years of agrarian policy debates, Ellis and Biggs note that “[i]n retrospect, it is evident that one [major body of thought, albeit with plenty of side excursions and add-ons, has dominated the landscape of rural development thinking throughout the last half-century. This is the ‘agricultural growth based on small-farm efficiency’ paradigm” (2001: 440). In part this is surely related to the politically attractive notion that small farms can deliver both efficiency and equity. The ‘small farm paradigm’ is by no means limited to mainstream economists. Small farms are seen as the most viable development path

¹ Economic enquiries also became increasingly detached from both social and historical context, as a result of the methodological choices made by neoclassical theorists, see Milonakis and Fine (2008) .

² This modelling approach eradicates structural differences between different types of production units, and the social relations between them, by viewing all producers as sharing a single production function.

³ The inter-sectoral terms of trade between agriculture and other sectors continued to be a subject of intense debate, albeit outside of the mainstream of agricultural economics. Bates (1981) and Lipton (1978) pioneered the notion that development was being held back by the extraction of surpluses from the agricultural sector. For a critical review of this literature, see Corbridge and Jones (2004).

by advocates of Chayanovian models (van der Ploeg 2010, 2013), food sovereignty (Altieri 2009) and the 'peasant way' as a radical alternative to contemporary capitalism (McMichael 1997, 2008)⁴.

After many years of intellectual and financial neglect, the publication of the 2008 World Development Report (World Bank 2007) put agriculture, and with it agrarian development issues, firmly back on the agenda of mainstream development research⁵. The report, which retained the microeconomic focus of earlier research, stressed the large number of people dependent on incomes from agriculture globally, and presented a series of policy frameworks, aimed in particular at smallholder producers, for whom several 'solutions' were proposed. According to the World Bank, small producers should be integrated into global value chains, supply labour to large-scale producers, or seek to sustain themselves through nonfarm incomes. While this renewed interest in agrarian development was certainly welcome, the report itself was received less well. Critics accused the report of oversimplifying processes of agrarian change (Akram-Lodhi 2008), and of painting overly optimistic 'win-win' scenarios with regard to the integration of small producers into global value chains (Oya 2009)⁶. While solutions to problems of agrarian development thus remained elusive, the fresh interest in agrarian change stimulated debate on whether the focus on small farms, to the exclusion of all other producers may have been counter-productive. Recently, two leading development economists, Collier and Dercon (2014) have questioned the evidence for the supposed superior efficiency of small farms and called for a more diversified approach that includes supporting larger production units⁷.

⁴ For critical engagements with such 'neopopulist' tendencies from a Marxist perspective see Bernstein (2014), Kitching (1982) and Patnaik (1979).

⁵ For a review of the recent economic literature on agriculture, see Dethier and Effenberger (2012)

⁶ On the difficulties of value chain integration for poor producers and the challenges inherent in different types of value chains, see Gibbon and Ponte (2005), as well as Kaplinsky and Morris (2015).

⁷ Advocates of the sustainable livelihoods approach have also begun to criticise the small farm paradigm on grounds that the rural poor are not, in fact, primarily farmers (Ellis and Biggs 2001). Marxist agrarian political economy has long argued that the 'homogeneous

However, theorising about – and empirical research into – the role and importance of agriculture and agrarian change in wider economic development processes had continued to thrive outside of the mainstream. A wide array of thinkers, broadly inspired by Marxist formulations of the agrarian question (see Akram-Lodhi and Kay 2010 for an overview), have built up a rich and varied literature examining, *inter alia*, how, and with what consequences, capitalism develops in rural areas. In other words, this agrarian political economy is interested in how a country goes from having the vast majority of its population toiling in the agricultural sector to the employment profiles more commonly associated with industrialised economies – and asks what the determinants and developmental consequences of such agrarian transitions are (Byres 1995)⁸. Historically, agrarian transitions have involved the emergence of both capitalist farmers and wider capitalist social relations in rural areas (Byres 1996; Brenner 1995; Brenner 2001).

The approach to political economy based on the agrarian question is concerned in particular with the effects emergent agrarian capitalists have on the development of productive forces and their contribution to processes of industrialisation and, hence, structural transformation (Bernstein 1996, see also Chapter Two). At the same time, this theoretical framework allows for the contingency inherent in changing combinations of internal and external influences in particular historical settings. Studying agrarian capital accumulation in concrete historical contexts thus provides vital insight into the trajectories of production, productivity and labour markets in rural areas, and allows us to connect these to wider patterns of economic development. My study on the emergence of agrarian capitalists in Ethiopia therefore seeks to provide the kind of in-depth, conceptually informed and historically grounded empirical analysis necessary to help understand processes of agrarian capital accumulation.

peasantry' is a myth, and that the rural poor survive in large parts through wage labour (Bernstein 2010)

⁸ The breadths of interests featured in the literature around the agrarian question are in their entirety beyond the scope and intention of this thesis. The parts of the literature most directly relevant to the emergence of agrarian capital are reviewed in Chapter Two.

A second important set of questions – which are intimately related to capitalist development, but as yet have had little to say about agrarian change – concern the application of industrial policy by the state⁹. After a long hiatus, industrial policy is once again considered a viable development strategy, even within the economic mainstream (Stiglitz, Lin, and Monga 2013). Debates on how and where such industrial policies can be effective often employ sector-wide approaches to research, and frequently fail to investigate concrete processes of capital accumulation (these debates are reviewed in Chapter Two). Taking a broader political economy perspective – which focuses not only on capital accumulation, but also on state power and its contestation – can help illuminate why states put in place certain policy regimes and provide a more differentiated analysis of their impacts. I thus address the problem of industrial policy in agrarian development through an analysis of elite strategies, the room for manoeuvre enjoyed by emerging capitalists, and the concrete historical developments in my chosen case – Ethiopia.

1.2 Research question and themes

Accordingly, the central research question pursued in this thesis is:

To what degree and how is a class of capitalist accumulators emerging in the contemporary Ethiopian coffee and floriculture sectors?

Such a broad question must be broken down into empirically manageable themes in order to be addressed. More specifically, the main empirical chapters thus focus on the following aspects of the central research question.

Who are the accumulators? Of particular importance here is the origin of agrarian capital in the coffee and cut flower sectors, as this provides an insight into long-term processes of rural change. Directly related are questions around the relative importance of differentiation among domestic agrarian producers and foreign capital in the processes of accumulation. A process of agrarian transition dominated

⁹ The term ‘industrial policy’ in its contemporary sense refers to targeted government policies aimed at moving the economy towards greater productivity. While industrial policies are frequently applied to the manufacturing sector, they are also used to support the development of agriculture and service, as well as research and innovation more widely.

by domestic capital is likely both to look very different and lead to different outcomes than a process through which an external group of accumulators manages to dominate the sector.

The process of capital accumulation: a key concern of the project is to understand the processes which lead to the emergence of qualitatively different types of accumulators. It is therefore important to empirically identify the actual methods and strategies for accumulation used by (different types of) agrarian capitalists. These will in turn be influenced by drivers of and opportunities for accumulation. In the case of domestic capitalists in particular, the importance of 'straddling' as an accumulation strategy – see Cowen (1972), as discussed in Leys (1978) – must be evaluated, given the prominence of this accumulation method in other contexts, in particular in Kitching (1982). Crucially though, opportunities for accumulation are not only to be located in the spheres of production and exchange in the market, but must also be sought in the interaction with political elites and with wider government strategies and priorities (see below). Moreover, a study of *agrarian* capitalism must appreciate that physical capital may take the form of plants and trees - Austin (2005) speaks of forest capital, see also Hill (1970).

Labour mobilisation and the conditions of labour: labour and labour mobilisation are of both great theoretical and practical importance. In classical Marxist political economy the capitalist accumulates through the appropriation of surplus value via the exploitation of labourers within the wage relationship (Marx 1992, Chs. 6, 7 & 9). Moreover, many field studies have pointed to the centrality of labour markets in capital accumulation (Oya and Pontara 2015, for empirical cases see Austin 2005 and Müller 2011). Successful and reliable labour mobilisation is a key requirement of doing business in rural areas. Equally important is to ask how labour conditions differ across sectors and types of accumulators. The answer to this question may yield insights into the future direction of economic development in Ethiopia.

The role of the state: The literature on the agrarian question, as well as many of the empirical field studies on capitalism in Africa, stress the importance of state institutions in defining the contours of accumulation by either creating or closing

off opportunities for accumulation (Byres 1996). With regard to agrarian capital accumulation the key question is how important the state is as a nurturing agent. The strategic orientation and priorities of the state apparatus, which is not confined to the government but extends to the administration and is far from uniform, need to be understood. And relatedly, the thesis examines how these aims and priorities have been (and have not been) translated into concrete industrial policy and regulation, how these have been contested, and what the actual effects of policies have been. The contrast between the levels of state support offered to the two sectors under study is stark and its origins and consequences must be explained.

These questions are examined through in-depth fieldwork in Ethiopia, which combines quantitative and qualitative data in order to be able to trace processes of accumulation and their complex webs of internal and external determinants. The details of the empirical approach are presented in Chapter Three.

1.3 The case study

Contemporary Ethiopia is in many ways an ideal case study to examine ideas about agrarian change. It has, in recent years, seen extremely rapid growth, with the structure of the economy slowly shifting away from agriculture (Martins 2014)¹⁰. A rapid industrialisation drive is underway (albeit from a very low starting point), fuelled by public investment and an unprecedented inflow of foreign capital (see Chapter Four). Ethiopia's industrialisation programme is driven by a state that consciously describes itself as 'developmental' and follows a clearly articulated strategy of state-led development, which includes the application of selective industrial policies (Abebe and Schaefer 2015; Altenburg 2010; Oqubay 2015). At the same time, Ethiopia remains an overwhelmingly agrarian country, with agriculture representing over 70% of total employment and over 44% of value added in GDP in 2013 (World Bank 2016). An agrarian economy experiencing rapid growth under the aegis of a 'strong' state provides a 'hard' test both for differing notions on the

¹⁰ As Martins also points out though, this fledgling structural transformation has not yet had a significant impact on employment and occupation patterns.

development of agrarian capital, and for the ability of historical political economy to illuminate how and why industrial policies are enacted.

I chose two sectors, which share both similarities and differences in order to analyse the effects of these on patterns of agrarian capital accumulation, namely coffee and floriculture. Both sectors are dynamic, in the sense of having experienced recent growth, and share an orientation towards exports. But they differ significantly in the structure of export markets, the technical parameters of production, capital intensity, and their local histories. They have also been treated very differently by the Ethiopian state.

1.4 Argument and main findings

The central empirical finding is that agrarian capital accumulation is indeed occurring in Ethiopia – however, these processes take very different forms and have very different outcomes in the two sectors under consideration. In the coffee sector, domestic capital accumulation has allowed a new class of domestic capitalists to emerge, some of whom are showing themselves to be very dynamic accumulators. In the flower sector, capital accumulation has been extremely rapid, but mostly driven by foreign capital. Domestic capital has been markedly less successful. Moreover, the domestic accumulators in coffee and flowers are qualitatively different, due in part to the very different capital requirements across the sectors. The complex determinants and particulars of these accumulation processes are explored and analysed in Chapters Five, Six and Seven.

Domestic capital accumulation has thus not occurred in the sector most favoured by direct and indirect government support, but rather in a sector that has suffered from ‘benign neglect’. The targeted and consistent industrial policy, which did lead to very high growth rates in the flower sector, was rather less successful in supporting domestic capital accumulation. I argue that this differential success is partly explicable through comparing the sectors in terms of market discipline, knowledge requirements and cost structures (see Chapter Eight). However, to understand the accumulation processes underway in the coffee sector requires uncovering the legacies of Ethiopia’s turbulent political history.

Many studies look at why and under what circumstances industrial policy is successful or fails (for Ethiopia, see for instance Oqubay 2015)¹¹. An equally important, but much less frequently asked question is how do states – once they have committed themselves to a selective industrial policy regime – choose which sectors to support? I contend that the different levels of support given to the two sectors can be explained with reference to the medium-term strategic goals of Ethiopia’s political elite – development at speed and hence the need for foreign exchange. Such an explanation must be based on a careful analysis of Ethiopia’s political economy. This political nature of industrial policy is too often missing from the discourse¹². Taking such political aims seriously, we see that in the flower sector the level of accumulation by domestic capital is not a relevant measure of success for the government, which is interested mostly in generating forex. Foreign exchange was earned not just through the actual sales proceeds of the flowers but also through the transportation ‘costs’ which accrue to the national champion – Ethiopian Airlines. The opportunity to strengthen the national carrier was a welcome addition to this strategy. By contrast, in coffee targeted policy was simply not necessary to the same extent to ensure and control forex flows. Here a donor-financed project offered the perfect opportunity to lessen the market power of a few large exporting companies and put in place a system to allow for the tracking of sales, and therefore exports. In terms of production the sector was left largely to fend for itself, while the privatisation of valuable state assets was seemingly used as an opportunity for patronage.

1.5 Contribution to social science

Original contribution of this thesis is two-fold in that it makes both empirical and theoretical points. The balance is, however, tilted towards empirical exploration and analysis, which constitutes the bulk of the material presented here. Empirically, this thesis provides new primary data on agrarian capital accumulation in Africa – a topic that is widely agreed to be of vital importance, but on which there is still a

¹¹ Or, relatedly, what kind of state is able to pursue a successful industrial policy regime, see for instance Kohli (2004) and Khan (2010).

¹² This tendency is especially pronounced in the economic literature, which often operates at a very high level of abstraction.

dearth of in-depth research. More concretely, this is the first study of contemporary domestic capital accumulation amongst large-scale producers in Ethiopia's coffee sector¹³. I combine quantitative and qualitative data to provide the first mapping and analysis of large-scale private coffee plantations, and of the capitalists that own them. The data on this previously unstudied category of producers is embedded in a detailed historical analysis of both the internal and external factors influencing the emergence of large-scale capitalist producers in the sector, that is, Ethiopia's particular political economy and the structure and operation of the world market for coffee.

Similarly, this thesis provides a new and original analysis of existing data for Ethiopia's flower sector, by focusing on patterns for domestic capital accumulation. The existing quantitative data is complemented by new qualitative data on the sector's capitalists. While the sector has received a lot of attention from researchers, studies almost always focus on the sector in aggregate, without paying attention to the heterogeneity among different producers, and foreign and domestic producers in particular. As in the coffee sector, both internal and external factors that influence the pattern of accumulation are included in the analysis.

On the theoretical level, the thesis presents an argument both for the continued usefulness and vitality of the agrarian question in its classical formulation, as well as for the use of historical political economy as a framework in investigating concrete instances of capitalist development and the application of industrial policy. Historical political economy is able to describe the open-ended and contingent nature of capitalist development, without having to resort to extra-theoretical 'crutches' at crucial explanatory junctures – a weakness of institutional theories I explore in Chapter Two. In turn, as I show in Chapters Four and Eight, the decision how and where to apply industrial policies is ultimately political and thus must be derived from the particular political economy of the country in question – with a particular emphasis on elite strategies and their contestation.

¹³ There are historical precedents to today's private coffee plantations during the late imperial era, which have been studied in the past. This history of private accumulation in Ethiopia's coffee sector is the topic of Chapter Five.

1.6 Lacunae

Before moving on I should briefly touch upon what is not said. On account of the need for focus, there are a number of points that are not included. First, I do not discuss, apart from a few fleeting references, the external factor in Ethiopian politics, neither regionally or extra-regionally. While a fuller treatment of Ethiopia's complex international relations would no doubt explode the confines of this thesis, I have my doubts as to whether it would add much insight into the decisions of the state in terms of economic strategy, beyond the freedom to deal with internal dissent and the effects on government revenue allocation, which I discuss in Chapter Four. I do discuss the influence of world markets and value chains for coffee and flowers.

Second, I do not explore the roles of ethnicity or party membership in accumulation processes. Whether and how these play a role is an issue of substantial complexity that would have required a refocusing of the entire project. Moreover, I found early on in the fieldwork process that questions about political allegiance tended to make respondents uneasy and could even end interviews. I decided therefore that pursuing this additional angle, though intrinsically interesting and important, was not worth the sacrifice.

1.7 Nomenclature

This study necessarily contains both Amharic terms and place names. The Amharic language has no fixed transliteration into the Latin alphabet. I have used consistent transliterations of Amharic names and terms, which are calibrated to the English-speakers. Also, Amharic knows no surnames in the Western sense. I have stuck to the international convention by citing Ethiopian authors by their father's name, while Ethiopians named in the text are referred to by their first names, as is common in Ethiopia.

1.8 The structure of the thesis

The remainder of the thesis is structured as follows. Chapter Two reviews the most widely used theories of capitalist development, including formulations of the agrarian question, to clarify the conceptual framework for the enquiry. Chapter

Three then discusses the methodological bases for the empirical work. In Chapter Four I present a historical overview of Ethiopia's political economy and establish the strategic priorities of the country's governing elites. Chapter Five is an in-depth study of the global coffee market and the growth and regulation of the sector within Ethiopia. I give particular emphasis to the development of agrarian capital in the coffee sector across three very different political regimes. Chapter Six then presents the qualitative and quantitative data on Ethiopia's new coffee capitalists. As floriculture is used mostly as a comparator case, the analysis of the global market, historical overview of the sector's development in Ethiopia and discussion of accumulation patterns are concentrated in Chapter Seven. Finally, Chapter Eight analyses the differences between accumulators and industrial policy regimes in both sectors, sums up the key findings and sets out avenues for future research.

Chapter two

Framing agrarian change and capitalist development

2.1 Introduction

This chapter provides an overview and discussion of the most relevant literature on the development of capitalism, and of agrarian capitalism in poor countries in particular. The aim is twofold: on the one hand to engage critically with prevalent theories of capitalist development, so as to arrive at a justification for the choice of my own preferred framework – historical political economy (see also Chapter Three); on the other hand to analyse the empirical literature on capitalist accumulation, especially with respect to domestic capitalists in Africa.

Such a review must necessarily be selective. I focus only on those theoretical approaches that are deemed the most prevalent in contemporary discourses on (agrarian) development, and that have the most salience for the Ethiopian case. The most widely used framework to discuss capitalist development today are various branches of institutional theory. The ‘new institutionalism’ has provided a framework for interpreting the historical development of capitalism and in particular for the different trajectories it has taken in different societies¹. New institutional economics (NIE) is probably the most influential extension of the neoclassical paradigm in development economics. Its focus on the economic logic of institutions has been applied to agrarian issues, in particular the functioning of agricultural markets and the incentives facing smallholder producers (Poulton et al. 1998). Kherallah and Kirsten (2002) suggest that applications for NIE in agrarian

¹ For reviews of these and other forms of institutional theory see for instance Hall and Taylor (1996) and Evans (2005).

settings include investigations into contract farming and vertical linkages more broadly, cooperative structure, grades and standards, the behaviour of traders and issues around access to credit.

A related approach focuses on the role of the state in capitalist development. Despite having very different intellectual roots to NIE, it shares its focus on the functioning of institutions. This developmental state theory is of particular interest to any study of Ethiopia, as many of its precepts have been taken by the government of Ethiopia in formulating its development strategy (see Chapter Four).

2.2 New institutional economics

2.2.1 The origins of new institutional economics

New institutional economics grew out of dissatisfaction with the theoretical apparatus of neoclassical economics, in particular with its inability to provide a theory capable of explaining economic change. Neoclassical economics had established itself as the most influential school of thought within economics during the 1970s and 1980s. By the 1990s, however, theoretical innovation became inevitable due to the failure of neo-liberal structural adjustment programmes to deliver their core promises of faster growth and poverty reduction (see for instance Easterly 2000) and the visible success of state-centric models of economic development in East Asia – both making ‘paradigm maintenance’ increasingly challenging (Wade 1996)². Political economy played a large role in the success or failure of ‘reform’ programmes (from the narrow point of view of the international financial institutions, Dollar and Svensson 1998) and the rise of the East Asian tigers required a theory that could encompass both the state and political economy in a more productive way than the ossified rent-seeking paradigm (based on Krueger 1974).

² Neo-liberalism is a policy paradigm based on a particular (and extreme) interpretation of neoclassical theory. Neoclassical models do not have to yield neo-liberal policy advice, but in many cases lend themselves readily to the production of such policy recommendations (Solow 2008; see also Harvey 2011 for a critique of neo-liberalism as a political project).

New institutional economics (NIE), as it became known, was perfectly suited to fulfilling this role. Its founders were critical enough of existing economic theory to propose important changes, especially in introducing meso-level analysis and a new treatment of economic development. The leading proponent Douglass North was scathing about the shortcomings of the neoclassical paradigm: "We live in a world of dynamic economic change, but the theory we employ to understand our world is static. Moreover, the theory we employ is frictionless. There are no institutions, no government; in short, transaction costs are zero." (2003: 1). At the same time, this theoretical innovation, while jettisoning some of the assumptions underlying neoclassical modelling, is best understood as an extension of that theoretical apparatus. As the introduction to a core text in the field states: "[U]nlike the old institutionalists, NIE does not abandon neoclassical theory. While new institutionalists reject neoclassical assumptions of perfect information and instrumental rationality, they accept orthodox assumptions of scarcity and competition. Both Arrow and Williamson have attributed the rising influence of NIE to its acceptance of the successful core of neoclassical economics" (Menard and Shirley 2005: 2). The choice theory at the centre of neoclassical thinking is retained, while instrumental rationality is cast aside (North 1995). NIE thus remains firmly rooted in methodological individualism, even as it shifts the main analytical focus to institutions. As we shall see, institutions are seen as the emergent result of purposive individual human action aimed at realising self-interested goals, usually monetary gain. The genius of the founders of NIE consists in having developed a form of historical social theory, based around the analysis of institutions, that uses the language and core assumptions of neoclassical economics and which is therefore acceptable to economists both intellectually and politically. The success of new institutional economics is a symptom of the extreme impoverishment of 'pure' neoclassical theory, which meant that the re-introduction of basic social scientific concepts such as uncertainty (rather than risk), opportunistic behaviour, the unequal distribution of rights and the evolution of systems through historical time could be hailed as major intellectual breakthroughs.

So what are the main theoretical contributions of NIE and how useful are they in explaining processes of economic development and specifically agrarian change? NIE departs from its neoclassical progenitor in two key ways. It roundly rejects the neoclassical assumptions about frictionless economic interaction between individuals and it reintroduces real historical time (rather than comparative statics) into the analysis of economies. However, the resulting intellectual framework, collectively known as NIE, is not a unified whole. The introduction of new concepts into the body of neoclassical theory has led to the development of two quite distinct strands of thought within NIE, one concerned with contracts and managerial governance and the other with the development of institutions and their role in explaining (differential outcomes in) economic history (Menard and Shirley 2014). Both of these have their origin in the rejection of frictionless economic interaction.

The starting point for understanding the critique of frictionless interaction is Coase's paper on the theory of the firm. Coase (1937) posed the disarmingly simple question of why firms exist (in capitalist economies) in the first place. In an efficient market, coordination via the price mechanism, i.e. market transaction, *should* be superior to coordination via hierarchy and organisation. Coase, however, argued that firms exist because transaction in the market is costly and therefore not necessarily superior to the hierarchically organised transactions within a firm. For economic transactions to take place in the market, prices have to be discovered, contracts have to be negotiated and agreements must subsequently be monitored and enforced. In contemporary parlance, transaction costs are the result of imperfect information, meaning the common situation in which information held by economic agents is both incomplete and asymmetrically distributed (North 1995). Moreover, these transaction costs not only affect the production decisions of individual firms, but the entire economy and are crucial determinants of what is produced and what is not. The key insight is that in the presence of transaction costs the structure of property rights is important³ (Coase 2005).

³ Older neoclassical models had shown that initial endowments and property rights structures do not matter and that, given efficient markets, an allocatively efficient

The implications of this insight are wide-ranging. As far as the current discussion is concerned, the less important of these is the field of transaction cost economics (TCE), which is concerned with the distribution of economic activity across several possible modes of economic governance, including markets, firms and government agencies as a result of such costs (Williamson 1973; Williamson 2005). While such ideas have been influential in certain areas of economics as well as in law, it is the other branch of NIE, based on North's ideas on institutions that has most impacted development theory.

2.2.2 Institutional development and change

For North, transaction costs hold a much wider significance: they are – albeit indirectly – the key to understanding what causes differences in economic development between societies and ultimately to building a general theory of history. Transaction costs and the uncertainty they entail, which North defines much less legalistically than Williamson, could be so high as to make exchange unprofitable. Such exchange would then not take place, thus placing stark limits on the Smithian model of economic development, where the division of labour is confined by the size of the market. In response, all human societies have evolved institutions. These “are formed to reduce uncertainty in human exchange. Together with the technology employed they determine the costs of transacting (and producing)” (North 1995: 50). But not all institutions are equally supportive of exchange and some are directly inimical to furthering ever more complex economic interaction, i.e. economic development. For North, the reason human societies are richer or poorer lies not in capital accumulation, saving rates or population growth (as earlier development theory had held, see Harrod 1939 and Solow 1956) nor in the degree to which efficient markets allow for a Hayekian diffusion of information through society (as in neoclassical theory, see also Hayek 1945). According to North, these are mere symptoms and their root cause is the effectiveness of institutions in providing individuals with incentives to self-betterment and innovation.

equilibrium can always be attained regardless of the property right structure (this is the somewhat-misnamed Coase theorem).

Institutions therefore “are the underlying determinants of economic performance” (North 1994: 359).

For North “institutions are the rules of the game of a society, or, more formally, are the humanly devised constraints that structure human interaction. They are composed of formal rules (statute law, common law, regulations), informal constraints (conventions, norms of behaviour and self-imposed codes of conduct), and the enforcement characteristics of both. Organisations are the players: groups of individuals bound by a common purpose to achieve objectives.” (North 1995: 54; see also North 1990). Institutions are thus mechanisms to define, impose and enforce property rights. For North, economic development is the process of evolving ever larger and more elaborate institutions to help control and absorb the growing transaction costs implicit in the move from simple, small-scale, local and personalised interaction in ‘tribal’ societies to the complex, large-scale, international and impersonal interactions that characterise industrialised societies. So while transaction costs in economies with sophisticated divisions of labour are very high, these societies have also evolved institutional matrices which reduce the uncertainty of interaction and provide incentives for continuous improvement (North 1995). While North certainly envisages a hierarchical ordering of different human societies, it would be wrong to interpret teleology into his ideas. There is no automatism in institutional development, nor is there any suggestion that evolved institutions will necessarily be economically efficient. Inefficient institutions can persist for long period of time and, as a result, “[e]conomic history is an endless depressing tale of miscalculation, leading to famine, starvation, deceit and warfare, death, economic stagnation and decline, and indeed, the disappearance of whole civilizations” (North 2003: 13).

The key issue is then how institutions change over time. North’s position on this issue has evolved, from an earlier focus on shifts in relative prices as key drivers, to a later focus on mental models and learning – signifying a movement away from neoclassical ideas (Menard and Shirley 2014). Institutions develop over time through the purposive actions of individuals and organisations, seeking to better

their own position in conditions of scarcity and competition. As noted, NIE posits that humans face fundamental uncertainty in their actions. Their behaviour therefore depends on perceived payoffs. Competition forces organisations (and the individuals that constitute them) to constantly invest in new skills and new knowledge, and the types of skills and knowledge they gain will in turn alter their perceptions of possible payoffs. This changes their choices of actions over time and leads to institutional change (North 2005). However, not everyone's perceptions count. Institutions change when those "with the bargaining power to create new rules" seek change (North 1995: 50)⁴. In turn the institutional matrix determines the incentive structure which relates particular types of skills and knowledge to perceived payoffs. As institutions change, so do perceived payoffs, leading those with power to recalibrate their actions, resulting in further institutional change. Economic development occurs when the incentive structure, as determined by the institutional matrix, provides (perceived) incentives for organisations to engage in productivity-raising activities.

North places great emphasis on the importance of perceptions of reality, as these influence the perception of payoffs individuals expect from their actions. Perceptions of reality – belief systems – depend on how individuals process and use information, that is, they are in part culturally derived and in part depend on learning (North 2005). Belief systems do not have to be 'correct' in their assessment of reality and history shows that humans often make 'wrong' decisions (North 2003). Perceptions and beliefs are updated after any action taken by organisations which induces change in the institutional matrix. These actions are limited both by perceptions of what is achievable, and by the accumulated historical weight of formal and informal rules (and their degree of enforcement). In this way, existing institutions act as strong constraints on the range of options available to actors. The result is a system of incremental change in a largely path-dependent system. North does allow for the possibility of sudden and wide-ranging, even revolutionary, institutional transformation, although the mechanisms behind such changes are

⁴ North also calls these power elites "economic and political entrepreneurs" and makes clear that institutions are created to serve their interests (2005: 25).

poorly articulated and largely rely on extra-theoretical explanations, such as an irreducible mismatch between the aspirations of powerful groups (see North 2003).

2.2.3 Institutions, economic growth and econometrics

The rise of NIE coincided with innovations in the theories used by economists to explain economic growth at country level, and theories of economic growth were to play a large part in the newly-found popularity of institutional thinking. Growth theory had long been plagued by the irksome fact that, up to the late 1980s, the most common growth models, based ultimately on the accumulation of capital and labour with diminishing returns to scale, were not capable of explaining most of the economic growth observed in the world. In the late 1980s and early 1990s a new type of growth model emerged which sought to explain growth through the accumulation of both physical capital and 'human capital' – the latter often broadly defined to include skills and knowledge (Romer 1990; Romer 1994). Knowledge has positive spillovers, allowing model builders to relax the assumption of diminishing returns. These simple models led to a vast number of empirical studies seeking to find the combinations of variables which would unlock the secrets to creating growth. Researchers, starting with Barro (1991), used cross-country regressions to estimate the effects of different vectors of variables on growth rates of per capita GDP (see Temple 1999 for an overview). While the results of such exercises are now generally seen as inconclusive, not least due to pervasive oversimplification of the problem and a host of econometric issues (Kenny and Williams 2001), policy and institutional differences emerged as a strong candidate to explain differences in growth between countries (Easterly and Levine 2001).

A widely-cited cross-country study by Knack and Keefer (1995) on the importance of property rights for economic growth kicked off a large literature, which incorporated institutional variables into growth regressions, claiming that these were better suited to explaining growth than specifications relying solely on proximate factors such as human capital formation. The basic intuition is that many of the factors that determine investment, productivity and economic growth are contingent on the institutional environment of a country. For a summary and

critique of these approaches see Glaeser et al. (2004), while Besley and Mueller (2015) and Bates and Block (2013) provide recent examples of the resilience of such methods in political economy research.

Regression analysis by its very nature can only work with numerical values. For institutions to be incorporated into such analyses they first have to be 'translated' by creating numerical proxies to (hopefully) capture the institutional matrix of a particular place at a particular time. This is achieved either through the use of dummy variables, for instance to signify that a peaceful transfer of power has recently occurred, or through the construction of indexes, of which the Polity IV autocracy index is just one of the more prominent examples⁵. New data sets of institutional variables are constantly being created (see for instance Beck et al. 2001). Compressing something as complex as an institutional matrix into a numerical format of course implies a drastic degree of abstraction and reduction, that lies at odds with the more detailed and case-based historical approach employed by North himself. The econometric approach to institutional analysis, whose technical sophistication belies its conceptual simplicity, has in fact been reproached by proponents of NIE as being overly focused on formal institutions (with informal institutions proxied – if at all – by social capital, as this is supposedly more easily measured) and generally lacking the historical realism of case study approaches (Menard and Shirley 2014).

2.2.4 Historical approaches to institutions and economic growth

Such approaches are ill-suited to explaining how in a particular country at a particular time new forms of capital emerge and how to trace out the pathways of this emergence. There are, however, other forms of institutional analysis which explicitly seek to map out the development of institutions over time and to demonstrate how complex combinations of institutions, both inside and outside the

⁵ The Polity IV dataset contains information on 167 countries from 1800 to the present. Countries are ranked on a scale from -10 to +10 for their degree of autocracy. The index "consists of six component measures that record key qualities of executive recruitment, constraints on executive authority and political competition". See <http://www.systemicpeace.org/polityproject.html> for details.

state, interact with economic outcomes. I will confine myself to two of the most prominent examples, namely the ideas developed by Acemoglu, Johnson and Robinson in a series of influential papers, and North's notion of social orders.

For Acemoglu, Johnson and Robinson, institutions are, as the title of one of their papers puts it, the fundamental cause of long-run growth, and – by extension –also the fundamental cause of the persistence of poverty. Their works build on a sophisticated and dynamic conceptual model, which is developed through, and illuminated by, in-depth historical studies covering long time periods and a wide variety of geographical settings. This long time horizon sets them apart from much of the literature, which focused mostly on the post-colonial period (Austin 2008). The basic theory, as laid out in Acemoglu, Johnson, and Robinson (2004), is premised on a distinction between economic and political institutions, both of which are endogenous to the theory and are socially determined (albeit, as in North, not by the whole society). Economic institutions are the proximate determinants of economic performance as they provide the incentive structure that guides investment and production. 'Good' institutions, i.e. ones that promote economic development, are defined as "those that provide security of property rights and relatively equal access to economic resources to a broad cross-section of society" (Acemoglu, Johnson, and Robinson 2004: 9)⁶. Establishing inclusive political institutions moreover requires a degree of political centralisation (Acemoglu and Robinson 2013).

However, institutions also determine the distribution of income in society and as such are also the cause of what Acemoglu, Johnson and Robinson call 'conflicts of interest'. Economic institutions are determined by political institutions. Acemoglu, Johnson and Robinson make a distinction between *de jure* political power, which is directly given by political institutions, and *de facto* political power, which may be the result of actions such as lobbying or public pressure. The latter form of political

⁶ Acemoglu, Johnson, and Robinson acknowledge that different institutions may produce growth in different settings at different times, and they directly address the danger of falling into tautology inherent in defining those institutions that actually produce growth as those that are good for growth. It is not clear though that they do not entirely escape this trap.

power is therefore largely determined by the distribution of income. Those wielding political power will seek to create economic institutions to their own advantage and will seek to craft political institutions that allow them to maintain their grip on power. As both political institutions and the distribution of income generally change only slowly, institutional systems tend to exhibit ‘persistence’ through time. Change comes from “shocks”, in later work also called critical junctures, “including changes in technologies and the international environment, that modify the balance of (*de facto*) political power in society and can lead to major changes in political institutions and therefore in economic institutions and economic growth” (Acemoglu, Johnson, and Robinson 2004: 6). While their commitment to including historical contingency is to be welcomed, this notion of ‘punctuated equilibrium’, as in North’s NIE, is a major weakness of the theory, which has to fall back on extra-theoretical explanations for institutional changes that are not incremental.

Thus, the question is, why do not all countries adopt ‘good’ institutions, i.e. what drives institutional differences across countries. Acemoglu, Johnson and Robinson give a clear answer. Institutions are the results of social conflict over the distribution of resources: “which economic institutions arise depends on who has *political power* to create or block different economic institutions. Since political institutions play a central role in the allocation of such power they will be an intimate part of a social conflict theory of economic institutions” (Acemoglu, Johnson, and Robinson 2004: 37, my emphasis)⁷. This is a major advance over the voluntarism implicit in neoclassical theory. There is also no suggestion that the resulting institutional matrix should be economically efficient, rather it is likely to simply be effective in ensuring that powerful elite groups receive an inflated share of resources. More efficient institutions will be blocked by those seeking to retain economic returns and/or political power. As institutional change tends to be slow once an institutional matrix is in place, historical changes in economic and political

⁷ There is some acknowledgement (albeit confined to a single paragraph) that the conflictual nature of social income distribution has long been discussed by both Marxists and dependency theorists. Tellingly though, Marxist historians are discussed only in relation to pre-capitalist forms of class society and there is no mention of Marxist ideas on exploitation *under capitalism*.

institutions can have very long running effects (Acemoglu, Johnson, and Robinson 2001).

However, unlike Marxist theorists, Acemoglu, Johnson and Robinson refuse to *systematise* these distributional conflicts in society, that is, they stringently avoid the incorporation of social class into their analysis (see Section 2.4). Acemoglu, Johnson and Robinson have also been accused of the undue ‘compression of history’, by basing their analysis on two data points several centuries apart, thus tending to ignore the complex patterns of historical events that occur between their chosen data points. Moreover, for Africa in particular their historical ‘data’ appears to incorporate a series of misinterpretations and heroic assumptions (Austin 2008).

Institutional work in economics, through reincorporating politics directly into economic analysis, has profound policy implications, for if politics is a determinant factor (for good or for bad) in economic outcomes, then economic policy becomes vitally important in a far deeper sense than the old mantra of ‘getting the prices right’. The discussions around the ‘African experience’ can serve as an illustrative example. Motivated in part by regression work (such as Collier and Gunning 1999) and in part by more detailed case study work, the low quality of (political and economic) institutions was blamed for many of the continent’s economic problems (see Ndulu et al. 2008 for an overview). Often the proposed solutions fall broadly in the area of good governance, which had been pushed by the international financial institutions since the late 1980s (World Bank 1992; World Bank 2001; see Kiely 1998 for a critical summary). The currently dominant discourse on institutions argues that “institutions that maximize market freedom and most strongly protect private property rights are the best for economic development” (H.-J. Chang 2011: 475).

To give a concrete example, in their influential book-length extension of the argument discussed above, Acemoglu and Robinson (2013) return to the interaction of political and economic institutions. They offer a distinction between ‘extractive’ and ‘inclusive’ political and economic institutions and analyse their interactions – helpfully illustrated by way of a 2x2 matrix. As above, inclusive institutions are broadly defined as those that allow for economic choice, in the narrow sense

familiar from microeconomic theory, while inclusive political institutions are ones which widen access to decision making. Formal democracy appears to be a necessary, but not sufficient, condition for inclusive political institutions. Rich countries are uncritically declared to have evolved both political and economic institutions which are inclusive and therefore offer the right kinds of incentives to all social actors to drive innovation and economic growth. While the concept of inclusive institutions remains somewhat nebulous in the text, it is not an unfair reading to suggest that the authors would like to see poor countries moving towards an institutional matrix that broadly emulates Anglo-Saxon economies. Leaving aside the questionable ‘inclusiveness’ of both economic and political institutions in rich capitalist economies⁸, Acemoglu and Robinson brush over the fact that a very different institutional setup, namely the so-called developmental state, has historically shown itself capable of driving sustained economic growth (see Section 2.3). Acemoglu and Robinson’s 2x2 matrix does allow for growth under extractive political institutions, of which China might be an example. They point to the demise of the Soviet Union as illustration that such a combination is not sustainable. While they may or may not be proved right over a long time horizon, this does not diminish the argument that such states appear capable of long periods of sustained growth. I return to this point below.

2.2.5 Social orders and capitalist development

The most ambitious take on the importance of institutions comes from North himself. In North, Wallis, and Weingast (2009) the authors modestly propose nothing less than ‘a conceptual framework for interpreting recorded human history’, which is the book’s subtitle. North and his co-authors seek to provide an explanation for the wealth and poverty of human societies from pre-history to the present. The key concept, ‘social orders’, “are characterised by the way societies craft institutions that support the existence of specific forms of human organisation,

⁸ See for instance Piketty and Saez (2001) on income inequality and Gilens (2012) on the influence of moneyed elites on political decision making in the US. Acemoglu and Robinson also gloss over the interventionist military and economic history of some of the Western (and other) states. In the light of their own argument one would have expected a more critical treatment of the connections between the maintenance of extractive political institutions and external assistance – military and otherwise.

the way societies limit or open access to those organisations, and through the incentives created by the pattern of organisation. These characteristics of social orders are also intimately related to how societies limit and control violence” (North, Wallis, and Weingast 2009: 1f). In other words, social orders are “ways of organizing societies that are self-sustaining and internally consistent” (North et al. 2007: 3), i.e. stable equilibria with well-aligned incentives for governing elites. The framework thus places the use of power, and in particular violence, and the role of social, political and economic elites at the centre of the analysis.

For North et al. only three social orders have existed in the history of humanity: the ‘primitive’ state where humans lived as hunters and gatherers, the ‘natural state’, which describes most of human history after the spread of agriculture and ‘open access orders’, by which North et al. mean rich capitalist societies. Natural states “manage the problem of violence by forming a dominant coalition that limits access to valuable resources – land, labour, and capital – or access to and control of valuable activities – such as trade, worship and education – to elite groups.” (North, Wallis, and Weingast 2009: 31). In natural states access to elite positions is personal, that is tied to individual identity, and violence is controlled when elites form coalitions to manage the distribution of resources amongst themselves and maintain the status quo: “Powerful individuals possess privileges and rents, and since violence threatens or reduces those rents, the risk of losing the rents can make it in the interests of powerful individuals and groups to cooperate with the coalition in power rather than to fight”(North et al. 2007: 3). Such states can be ‘fragile’, and hence unable to sustain such a ruling elite coalition, while ‘basic’ and ‘mature’ natural states are stable institutional frameworks. By contrast, an open access order is one in which elite positions are (theoretically) open to all. Peace is ensured through a ‘double balance’ between political and economic incentives, whereby widely held beliefs about equality, open elections, and the potential costs of limiting access combine to ensure the maintenance of the existing social order. Open access orders create continuity through ‘perpetually lived organisations’ (i.e. corporations and the state).

Societies transition from natural states to open access orders by first transforming intra-elite relations from personal to impersonal and then spreading such relations throughout society. Three ‘doorstop conditions’ are necessary for such a transition to occur: the rule of law for elites, the creation of the aforementioned perpetually lived organisations and the consolidation of control over the military (see North, Wallis, and Weingast 2009: 151). Open access orders also feature ‘open access markets’, which are characterised by Schumpeterian competition and serve to spread the gains from productive innovations through society at large.

A main weakness of new institutional analysis has been its limited ability to say anything about *contemporary* capitalist development⁹. The broad historical canvas painted by Acemoglu et al. does not feature a discussion of advanced capitalist economies beyond the observation that they have both inclusive political and economic institutions, and hence does not lend itself to a comparative analysis of such societies. At the same time, their theory is silent on how societies lacking these institutions *do* change over shorter and more contemporary time horizons. That is, their aforementioned compression of history (Austin 2008) blinds their theoretical edifice to how contemporary capitalism is developing in contemporary poor countries. Similarly, North et al.’s conception of social orders essentially terminates the analysis when a society becomes an open access order. In the case of Britain this apparently occurred at some point in the 19th century. Beyond a broad description of the internal logic of the incentive systems inherent in open access orders, the theoretical apparatus has no concepts to discuss further developments within an open access order, and hence fails as a theory of capitalism.

For low- and middle-income countries, however, North et al. (2007) attempt to tackle this problem head on. As these countries have (by definition) limited access order, development interventions fail because they threaten to disturb the rent creation and allocation processes that benefit the powerful. However, these

⁹ That is, if we abstract from what Streeck (2009) calls ‘variable sociology’. Examples are – from very different methodological stances – Hall and Soskice (2001) and Besley and Mueller (2015), both of which are concerned with the impact of institutions on economic development. But these approaches share a refusal to posit, or even draw upon, a general theory of capitalist development.

processes are also the foundation of stability in such a social order. Institutions in (apparently all) limited access orders function differently to those in open access orders, being incapable of performing their functions without drawing on personal relationships. To explain differences between states, North et al. have to revert back to the effects of technology and the international state system – essentially extra-theoretical explanations that stand outside of their framework, which is focused very much on the internal logic of institutional development. This framework has been applied to problems of political economy in a number of different countries, although the focus here is on elite coalitions and the inhibition of violence, rather than on the emergence of dynamic capitalist accumulators, see North et al. (2012).

2.2.6 Weaknesses of new institutional analysis

Khan (2010) has welcomed the social orders, which are similar to his own notion of political settlements, as a necessary additional theoretical level to explain differences in the performance of institutions across countries. However, he also criticised the notion of power that underlies the ideas of social orders and NIE more widely, by pointing out that elites are also subject to contestation ‘from below’. The ability of social groups to determine an institutional frame will depend in part also on their ability to *enforce* an institutional setup.

The NIE approach and the historical institutionalism as practised by Acemoglu et al. are of limited use to an investigation into concrete processes of agrarian capital accumulation. Questions of capital accumulation are largely eschewed by the theory, as successful and ongoing capital accumulation is the logical outcome of providing the ‘right’ institutional setting. Once such an institutional matrix is in place, it will – almost by definition – provide individuals with incentives to accumulate as well as the means to do so. As subsequent chapters will demonstrate, this formulation loses sight of the substantial complexity underlying both the creation of particular institutions and their (planned and unplanned) socio-economic effects.

More fundamentally, despite its apparent historicity, the new institutional analysis, including the evolution of social orders, remains at its core curiously ahistorical. It

replaces historical analysis with a schematic overview of selected historical episodes which are supposed to document the ‘progression’ through the – unashamedly hierarchical – ladder of social orders, devoid of the social conflicts that often drove these developments. Tellingly, the discussion of the British transition to an open access order is confined to a brief enumeration of acts of parliament with no mention of the struggles that surrounded their passing (North, Wallis, and Weingast 2009). History then ‘ends’ for a particular society when it becomes an open access order. While social orders are thus a corrective to the theoretical edifice of NIE at the microeconomic level, the theory operates at too high a level of abstraction to be able to explain specifically capitalist development. Unlike Khan’s own ideas, the theoretical apparatus of social orders is also not able to specify under which circumstances states in ‘limited access orders’ will be able to successfully drive development (see Khan 1995). We turn now to a set of theories that strive to do just that.

2.3 The developmental state approach

A second broad branch of institutional theory concerns the state as an actor in the context of economic development and of late industrialisation in particular. These theories were developed amidst a renewed interest in the state as both a research subject and as an important actor in its own right amongst institutional sociologists from the late 1970s onwards (see Evans, Rueschemeyer, and Skocpol 1985). In a programmatic statement setting out the new research agenda, Skocpol (1985: 6) criticised extant sociology as overly ‘society-centric’, and instead proposed to view states as actors possessing “true autonomy”¹⁰. For Skocpol recognition of this autonomy results in a dual role for the modern state, which should be reflected in research: “On the one hand, states may be viewed as organizations through which official collectivities may pursue distinctive goals, realizing them more or less effectively given the available state resources in relation to social settings. On the other hand, states may be viewed more macroscopically as configurations of

¹⁰ See Cammack (1989) for critique from a Marxist perspective, which accuses Skocpol of intellectual dishonesty in her treatment of (neo-)Marxist theories of the state. Cammack puts this down to a desire to avoid having to take notions of class seriously.

organization and action that influence the meanings and methods of politics for all groups and classes in society.” (1985: 28).

Ideas of autonomous state action were also applied to questions of economic development. Rather than diffuse notions of ‘good institutions’ focused on private property rights and their enforceability, such theories seek to understand, through the study of concrete historical cases, how some states manage to successfully drive programmes of (late) industrial development at the national level. The central issue is how some countries manage to become ‘developmental states’, i.e. states capable of engendering sustained capitalist development through structural change and increases in labour productivity¹¹.

Advocates of state-directed development were – and largely are – united in their rejection of the free market policy recommendations. During the 1980s and into the 1990s the economic mainstream was dominated by an extreme form of free market ideology. Collectively termed the ‘Washington consensus’, a policy package emphasising free trade, deregulation, privatisation and fiscal ‘discipline’ (which often meant austerity) was supposed to be the key to long-term economic prosperity, and was presented as the only policy option (Williamson 1993). Through structural adjustment programmes, making loans to heavily indebted countries conditional upon adopting ‘good’ policies, the international financial institutions imposed ‘reforms’ on low- and middle-income countries (Collier and Gunning 1999b; Mosley and Toye 1988). State-centric theories of development thus generated heated debates, and developing countries were implored to “get the prices right” by not intervening in the functioning of markets and relying instead on the price mechanism to allocate capital and drive development (Lal 1983: 170).

Theories of the state as a decisive actor in economic development go back at least to Friedrich List (2012, orig. 1841), for whom an active government policy was indispensable to the successful development of the *Nationalökonomie* in the

¹¹ The developmental state approach thus combines strands of structuralist economics, ‘old institutionalism’ and elements of Marxist political economy.

particular case of Germany, which was a late industrialiser compared to the UK¹². The mechanics of late industrialisation were much later taken up again by Gerschenkron (1962), who argued that successful European late developers had benefited from government policies that helped mobilise capital for industrial investment. Late industrialisers had not developed the same institutions as already industrialised countries and their industrialisation process would thus differ. For Gerschenkron the key concept is 'relative backwardness', that is, the distance of a late industrialiser from the technological frontier. The greater this relative backwardness, the greater the presumed need to industrialise¹³. For Gerschenkron 'backwardness' was an opportunity: late industrialisers could grow more rapidly by importing capital and technology.

The rapid industrialisation of the East Asian economies provided the blueprint for the modern development state. The term was coined by Johnson (1982) in his seminal study of the role played by the Japanese Ministry of Trade and Industry in Japan's industrial growth. Japan's successful push for industrialisation was led by (but not exclusively due to) the state, which harnessed the market mechanism for national economic development. As Japan industrialised and began exiting simpler, more labour-intensive branches of industry, Japanese capital, in search of lower labour costs, began flowing to other countries in the region. This regional division of labour is known as the 'flying geese paradigm' (Cumings 1984; Kasahara 2013)¹⁴. Among the beneficiaries of these capital flows were the so-called Asian tiger economies – Hong Kong, Singapore, South Korea and Taiwan – all of which managed to become high-income countries by sustaining extremely high growth rates between the 1960s and the 1990s. These states emulated key elements of the Japanese developmental state (Johnson 1999).

¹² Although possibly the first infant industry protection programme by a state was launched by the British prime minister Roger Walpole, who was heavily influenced by the writings of Alexander Hamilton, as early as 1721 (H.-J. Chang 2009).

¹³ For a critical take on the validity of this assumption, see Acemoglu and Robinson (2006).

¹⁴ For a contemporary reformulation of the paradigm with China as a growth pole and sub-Saharan Africa as a (potential) beneficiary, see Lin (2011).

Classic studies on South Korea (Amsden 1992) and Taiwan (Wade 2004) demonstrated not only that activist government policy had been decisive in creating successful industrial development, but also showed the mechanisms by which the state had forced the creation of a dynamic domestic class of capitalists¹⁵. Central in all cases was a strategic alliance between a dedicated and competent government bureaucracy and the domestic capitalist class. Crucially, the state bureaucracy had to act in the long-term strategic interest of the capitalist class as a whole, rather than bowing to the more myopic desires of particular companies or factions of capital. While the state supported the capitalists in its accumulation of both wealth and capital, such support was conditional upon the adherence of the capitalist class to a national development strategy based upon continual improvements in productivity and export performance. Amsden (2003), for instance, stressed how governments of successful late industrialisers, in East Asia and beyond, had subjected companies to ‘reciprocal control mechanisms’ – subsidies conditional upon company performance – to force them to become more productive. Evans (1995) describes how government bureaucracies must be both ‘embedded’ in the private sector to be able to monitor performance and solve problems, but must maintain ‘autonomy’ from factional capitalist interest to be able to discipline firms. Comparing the growth experiences of a number of countries with that of South Korea, Kohli (2004: 10) argued that only “cohesive capitalist states”, i.e. states that combine “centralised and purposive authority structures that often penetrate deep into society” with “a close alliance with producer or capitalist groups”, have been capable of maintaining high levels of economic growth over long periods of time.

2.3.1 Industrial policy in poor countries

A common feature of all developmental states is their use of industrial policy, which may be described as “restructuring policies in favour of more dynamic activities” (Rodrik 2004: 2), i.e. policies that accelerate the structural transformation of the economy. Broadly conceived, this covers “policies affecting ‘infant industry’ support of various kinds, but also trade policies, science and technology policies, public procurement, policies affecting foreign direct investment, intellectual

¹⁵ See Öniş (1991) for an early review and synthesis of key texts.

property rights, and the allocation of financial resources” (Cimoli, Dosi, and Stiglitz 2009: 1f). Proponents of industrial policy differ in their reasons for supporting such policies and there is a range of opinions about how far state intervention should go. While economists associated more closely with the neoclassical paradigm believe that such policies should be confined to overcoming market failures (e.g. Rodrik 2004; Rodrik 2008), or believe that industrial policy regime must be carefully aligned with a country’s comparative advantage (Lin and Monga 2010; Lin 2012), others insist that comparative advantage must be actively created through policy measures that defy comparative advantage (e.g H.-J. Chang, in Lin and Chang 2009). Still others argue that the special nature of knowledge and its importance in creating competitive firms justify industrial policy measures (Cimoli, Dosi, and Stiglitz 2009; Stiglitz and Greenwald 2015). Most of the debate around the use of industrial policy has specifically been around the use of ‘selective’ industrial policy, i.e. “policy that deliberately favours particular industries over others, against market signals, usually (but not necessarily) to enhance efficiency and promote productivity growth” (H.-J. Chang 2009: 2). However, detractors of industrial policy question both the theoretical case for having governments make selective interventions in the economy and their capacity to do so effectively (Pack and Saggi 2006).

Still, given the apparent successes of industrial policy in furthering growth in East Asia, the use of such policies in countries currently seeking to industrialise has been widely advocated (Altenburg 2011; Dinh et al. 2012; Edigheji 2010; Khan 2004; Newman et al. 2016; Oqubay 2015; Stiglitz et al. 2013; Stiglitz, Lin, and Patel 2013; UNCTAD and UNIDO 2011; Wade 2010; Weiss 2011). However, opponents of the use of industrial policy have argued that, while possibly desirable in the abstract, the successful implementation requires conditions that are allegedly just not given in many African countries. The supposed lack of economic growth in ‘Africa’ is blamed variously on a combination of bad economic policies and geographical factors (Sachs and Warner 1997) or the continent’s multi-ethnic states (Easterly and Levine 1997), but most seriously on the absence of ‘good governance’ – in particular a disciplined and committed government and civil service. This concern is related to

the 'good governance' agenda put forward by the international financial institutions as a corrective to the policies that were seen as holding back growth in Africa (World Bank 1992; World Bank 2001; for critical engagements with the concept see Kiely 1998, Mkandawire 2007, and the collection in Noman et al. 2012). It also mirrors Acemoglu et al.'s 'extractive institutions' (see above). In the absence of such governance, selective industrial policy, which gives government officials power over how firms make money, would simply be an invitation to rent seeking and corruption.

The strongest statement of this supposed pathology of African states is the neo-Weberian notion that they are 'neopatrimonial' in nature, that is, they are a mere front to a system of private networks and relationships (Chabal and Daloz 2010), or are undermined by the use of public office for private purposes (Erdmann and Engel 2007). Critics of the concept of neopatrimonialism have pointed out that not only has this concept been stretched to explain an unfeasibly wide variety of state behaviour (Mkandawire 2001), but also that the requirements for industrial policy have been overstated (H.-J. Chang 2009). Historically, the industrialised states of the global north have successfully deployed industrial policies while lacking anything that could have been described as 'good governance' (H.-J. Chang 2002).

Another approach to countering the supposed impossibility of successful industrial policy in 'Africa' is to critically examine the relationships between rents and economic development. The creation of rents is an integral part of economic development – the point is to differentiate between rents that are growth-enhancing, i.e. those that support innovation and the move into higher productivity activities, and those that are not (Khan 2000; Khan 2006; see also Rodrik 2008)¹⁶. Based on this more sophisticated understanding of the role of rents, and an analysis of state-society relations, Kelsall (2013) has argued that states that manage to centralise the rent creation process and are ruled by elites with long time horizons can achieve high rates of economic growth and are thus 'developmental

¹⁶ Khan does not argue that rents are socially costless, but rather that the social costs of rents have to be offset against their productive effects.

neopatrimonial states'. These ideas have gone a long way to restoring confidence that African states are not universally incapable of implementing effective industrial policy. In Chapter Four I examine how such a regime has been established in Ethiopia.

2.3.2 Limits of state-centric theories

While there is much to learn from developmental state theory, in particular about how capitalist development can be achieved in practice, the notion of the unified developmental state has been criticised from a number of angles. For Jessop (2001) state-centric theorising underplays the complexity of state-society relations by in effect positing the state as a unified actor; a concern that is echoed for East Asia by Moon and Prasad (1994)¹⁷. In a similar vein, Whitfield and Buur (2014) argue that a coalition between ruling elites and capitalists is not enough. Such a coalition must be buttressed by mutual (political and economic) interests, as well as being capable of creating 'pockets of efficiency' within the state bureaucracy. The interests of elites have to be understood in the context of their own political aims (see also Whitfield et al. 2015). Fine (2013), who divides the literature on developmental state into an economic and a political school, criticises the former for not specifying the circumstances under which productivity-enhancing industrial policies are – or are not adopted, and warns that the latter school tends to oversimplify the issue of elite interests by replacing the complex contradictions of capitalist social relations with binaries such as 'financial' vs 'industrial' capital in analysing state autonomy. These points are well taken, and I retain the necessity to focus on elite interests in the analysis in the following chapters.

However, even these more complex formulations lack a crucial ingredient in their view of the state: room for relational agency outside of the immediate elite. A richer theory of the state is provided for instance by Jessop (1990, 2016). Drawing on Poulantzas and Gramsci, he proposes a 'strategic-relational approach' to understanding the state: "Instead of looking at the state as a substantial, unified thing or unitary subject, the [strategic-relational approach] widens its focus, so as to

¹⁷ Moon and Prasad also emphasise how states have to learn to conduct effective industrial policy and that such learning will come, in part, from failure.

capture not just the state apparatus but the exercise and effects of *state power* as a contingent expression of a changing balance of forces that seek to advance their respective interests inside, through, and against the state system” (Jessop 2016: 54, original emphasis). The focus here is on the social basis of the state (and its contestation by various groups), as well as on the state project and attempts to establish a hegemonic vision of the state. Such a formulation opens up room for social struggles and the role played by economic and political domination in processes of differential accumulation. It is also particularly useful in the Ethiopian context, where political elites appear to have a distinct state project – rapid structural change – and are actively seeking to provide the hegemonic ideological vision to carry this through (Weis 2016, see also Chapter Four).

2.4 Historical political economy

Beyond the criticisms already made, institutional analysis suffers from two major shortcomings with regard to the aims of this thesis: a concentration on ‘leaders’ (broadly defined) as sole decisive actors, and an inability to view capitalism as a specific and distinct politico-economic system with particular political consequences. Both new institutional analysis and developmental state theory are elite-based theories of development (see also Selwyn 2015). Where the new institutionalists are (at the macroeconomic level) concerned with intra-elite bargaining, the focus of the developmental state theorists is on the decision-making processes and managerial capabilities of narrow technocratic elites, who alone are imbued with the ability to transform their societies. This lacuna is critical, because it underplays the role of conflict and contradiction in both the historical origin of capitalism *as a system* and its contemporary development. While both Acemoglu et al. and North et al. explicitly deal with violence and conflict, both ignore the class character of capitalist societies and steadfastly refuse to see distributional conflicts, even in pre-capitalist societies, in systematic (i.e. class) terms. Similarly, developmental state theorists are largely silent on the role of (organised) labour and class conflict in shaping industrial development (by contrast, see D. Chang 2009 on

labour repression in South Korea)¹⁸. The specific contours of capitalist development cannot, however, be explained without reference to the role of class struggle. Even in such a supposedly staid and stable state such as Germany, with its famously corporatist union structure, radical labour movements significantly influenced the form and nature of industrial development during the post-war boom (Birke 2007; for a study with a longer time horizon, see Roth 1974)¹⁹.

None of the institutional theoretical systems outlined discuss capitalist development as the development of capitalism, that is, as the development of a system of social and productive relations qualitatively different to all other forms of social and economic organisation. They are incapable of explaining the *differentia specifica* of capitalism as a system (see Teschke 2014). We must therefore look to theories which seek to incorporate considerations of social change and of power relations in systems of production.

2.4.1 *The development of capitalism*

The development of the modern capitalist system has long been described and analysed by economic historians. A prevalent manner of explaining the spread of capitalism is by reference to market competition, which compels producers to constantly innovate and lower the cost of production. Wood refers to such explanations collectively as the “commercialisation model” (2002a: 11). While this correctly identifies the engine of capitalist growth, such an explanation assumes that which is to be explained. As Brenner (1977) has argued, market competition is effective in raising labour productivity only in the context of existing capitalist relations, that is, when both the means of production and labour power have become commodities in themselves (on this process see also Polanyi 2001). For Brenner such theories view capitalism as simply a quantitative expansion of market systems, which in themselves are ancient. The commercialisation models a process of ‘Smithian’ growth, which followed almost naturally, once ‘fetters’ to the expansion of markets were overcome and the increasing size of the emerging world

¹⁸ A partial exception is Kohli (2004) who lists systematic labour repression as a necessary feature of a developmental state.

¹⁹ On labour struggles globally, see Silver (2003).

market allowed for an ever more refined social division of labour. These ideas tend to highlight the importance of urban trading centres and the spread of global trade as catalysts of economic development (see for instance Wallerstein 2004).

Such approaches all rely on the implicit idea of ‘progress’ towards capitalism. Only in Europe were these ‘fetters’ overcome, possibly through some uniquely Promethean quality of European culture (*à la* Landes 1999). Contemporary Marxist writing has comprehensively broken with both this conception of ‘progress’ – whether based on an inexorable march through a logical succession of modes of production, or rooted in some notion of European superiority – and with ideas of historical necessity in the emergence of capitalism (Comninel 2013). Instead the birth of capitalism is to be found in the contingent outcome of class struggle in an otherwise unassuming corner of Europe – England – in the early modern period (Brenner 1995).

According to Brenner (1977), markets, export surges in mass produced commodities and long-distance trading are all phenomena which occur and reoccur throughout history. But they led to a sustained and systematic increase in per capita labour productivity only in the context of capitalist social relations – and it is these that must be explained. Brenner’s project is concerned with explaining how such capitalist relations developed out of the pre-capitalist European feudal system. This is because markets are not automatic engines of productivity improvement. For markets to act as engines of productivity growth, accumulation through innovation has to be enforced – and this requires specifically capitalist social relations of production, whereby producers are forced to rely on the market to secure their own reproduction. In other words, the market has ceased to be an opportunity and has instead become an imperative (Wood 2002a, 2002b).

The market imperative under capitalist relations of production is based on a unique and specific set of class relations – in particular absolute private property in the means of production, including land, and ‘free’ wage workers. Workers are ‘free’ in Marx’s ironic formulation, in a very narrowly defined sense: “The capital-relation presupposes a complete separation between the workers and the ownership of the

conditions for the realisation of their labour.” (Marx 1990: 874). “The workers are therefore free from, unencumbered by, any means of production”, while the capitalist class monopolises ownership of the means of production (Marx 1990: 874). Workers, stripped of the ability to produce their own subsistence, are compelled to sell their labour power to the owners of the means of production. The historical process which produced this set of class relations, which is unique to capitalism, is one of violent class conflict. As Marx put it: “These newly freed men [the workers] became sellers of themselves only after they had been robbed of all their own means of production, and all the guarantees of existence afforded by the old feudal arrangements. And this history, the history of their expropriation, is written in the annals of mankind in letters of blood and fire.” (1990: 875).

In parallel, the dominant class of expropriators has lost its historical ability to use extra-economic means of coercion, such as violence, as a primary method of value extraction, which had prevailed under feudalism. In a system of free wage labour, there are political limits to increasing the extraction of surplus by simply expanding the working day or increasing the intensity of work²⁰. Instead, the dominant class, compelled to compete in the market, must continuously increase the extracted surplus by increasing the productivity of labour. That is, exploiters must use (primarily) economic means of resource extraction. A failure to do so will lead to them being undercut by more efficient producers and being forced to exit the market.

Capitalism is thus characterised by a separation of the political and economic spheres, which is both novel and unique: “the social functions of production and distribution, surplus extraction and appropriation, and the allocation of social labour are, so to speak, privatized and they are achieved by ‘non-authoritative’, non-political means. In other words, the social allocation of resources and labour does not, on the whole, take place by means of political direction, communal deliberation, hereditary duty, custom, or religious obligation, but rather through the

²⁰ Although both mechanisms are still active in capitalist production. But they are not sufficient to ensure survival in the market.

mechanisms of commodity exchange” (Wood 1981: 81). At the same time, this ‘private’ appropriation relies on political power – and coercion – to maintain the prevailing social property relations. Where the economic and political functions of exploitation and surplus appropriation were combined in the lord under feudalism, capitalists have ceded this political power, and the costly responsibility that comes with it, to the state²¹.

2.4.2 The agrarian roots of capitalism

Such a conception allows a break with “one of the most well-established conventions of Western culture” (Wood 2002a: 68), namely that capitalism is a product of the city, the urban trading centre which formed the core of European cultural life. In fact, as Brenner (1977, 1995) shows, capitalist tendencies first emerged in the English countryside in the 16th century, where a triangular class structure of feudal lord, capitalist landlord and tenant farmer emerged, bringing for the first time a whole society under the market imperative and therefore producing the novel incentive structure which would later drive the industrial revolution. And contrary to the commercialization model, it is not the English trading system which drove capitalism, but rather the specific capitalist form taken by English agriculture transformed the trading system by creating the first true home market (Wood 2002a)²².

The capitalist structure of English agriculture created the investment capital later used in commercial agriculture and industry, through the expropriation of common land known as the enclosure movement. By stripping peasants of their access to common land, that is, to the means of production and therefore subsistence, it created an impoverished mass of workers, who were forced to sell their labour power as a commodity. Concentrating workers without access to the means of subsistence in the growing urban centres also creating political pressure and effective demand for a home market well supplied with cheap staples and

²¹ On the particular ‘relative autonomy’ of capitalist states see Wood (1981) and Poulantzas (2014).

²² Brenner acknowledges the importance of the British merchants, but sees their role as a necessary condition for the emergence of capitalism, rather than as a driving force (Brenner 1993)

consumer goods. This class structure was the outcome of class struggle in the English countryside. In other parts of Europe similar struggles had different outcomes which meant that this particular class structure emerged only much later (Brenner 1995)²³. For Brenner (1977) the role of the state was decisive in securing the victory of landed classes against serious and organised resistance in the countryside. However, a central aspect of Polanyi's work (2001) has been to show how the English crown also played a moderating role in the enclosure process, which helped mediate the social effects of making 'fictitious commodities' of both land and labour.

The form of Marxist political economy pioneered by Brenner and Wood, collectively sometimes referred to as 'political Marxism', places class struggle at the centre of history, sees a clear distinction between capitalist and pre-capitalist societies (especially in how accumulation is organised), and provides an essentially 'internalist' explanation for the rise of capitalism in Europe. Especially the latter two have proved controversial and have been criticised from a number of angles. Their theory has been described as over-reliant on the notion of wage labour and as Eurocentric. Rioux (2013) charges that the insistence that capitalism is characterised by economic surplus extraction makes the theory blind to the violent and coercive forms of surplus extraction, such as slavery and colonialism, that are also part of the history of capitalism, and in some forms also continue until today. A similar critique is put forward by Anievas and Nisancioglu (2015), who also note that colonial relations and slavery are seen not as constitutive of capitalist development, but rather have to be defined as non-capitalist to maintain the sharp distinction between different modes of production²⁴. For them this reliance on wage-labour produces an analysis that denies the role of extra-European societies in the

²³ Brenner's intervention, which picked up themes from the earlier 'transition debate' between Dobb and Sweezy (see Hilton 1982), was deeply controversial and sparked intense debate. Central contributions to the debate, as well as some related interventions, are collected in Aston and Philpin (1995).

²⁴ Anievas and Nisancioglu instead suggest that an updated form of Trotsky's notion of 'uneven and combined development' is better suited to building a theory that overcomes the nation state as the unit of analysis and does more than rely on 'the international' as an ad hoc theoretical 'fix'. For a comparison of uneven and combined development with state-theoretic approaches, see Selwyn (2014).

emergence of capitalism, and downplays the importance of inter-societal conflict. Moreover, political Marxism apparently locates technological dynamism and innovation only in capitalist systems and therefore fails to recognise the significance of extra-European knowledge and technologies in the origin of capitalism. The technological dynamism of pre-capitalist societies has also been noted by Pomeranz (2000), who argues that areas of Asia were broadly comparable with dynamic areas of Europe prior to the industrial revolution²⁵.

These criticisms are both well-made and at the same time somewhat unfair. For political Marxists the central criterion for the existence of capitalism is not the existence of wage labour, but rather the market compulsion of both workers and producers which produces the incentive systems at the heart of capitalism, and its emergence through class struggle. This does not have to mean that other forms of exploitation played no role in the emergence and subsequent development of capitalism, simply that they were not sufficient *by themselves* to bring about capitalist development. Such a formulation should be flexible enough to accommodate the role of both economic and extra-economic coercion in both historical and contemporary capitalism.

Political Marxism's main strength is its insistence on historical contingency, as a result of social (class) struggles, whose outcomes are not pre-determined. At the same time such struggles are situated within a theoretical framework that is capable of explaining the salient features and 'stylised facts' of capitalist development. The emergence of capitalism was neither a teleological necessity that occurred wherever fetters to markets were relaxed, nor a conscious ideological project fought for by dominant classes, but rather the highly contingent outcome of class struggles at a certain historical conjuncture shaped by its very specific social and political context. Thus, the detailed questions to be investigated are how and why capitalism emerges within a given rural setting. What determines its contours, who are its contesting

²⁵ For Pomeranz the industrial revolution is then the result of 'coal and colonies', through which (parts of) Europe were able to overcome the limits on supplies of energy and arable land (and hence food) that caused Asian societies to decline over the 19th century. However, Maddison (2003: 2408ff) is highly critical of Pomeranz's data. Also see Brenner and Isett (2002) for a critical engagement with Pomeranz.

classes and what results may we expect from its further development? In short, we must analyse the political economy of agrarian change, long known to the social sciences as the agrarian question.

2.5 The agrarian question

The agrarian question (henceforth: AQ) is concerned with the complex interconnections between wider socio-economic developments (that is, capitalism as a system) and changes in the agrarian sector in particular. A central concern is *rural transformation*, which Byres describes as “those changes in the countryside of a poor country necessary to the development of capitalism and its ultimate dominance in a particular national social formation” (Byres 1996: 27). To understand why and how the political economy perspective of the AQ remains an important mode of enquiry today we must sketch the development of the agrarian question to its contemporary forms.

2.5.1 The history of the agrarian question

Henry Bernstein has shown that the meaning of the agrarian question can be usefully broken down into different problematics (Bernstein 1996; Bernstein 2006; Bernstein 2009a; see also Akram-Lodhi and Kay 2009, Akram-Lodhi and Kay 2010). Bernstein builds on the three problems identified by Byres, namely those of politics (going back to Engels), production (based on Kautsky and Lenin) and accumulation (which has its origins in Preobrazhensky).

The intellectual origins of the AQ can be found in Marx’s *Capital* (1990, orig. 1867), where he describes the process of transition to capitalism in England, which Marx sees as the ideal type of capitalist development²⁶. Using Marx as a starting point, Friedrich Engels (1972, orig. 1894), writing in the context of the *Reformismusstreit* in the German social-democratic workers’ party, expanded the AQ into the political realm by contemplating the role of rural populations in the struggle for socialism. The modern usage of the term agrarian question, however, goes back to Karl Kautsky and his book *Die Agrarfrage* (Engels instead spoke of the *Bauernfrage*, the

²⁶ On the importance of the agrarian question for Marx and Lenin, respectively, see also Hammen (1972) and Guha (1977).

question of the farmers). In great statistical detail Kautsky (1972, orig. 1902) analysed the development of capitalism in German agriculture. He distinguished between capitalists proper, whom he credits with the development of productive forces in agriculture, primarily through the use of machinery, and what he calls small farms (*Kleinbetriebe*), whose survival he attributes to overwork and under-consumption by the entire household²⁷. Similarly, Lenin (1964, orig. 1899) sought to show that the growth of agrarian capitalism in Russia was manifesting itself in the formation of classes in the countryside through a process of rural differentiation. Instead of the homogeneous agrarian community at the heart of agrarian populist analysis, Lenin, in a pioneering use of survey and census data, postulated an agrarian population split into exploiters and exploited²⁸. The exploiters were for him successful accumulators, while the exploited landless were poor workers and small farmers incapable of reproducing themselves through farming alone and therefore reliant on wage labour. Sitting between these, Lenin identified a stratum of middle peasants, whom he saw as a transitional category. In his formulation, accumulators are hirers of labour, while workers are forced to sell their labour power to ensure their own reproduction. The middle peasants rely both on family labour and hired labour and are sometimes capable of producing an investible surplus. Both Kautsky and Lenin were thus concerned with the development of rural capitalism, the distinctive forms it takes and the forces that inhibit or further its development (T. J Byres 1996). The Soviet economist Preobrazhensky, following the Russian revolution, was concerned with the development of Soviet industry in the context of late development in a hostile (capitalist) environment. In the 1920s he advocated a number of measures to enable 'Soviet primitive accumulation'. While Lenin had envisaged the growth of the home market as a vehicle of transformation, Preobrazhensky was concerned with the appropriation of agricultural surplus to finance investment in industry via taxation and the manipulation of inter-sectoral terms of trade (Erich 1950).

²⁷ For the classic treatment of the 'peasant' household, analogous perhaps to Kautsky's *Kleinbetriebe*, see Chayanov (1986). See also van der Ploeg (2013) for a contemporary restatement of Chayanov's ideas.

²⁸ On agrarian populism see also Bernstein (2009b) and Kitching (1982).

2.5.2 Paths of transition

A breakthrough in the study of the AQ came with the seminal work of Terence Byres (1996). Concerned about the often teleological nature in which ideas of agrarian transition were applied, he stressed the diversity in historical outcomes as well as the multiplicity in transition paths resulting from the great variety of conditions both within and between states. These factors led to diverse class structures, relations of production and relations between the two, which resulted in very different historical outcomes. Like Brenner, Byres sees the outcomes of class conflicts as a decisive element in determining patterns of capitalist development.

Critically incorporating the work of Lenin, Byres identifies three main paths for the agrarian transition, namely those taken by England, Prussia and the USA. Byres stresses in his analysis that these paths should be considered descriptive characterizations, rather than prescriptive models seeking to impose teleology onto the transition prospects of contemporary poor countries – a point taken up again in the next chapter. While, following Lenin and Marx, the English case is seen as special, Byres views the transition paths of Prussia and the USA as being of greater potential significance for contemporary poor countries.

In Prussia, whose path Byres, after Lenin, calls ‘capitalism from above’ is unique in that it was the landlords themselves who became capitalist farmers. The agrarian transition in Prussia was controlled by the landlords, rather than being the result of rural differentiation. The existing landlord class acting for its own benefit came to slowly adopt more capitalist features on its vast estates situated east of the river Elbe. Lenin described this path as reactionary, as the landlords were able, for a long time, to preserve semi-feudal features resulting in their own enrichment and the continued impoverishment of the peasantry. This also meant that the transition occurred only slowly, as the home market was limited by widespread rural poverty, preventing a more rapid development of advanced means of production.

In contrast to this stands the US path, where the expanding Western frontier (on land violently taken from the indigenous population) made large amounts of arable land available to settler-farmers. Furthermore, the US lacked pre-existing feudal

structures²⁹. As a result, the US witnessed a process of rural differentiation, during the course of which richer peasants became capitalist farmers, and a clear capital–wage labour relation emerged. Successful subsistence farmers became petty commodity producers, and later developed into capitalist farmers, who employed wage labour and marketed all or most of their produce³⁰. The role of labour hiring is crucial to this process. Lenin described this path as progressive in two key ways. First, it provided an incentive structure for the rapid development of rural productive forces; and second, it created a large and growing home market that allowed for increases in the use of agricultural inputs and rising rural consumption. Moreover, if, as Berry suggests, the agrarian question in Africa “turns on labour rather than land” (1993: 102) due to the relative abundance of land in many African countries, then the American path may be the most relevant for approximating an agrarian transition in Africa.

Following Byres (1996) we can thus identify two general areas of enquiry which are important to an understanding of agrarian transition: class and the state. In the area of class there are four main themes which are of concern for the classical AQ. First, the prominence of class analysis and the study of class formation; second, the importance of the process of differentiation of the peasantry; third, the role of class struggle in shaping the outcome of the agrarian transition and lastly, the world-historical conjuncture in which the transition takes place. In the analysis of the

²⁹ I leave aside the slave economy of the southern states, which Byres analyses in great detail. See also Post (2011).

³⁰ Bernstein, thinking of the African context in particular, offers a useful definition of petty commodity producers, which emphasises how the usual Marxist two-class dichotomy can break down in the countryside. “Petty commodity production in capitalism is a form of small-scale enterprise constituted by its distinctive combination of the class places of the essential social relation between capital and wage-labour. Petty commodity producers are capitalists and workers at the same time: capitalists because they own or have access to means of production, workers because they use their own labour. In short, they are capitalists who employ (hence exploit) themselves. Peasants become petty commodity producers in this sense when they are unable to reproduce themselves outside the relations and processes of capitalist commodity production, when the latter come to constitute the conditions of existence of peasant farming and are internalised in its organisation and activity.” (Bernstein 2004: 129)

influence of the state we must examine state interventions in the transition process and its role in mediating the outcomes of this transition.

2.5.3 Contemporary agrarian questions

Researchers working on these various aspects of the agrarian question have generated a rich empirical and conceptual literature, which has sought to identify different 'moments' of rural transformations in a wide variety of spaces and societies, including links to globalisation and transnational corporations (Friedmann 1993; McMichael 1997a; McMichael 2009), gender (O'Laughlin 2009) and peasant resistance (Kay 1997). While an important aspect of research on the agrarian question has been on the role or 'fate' of the peasantry in agrarian transitions (Akram-Lodhi and Kay 2009), I will focus mainly on contributions looking at processes of agrarian capital accumulation. Thinking on the agrarian question has developed through the interaction of empirical findings and conceptual innovations. A particularly productive strand of this literature has come from India (Bremner 1989; Das 2001; Friese 1990; Ghose 1979; Harriss-White 1979; Harriss-White, Mishra, and Upadhyay 2009; Lerche 1998; Som 2005). A long-running debate with regard to the agrarian question in India has been around the concept of 'mode of productions' and its usefulness and applicability in India. Researchers disagreed on whether capitalist relations of production were dominant in Indian agriculture, by what empirical yardsticks such dominance could be established, and what the history of colonialism and pre-capitalist relations of production meant for contemporary capitalist development (Patnaik 1986; see also the collection of important contributions to the debate in Patnaik 1990). An important outcome of the debate was that the presence of wage-labour alone is insufficient to identify capitalist tendencies, but that the move towards intensified commodity to production (using wage labour), was indeed significant in this regard (Thorner 1982a; Thorner 1982b).

The most empirically useful intervention in theorising about contemporary forms of agrarian change in the context of the agrarian question comes again from Bernstein. In a synthesis of the literature on the topic he arrives at four questions that should

be of central importance to any empirical project in the field. He argues for a focus on the social relations of property, the division of labour, the distribution of income, and the social relations of consumption, reproduction and accumulation. In other words: "Who owns what? Who does what? Who gets what? What do they do with it?" (Bernstein 2010: 22).

Within agrarian political economy, the relevance of these historical experiences, and of historically-rooted formulations of the agrarian question more generally, for contemporary 'developing countries' has been questioned, however. McMichael (1997), for instance, argues that the impact of globalisation on the agro-food system has invalidated earlier conceptions of the agrarian question, with their assumption that 'peasant' production would disappear in the face of rural capitalist development. Instead, the world-historical issue of importance is now the defence of rural communities and their food producing systems against the pressures exerted by globalised agro-industrial capital³¹. Globalisation is also the entry point for a very different critique by Bernstein (1996, 2006, 2009). Bernstein argues the agrarian question of capital, meaning both the development of productive forces in agriculture and the contribution of agriculture to non-agrarian capital accumulation, is no longer relevant. Consequently, capitalist development no longer requires a capitalist transformation of the countryside to proceed, as it has access to other (external) sources of finance. For Bernstein (2016) the classical formulation of the agrarian question in which a 'successful' agrarian transition led to capitalist development relied on external factors, such as colonial plunder, which are not given anymore³². What remains is the agrarian question of (different classes of) labour, i.e. the struggles of poor people in the countryside to make a living³³.

³¹ This argument relies on the notion of different and sequential 'food regimes', see Friedmann (1993) and McMichael (2009a).

³² Bernstein also warns that the original formulation of the agrarian question was in effect a 'closed economy' model. This warning against methodological nationalism, i.e. "the conception of historical development in the ontological singular" (Teschke 2014: 24), is well taken. For a detailed treatment of 'external' inputs into capitalist development, see Anievas and Nisancioglu (2015).

³³ On the definition of classes of labour, see Bernstein (2010).

These interventions have sparked a lively debate. Byres (forthcoming) has robustly defended the continued importance of investigating agrarian transitions, saying that Bernstein relies too heavily on theoretically-derived answers to questions that are intrinsically empirical. On the other hand, Lerche (2013), after a careful review of the evidence, concludes that the agrarian transition has indeed been 'bypassed' in India, partly as a result of globalisation. For sub-Saharan Africa, which encompasses dozens of countries and a huge variety of social systems and agro-ecological zones, however, the situation is much less clear. Oya (2013) contends that the focus should be on the emergence (or not) of domestic agrarian capitalists, and that this question is ultimately empirical³⁴. At the same time he stresses the lack of relevant studies. Whether or not the emergence of domestic agrarian capitalists will result in agrarian transitions in the classical sense *in the long term* remains to be seen – and will depend on the contingent combination of internal and external factors in different locations. As Bernstein himself concedes: "However my thesis does not claim that the end of the agrarian question/agrarian transition for global capital means the end of the development of capitalism in agriculture, in all its substantive diversity, including the (further) development of (indigenous) classes of agrarian capital, nor then of the contradictions of class formation in the countryside and beyond" (Bernstein 2016: 80). With these questions and qualifications in mind we can now turn to agrarian capital accumulation in Africa.

2.6 Capitalism and accumulation in Africa

While researchers interested in the agrarian question have also generated a large literature on Africa (e.g. Becker 1990; Cliffe 1977; Kevane 1996; Mafeje 2003; Mamdani 1987; Müller 2011; Murray 1989; Oya 2007; Toit 1994), the development of capitalism on the continent is of course a much broader topic. This section will briefly – and necessarily quite superficially – review the history of capitalism in Africa before moving into debates on the effects of the spread of capitalism and the lessons to be drawn from them³⁵. It presents a review of field studies on domestic

³⁴ A notion Byres (forthcoming) emphatically agrees with.

³⁵ For a magisterial treatment of African history, see Fage with Tordoff (2002)

African – rather than European – accumulation, and agrarian accumulation in particular.

2.6.1 The development of capitalism in Africa

The first developments of capitalism in Africa began before the onset of the colonial period, in particular in those parts of the continent that had trade links to the wider world. These “few elements” were, however, “confined almost entirely to commerce, crafts and the towns, except in the south” (Iliffe 1983: 23). A variety of reasons help explain the low incidence of capitalist development. Sender and Smith (1986) argue that pre-capitalist African elites controlled commodity production by (more or less) coercive means, including intra-familial exploitation and slave labour. Capitalist social relations were therefore slow to develop. Iliffe places more emphasis on the amount of freely available land and the slave economy as barriers to moving towards capitalist production systems, as well as political barriers put in place by pre-capitalist social systems (1983). Even where production for export markets was common, wage labour was rare. In pre-colonial Asante, for instance, the wide availability of land raised the reservation wage of (potential) wage labourers so high that only coerced labour was economically viable (Austin 2005).

More immediately, capitalist forms of production, based on more recognisably capitalist social relations, began to take shape after the colonial conquest, beginning in earnest with the ‘scramble for Africa’ in 1879 (Freund 1998). These developed a wide array of forms in different parts of Africa, depending on pre-existing social forms and their adaptation to the particular context of colonial government. Austin (2016) offers a distinction between ‘settler’ colonies, where most land was reserved for European farmers, ‘peasant’ colonies, where African farmers retained most of the land and ‘plantation’ colonies, where large areas were given over to European plantations but the rest remained in African hands. As we shall see below, even where capitalist relations did develop, these took new forms that required theoretical accommodation. Moreover, their spread was slow.

The colonial period itself was marked by a deep paradox, which Berry has aptly described as “hegemony on a shoestring” (Berry 1993: 22). Colonial states were

interested in surplus extraction but unwilling to invest (much) in their colonies³⁶. This underinvestment damaged prospects for the development of national capitalism. Colonial administrations were wary of African competition to their own powerful trading companies and oftentimes actively discouraged African capitalists, in particular in settler colonies (Kennedy 1988). Even the great Marxist defender of imperialism as a progressive historical force, Warren, concedes that colonial administrations acted as a brake on diversification out of primary production (1980: 151f). Administrations faced the dilemma of having to encourage Africans to become involved in labour and commodity markets, without allowing them to reap too much of the surplus in these markets. Nonetheless, the colonial enterprises sought to expand commercial agriculture and the export trade, providing incentives for Africans to seek expanded access to land, labour and capital (Berry 1993).

Responding to such incentives, some African capitalists began to move into agriculture in the early colonial period (see Section 2.6.3). Labour mobilization changed with increasing commercialisation, although these changes were slow and uneven, depending in part on the character of pre-capitalist societal norms (Ilffe, 1983). Pre-capitalist systems of labour mobilization were employed by capitalists in the absence of developed labour markets. This includes labour demanded by colonial administration which was often mobilized in coordination with traditional elites (Sender & Smith, 1986). Sender and Smith (1986: 46) also point out that “the remarkable ability of African pre-capitalist social organisations to continue to reproduce themselves with their own limited means of production [...] allowed them to resist, for very long periods, attempts to restrict their alternatives to wage labour and capitalist labour discipline”. By the late colonial period, however, labour markets were becoming more widespread.

Nonetheless, African capitalism had failed to produce either widespread commercial agriculture or industrialization by the end of the colonial period. De-

³⁶ They were, however, forced to put in place some basic infrastructure in the hope that this would enable the transfer of goods (Fage with Tordoff 2002: 393ff).

colonization only marginally improved the situation, as neither the newly independent governments, often of 'socialist' or economically nationalist persuasions, nor the ex-colonizers, were especially willing to lend support to African capitalists. While Keynesian ideas and newly available funds increased state intervention, some have argued this tended to increase state influence more than raise productive output (Kennedy 1988). Nonetheless, growth seems to have been especially strong in many African countries between the 1950s and the 1970s (Jerven 2015)³⁷.

2.6.2 *Domestic capital accumulation: the Kenya debate*

In a review of the literature on African capitalists, Leys (1994) points to the relative absence of any research concerned with African capitalists *qua* capitalists, prior to the so-called Kenya debate, which took place in the 1970s and 1980s around the question of the impact of capitalism on the rural population of Kenya³⁸. These debates were primarily between the then-dominant *dependentista* school and (more orthodox) Marxist positions, and was, although this was not acknowledged enough at the time, partially about the political implications of these positions (Kitching 1985a; Leys 1996). According to dependency theory, rich metropolitan countries in the core of the global capitalist system employ a combination of economic and political power to exploit poorer, peripheral countries, which remain underdeveloped precisely due to their inclusion into global trade flows characterized by unequal exchange (Lubeck 1986; for a strident critique see Brenner 1977)³⁹. Thinkers influenced by ideas of *dependentista* argued that successful capitalist development in Kenya would not be possible due to its position in the periphery, which produced a backward state serving the interests of a small elite and a bourgeoisie dependent on foreign capital (i.e. *compradors*). Marxists on the other hand tended to argue that capitalism was a world-historical process that

³⁷ Jerven (2013) also points out that this is probably the period for which the best data is available.

³⁸ For overviews of the debates see for instance Himbara (1993), Kitching (1985) and Orvis (1993). Notable contributions include Beckman (1980), Cowen (1981), Freund (1985), Kaplinsky (1980), Kitching (1985b) and Leys (1978).

³⁹ For the related, but less pessimistic notion of world systems theory see, for instance, Wallerstein (2004) and Arrighi (2010).

would spread to all areas and ultimately drive industrial development. They pointed to the differentiation of the peasantry as a sign of an emerging capitalist class in the countryside (Leys 1996).

There were two main themes to the debate (Oya 2004): first, an investigation into the possibility of successful industrial development via an analysis of the role of the domestic capitalist class and its interaction with the state and foreign capital. Second, debates around the concept of modes of production and whether or not Kenya could be seen as the product of a particular mode of production, or rather a particular articulation of (pre-capitalist and capitalist) modes of production. I confine myself to a discussion of the former issue; for the latter – rather stale – debate see for instance Freund (1985).

The problem of the nature of the Kenyan bourgeoisie, in particular whether or not it was dependent on foreign capital (and therefore, by assumption, unable to drive domestic accumulation processes), was an early focus of the debate. Leys, who was later to change positions in the debate, made an early argument framed in *dependentista* concepts, purporting to show the Kenyan bourgeoisie was in league with foreign capital and contributing to the continued impoverishment of Kenya's rural dwellers by keeping them locked in a process of peasantization (Leys 1975; Orvis 1993).

Cowen (1981) challenged this view by analysing 'peasant production' itself, showing that there was in fact a contradictory process of class formation going on, driven by the spread of commodity production. Accumulators made heavy use of 'straddling', i.e. the use of money from their own wage labour, to secure initial capital. While commodity production was not universal, a discernible middle peasantry was emerging. For Cowen though this would not lead to successful development as the growth of middle peasant production, and the associated additional income accruing to them, was actually impeding capitalist accumulation by lowering (reservation) wages, thereby undermining incentives to develop more capital intense production systems.

There were two problems with these arguments which led to the inconclusiveness of the debate. First, the use of evidence was highly problematic (Kitching 1985b; Orvis 1993). Much emphasis was put on cross-sectional data. Such synchronic data is ill suited to assessing processes of social change over time (see also the discussion in the next chapter). The same data was thus able to support both sides of the debate. Moreover, as Leys (1994) makes clear, the research questions pursued, such as whether or not the Kenyan bourgeoisie was dependent or not, were not the most relevant. The focus should be on the necessary conditions for successful capitalist growth, whether the relations of production were moving in that direction and what policies could be applied to support development.

What is needed is thus localized empirical analysis of specific social systems of production viewed within their particular historical context. The Kenya debate was important in moving the study of agrarian political economy towards the more fruitful path of exploring particular systems of production through in-depth field studies, a heritage that continues to be of great benefit. Moreover, it has clearly shown the fallacy of attempting to analyse long-term processes of change through synchronic data alone. Both of these ideas are reflected in the research design of this study.

2.6.3 Field studies in domestic accumulation

How then has agrarian accumulation proceeded in areas where domestic capitalists have successfully established themselves? Any answer must proceed from data delivered by detailed empirical field studies. For reasons of space, I focus here only on a selection of classic studies, selected for their thematic and/or methodological innovations. Drawing on Austin (2005), Berry (1993), Hill (1970) and Kitching (1980) as seminal examples of such studies, we can identify key themes in tracing rural accumulation and agrarian capital in Africa. Chapter Three, which picks up on the methodological implications of some of the points made below, also incorporates a detailed study and follow up by Oya (see 2002, 2004, 2007). Other insightful studies on African capitalists are collected in Berman and Leys (1994).

First, it is important to establish the roots and processes of accumulation in agriculture. In other words, who are the accumulators and how do they gain control over productive investible funds? Hill (1970) identifies complex networks of migration which allowed farmers to move to then uncultivated parts of Ghana to use family labour and complex credit relationships to establish commercial farming enterprises, meaning that initial accumulation was able to proceed without widespread dispossession, or indeed much initial capital. In settler colonies, however, dispossession was vital to establishing settler agriculture while educated Africans used proceeds from jobs in the colonial administration to set up farms. As Cowen (1981) did later, Hill (1970) found that straddling was an important aspect of accumulation. Increasing commercialisation of agriculture deepened rural differentiation, especially in areas suffering land shortages (Berry, 1993). Austin (2005) in particular stresses the early beginnings of accumulation, which he dates back the period before 1807 in the case of Ghana. He shows how the changing nature of property rights, regimes and the varying scarcity of factors of production (mostly land and labour) exert influence on the process of accumulation.

Kitching, drawing on an explicitly Marxist theoretical framework, analyses the emergence of a class of African capitalist farmers in Kenya, a settler colony where African production was long confined to 'reserves'⁴⁰. This class of successful capitalists emerged through a process of increasing social stratification, i.e. 'from below', as some farmer owners were able to access additional funds – in the context of the spread of monetised relationships and increasingly generalised commodity production - and invest these in more land, as well as in hiring labour to work the land. He identifies 'straddling' – "the use of off-farm income to expand landholdings and commercialise agriculture" (Kitching 1982: 3, see also 451f). The primary source of such off-farm income was public sector employment, or, as Kitching puts it, the state wage bill. The use of proceeds from wage labour as investment funds has theoretical implications: the employed farm owner is at the

⁴⁰ In fact, Kitching conceived the book in large part as a contribution to Marxist theory and the book offers subtle considerations of a variety of Marxist concepts, couched in a trenchant critique of structuralist Marxism.

same time himself an employer, and therefore an exploiter of wage labour – a petit bourgeois. The classical Marxist class division into bourgeois and proletariat thus breaks down in developing countries⁴¹. Kitching suggests identifying exploitation by people's ability to accumulate, both in the sphere of production and in the sphere of circulation. Access to and control over the state thus becomes important to ensure access to capital (from wages) for use in investment and thus accumulation.

By the 1950s at least four types of producer households could be found, differentiated by their level of access to non-farm income, the male migration patterns that resulted from this employment, the sexual division of labour and the sale or purchase of labour power. This process of stratification and class formation led to a stark increase in landlessness, which Kitching (along with rapid population growth and slow formal sector job growth) identifies as the source of Kenya's 'informal sector', which by the 1970s was substantial.

Secondly, there is the question of labour mobilization and control over land. Both Berry (1993) and Hill (1970) stress the importance of kinship and social networks. For Berry in particular these networks of social obligation, kinship and tradition are the primary vehicle through which farmers, and aspiring accumulators, access both land and labour. Commercialisation can thus proceed without the formation of social classes in a Marxist sense⁴², seen to be more important in accessing land rather than labour. Hiring of labour is also dependent on the returns offered by different farming systems, with annual crop systems on small farms least likely to hire labour. However, Berry shows that rural differentiation not only determines the likelihood of hiring labour power, but also introduces a functional difference. Straddling amongst different sources of income is widespread amongst rural households but differs in relation to its place in household reproduction. For poor households it is an essential means of survival, while for richer households it is used as a tool to expand reproduction and increase income.

⁴¹ For a similar attempt to accommodate seeming contradictions for rich capitalist countries, see Wright (1997) and his notion of 'contradictory class locations'

⁴² For a critique of Berry's conception of Marxist analytical categories and the related shortcomings of her analysis, see Bernstein (2004).

While most authors document the halting and uneven, yet inexorable, spread of wage labour relation (see Sender & Smith 1986), Austin (2005) documents how wage labour arose in Ghana following the decline in slavery and 'pawning' of workers at the beginning of the 20th century, only to then be largely replaced in key areas by sharecropping. Using a framework based on evolutionary rational choice theory, but informed by a much wider set of theoretical perspectives, Austin charts developments in factor markets in the Asante kingdom (and later Ghana), uniquely covering both the pre-colonial and the colonial periods⁴³. As Austin insists, factor markets have existed in Asante for a long time and the aim of his study is thus not to show how markets emerged or developed, but rather to analyse the impact of changing property rights regimes on the content of these markets. Asante became a key part of the Ghanaian cocoa export economy through the initiative of entrepreneurial domestic accumulators, who unleashed an unprecedented cocoa boom, making Ghana the largest exporter by the 1920s. Austin demonstrates how the specific institutional forms taken on by factor markets evolved as both internal and external events – in particular the arrival of cocoa plants and the concomitant development of a world market for cocoa, and the slowly enforced ban on slave trading and then slavery – impacted the relative value of land, labour and capital (in the form of cocoa trees)⁴⁴. In a clear warning against deterministic ideas about rural transitions, he shows how towards the middle of the 20th century wage labour became supplanted by sharecropping systems, due to the bargaining power of labourers not completely separated from the means of production.

The focus here on how (emerging) capitalists avail themselves of workers should not obscure the importance of also examining the labour relations from the point of view of the worker, though this is largely outside the scope of this thesis. Labour

⁴³ The use of rational choice theory in the African context was pioneered by Bates in his study of how power influenced the distribution of agricultural surpluses and the implications this had for agricultural development (see Bates 2005).

⁴⁴ For Austin, this analysis also shows up the limits of the NIE approach. He cautions that "property rights affect economic outcomes not only through their effects on incentives but also through their implications for the distribution of power: in the sense of confirming if not determining who would be the principals, who the agents, and what the (im)balance of bargaining power would be" (2005: 451).

relations in agriculture have been explored both in contemporary Africa (e.g. for Kenya in Gibbon and Riisgaard 2014; Riisgaard and Gibbon 2014) and in contexts as diverse as Brazil (Selwyn 2012), Colombia (London 1997; Ortiz 1999), Costa Rica (Luetchford 2008), India (Besky 2013), and the US (Wells 1996), to name a few examples. A good overview of the history of labour organisation in Africa can be found in Freund (1988).

2.7 Themes in the Literature

Across all of the surveyed relevant literature a number of consistent themes emerge. Processes of social change need a long time horizon to be analysed, are indeterminate in their outcomes, and any analysis must happen within a concrete historical context. In depth field studies appear as the ideal medium. Such studies must then focus on the origins of capital and the means by which it can engage in expanded reproduction. Capital can originate 'from above' or 'from below' via a process of differentiation, or may indeed be fed from both sources.

State action or inaction is central to understanding patterns of accumulation (or their absence). Insights from the developmental state literature about the conditions under which state action can be effective in driving capitalist accumulation are insufficient to explaining agrarian capital accumulation though. As Chapters Five and Six will demonstrate, even in a 'developmental' state, agrarian capital accumulation can take place largely outside of the control of government elites.

For individual capitalists, success is driven by the choice of relevant strategies of accumulation, which includes tactical and strategic investment decisions in response to changes in the socio-economic or legislative context. A detailed understanding of agrarian transition processes must therefore incorporate a close analysis of individual trajectories of accumulation, without losing sight of wider social structures and conflicted arenas in which such processes take place. In this context, labour mobilization can act as a major constraint to accumulation, and conflicts between capital and labour can be an important feature in explaining socio-economic development. The next chapter discusses how these insights can be operationalised in the context of a concrete empirical project.

Chapter three

Research design, methodology and data

3.1 Introduction

The validity and reliability of empirical work cannot be readily assessed without a clear understanding of the methodological choices that were made in assembling and analysing the data. Accordingly, this chapter lays out the methodological foundations of the thesis. It begins with a discussion of the thematic research areas that arise out of the central research question, followed by a description of the research design chosen, in this case a contrastive case study analysed using the theoretical and empirical tools of historical political economy.

Combining a small-scale quantitative survey with large amounts of qualitative data, while adopting an asymmetric research design is perhaps an unusual approach to empirical work. These choices are therefore explained and their consequences elaborated in the following sections¹. The data for this study was collected during in-depth fieldwork in Ethiopia, and the precise ‘mechanics’ of the empirical work, including its structure and the approach taken towards identifying and selecting respondents are discussed in some detail. This serves to convey the care and deliberation that were required, and to illustrate the difficulties encountered in collecting data, something which will be of use to other researchers as well. The discussion then moves on to outline my approach to interviewing and data analysis, before concluding with a discussion of the limitations of the methodological approach chosen.

¹ The design is asymmetric in that the coffee sector is given greater weight than the floriculture sector.

3.2 Central research question

As laid out in the introduction to this thesis, the central research question pursued here is:

To what degree and how is a class of capitalist accumulators emerging in the contemporary Ethiopian coffee and floriculture sectors?

While the thesis examines both foreign and domestic accumulators, the focus of most of the empirical work presented here is on the latter. Such a focus on domestic capitalists not only makes sense given the theoretical and empirical debates around the continued relevance of the agrarian question examined in the previous chapter, but also because domestic accumulators are likely to play a strategic role in the ongoing transformation of Ethiopia's agrarian sector.

The central research question is deliberately cast wide, and to be operationalised it must be broken down into empirically manageable sub-themes. These four themes have already been laid out in detail in Chapter One and thus need only be briefly restated here, where they are rephrased as questions. They emerge directly out of the research themes identified in the literature. Comparisons are made in cross-section across the two cases chosen – coffee and floriculture – as well as, especially in the case of coffee, longitudinally. The coffee case is treated in more historical detail, as both private and government-owned coffee plantations have a long history in Ethiopia. This history is vital to understanding the current interaction between government policy and private accumulation patterns, whereas floriculture is a very contemporary phenomenon. Also, as we shall see in the following chapters, domestic accumulation has been much more important in the coffee sector. The sub-themes are:

1. **Who are the accumulators?**
2. **How does the process of capital accumulation proceed?**
3. **What is the role of labour mobilisation and how are the conditions of labour?**
4. **What is the role of state in nurturing capital accumulation?**

3.3 Research design

3.3.1 *Causation, deduction and induction*

A basic principle of the study of development is or should be that the research question pursued dictates the methods of inquiry. As laid out in Chapter 2, there is a rich literature on agrarian transformations and the development of agrarian capitalism in a wide variety of social formations, both historical and contemporary. The study of capital accumulation, and its interaction with state structure and action, is a complex undertaking that requires a close examination of historical processes. The aim of such examination is *not* to produce generalised abstractions in the form of supposedly immutable ‘laws’, but rather to provide a rich *description* of socio-economic change processes, and to proceed from there to an *explanation* of the processes themselves². Explanation requires the researcher not only to focus on causal effects, such as are often the result of statistical analysis, but also to determine the underlying causal mechanisms (Gerring 2007). In other words, an explanation focused on causes must seek the *processes* that produce phenomena (Shaffer 2015).

This study uses the lens of historical political economy as the most appropriate framework for studying the concrete historical processes through which new groupings of agrarian accumulators emerge, and uses the coffee and floriculture sectors of Ethiopia as case studies. The theoretical underpinnings of historical political economy, and the lessons taken from the application of such methods to other contexts, serve as a useful guide in formulating research questions and, more generally, in focusing the eye of the researcher on the most likely drivers and problems. However, given the idiosyncratic nature of processes of agrarian change, theoretical models developed for other times and other social formations are likely to offer at best a rough guide to problems or structures that may be involved. A good example of such an approach is Byres’ (1996) work on trajectories of agrarian change. Using a comparative case study approach to historical political economy,

² This is not to imply that commonalities in structures cannot be identified. Indeed they can and should.

Byres analyses the processes of agrarian transitions in different countries to derive broad commonalities across cases. However, Byres emphasises that these should not be viewed as ideal types and that each case must be analysed and explained in terms of its own complex internal dynamics. This lesson is well taken, and this study accordingly adopts a broadly inductive approach, in that hypotheses and inferences are drawn out of observations (Bryman 2012). The aim is not to test existing hypotheses. However, the construction of hypotheses and theoretical conceptions through inductive reasoning should not be confused with a-theoretical data mining. Nor is it directly comparable to the structured and iterative approaches to theory building of grounded theory, which is also inductive in nature. An inductive approach can, and in most cases should, proceed from general theoretical concepts, for instance an insistence on the importance of the study of the states and classes in understanding socio-economic change – as emphasised by Byres. The researcher must necessarily have a *Weltanschauung*, which in itself will influence the research questions one seeks to answer. At the same time, however, there must be enough flexibility in these theoretical precepts to accommodate the complexities of the question under study, without dictating or pre-empting results. More concretely, the general mode of inference used in this study is that of ‘retroduction’, by which “events are explained by postulating (and identifying) mechanisms which are capable of producing them” (Sayer 1984: 97).

As stated above, the specific ‘lens onto the world’ employed in this study is that of historical political economy. The focus therefore lies on an examination of the development of agrarian capitalism as a socioeconomic system with historically specific relations of production, exchange and reproduction. Underlying these are sets of property relations, which tend towards – but do not necessarily converge on pure forms of – a class division in the ownership of the means of production. Understanding farm owners not simply as ‘large farmers’ or as ‘entrepreneurs’, but specifically as capitalists forces us to view their accumulation of capital as a *social* process, based on the appropriation of surplus value through the exploitation of wage labour in the production and sale of commodities, and the reinvestment of this surplus into new capital. This process, so theory and history teach us, is

inherently conflictual and prone to producing contradictions. But while the production and appropriation of surplus value from wage labour is the primary means through which accumulation occurs, what needs to be explained is how the individual capitalist comes into the position of commanding control (if not always legal ownership) over the means of production. This in turn requires a historicisation of the accumulation processes, paying special attention to the development of Ethiopia's class structure, of rural class relations and of the relations between the Ethiopian state and (factions of) capital. At the same time, the specificities and idiosyncrasies of both sectors, in terms of their relations to international value chains and foreign capital, their technical productive requirements and their local histories will be illuminated.

3.3.2 Comparative-historical case studies and case selection

A useful method for examining the interconnection between these strands of analysis is the comparative-historical case study. A case study may be defined as "an intensive study of a single unit or a small number of units (the cases), for the purpose of understanding a larger class of similar units (the population of cases)" (Gerring 2007: 37). They are particularly powerful in gaining insights when used in situations where hypotheses are to be established, rather than tested, where the population of cases is heterogeneous and where the focus of understanding is on causal mechanisms, and less on causal effects. In other words: "case studies enjoy a natural advantage in research of an exploratory nature" (Gerring 2007: 39). As this study deals primarily with a hitherto practically unstudied population, namely capitalist coffee plantation owners in Ethiopia, an exploratory research design is the most appropriate.

Case study research can be conducted in a number of ways. This study seeks to understand agrarian accumulation processes and their complex interdependencies with state action. Two sectors, coffee and flowers were chosen as cases because they had both seen recent spurts of private investment in production and both have a heavy export orientation (albeit much larger in the case of cut flowers). Both are

strategically important to the Ethiopian state, the coffee sector as one of the largest foreign exchange earners in the country, and the floriculture sector as both a visible sign of economic success and as a blueprint for the expansion of high-tech agriculture³. There are, however, crucial differences that make for an interesting contrast. Both sectors have been subjected to detailed regulatory regimes. But while the producers in the coffee sector have received comparatively little direct support, the floriculture sector has been a 'darling' of the federal government. A second difference concerns the origins of investors in both sectors. Whereas investment in the coffee sector is by law open only to Ethiopians and the Ethiopian diaspora, the floriculture sector has been dominated by foreign capital. These differences and their implications for accumulation in both sectors are the subject of Chapter Eight.

As capital accumulation is a socioeconomic *process*, there is temporal variation within each case. These developments will help us understand how accumulation strategies play out and how capitalists, workers and the state react to changing circumstances. At the same time the contrast between the two cases can be used to illustrate differences in accumulation strategies rooted in markets for and value chains of the commodities produced, the technical parameters of the production itself and the variation in state support across sectors. The study therefore employs a two-case comparative-historical study design (Gerring 2007: 28). This mixture of synchronic and diachronic analysis has been gainfully employed in studies of accumulation processes in other contexts, see for instance (Oya 2007)⁴.

3.3.3 Unit of analysis

The unit of analysis for this study is the individual capitalist. The aim is not to define the *structures* of emergent class relations in rural Ethiopia, nor to elaborate the class position of the new coffee capitalists (along the lines of Wright 1997), but rather to illuminate the real historical *processes* by which a new agrarian class comes into being and – crucially – the role played by state action in these developments. The individual is important because it is the actions of individuals in the context of

³ Of course the floriculture sector is also an important contributor of foreign exchange.

⁴ Broadly speaking, synchronic analysis looks at the differences across cases, while diachronic analysis looks at change over time both within and across cases.

a structured economic and socio-political environment, i.e. their constrained agency, which determines outcomes. However, unlike studies built on methodological individualism, historical political economy views these structures as the direct result of a socio-economic system based on generalised commodity production and market compulsion (Wood 2002).

A crucial structural constraint that acts upon individual capitalists is the *relational agency* they enjoy vis-à-vis power centres such as the state, but also opposed economic interests – workers in the case of a capitalist. However, individual capitalists also face pressures from competing capitalists, both from other producers and from companies higher up in the value chain. Another important factor to consider is whether and to what degree individual capitalists come together to act collectively. A focus on relational agency and real historical processes militates against a simplistic ‘reading off’ of socio-economic developments from the (supposed) structures of classes, and avoids seeking to locate the final cause for concrete historical processes in an abstract notion of class contradiction. In discussing a more helpful definition of class, Wood picks up Thompson’s notion of class as a ‘structured process’ and insists that “any definition of class must invite, not foreclose, the investigation of process” (2007: 98). To conduct an analysis of class and state that emphasises individual agency while not losing sight of the systemic constraints to such agency, we must avoid ‘historical formalism’ (Banaji 2012) and employ a critical disposition towards the actions of governments with a focus on the unforeseen reactions and subversions which state action generates (see also Scott 2014). In particular this means focusing on the rule-breaking behaviour by capitalists (Streeck 2009).

3.3.4 *Scope and time horizon*

On one level, the time horizon covered in the study is both simply and narrowly defined by the relatively young age of both floriculture and the contemporary capitalist coffee plantation sector in Ethiopia. At the same time, the tracing of stories or trajectories of accumulation means that the time horizon reaches back into the childhood of current capitalists, and even into the lives of their parents (Oya 2007).

In the coffee sector in particular there are important antecedents to the current plantations that can only be fully understood in the context of Ethiopia's imperial expansion at the end of the 19th century and its subsequent first experiments with domestic capitalism – Ethiopia's first, albeit partial and disrupted, agrarian transition. Thus while the synchronic elements of the inquiry are firmly focused on contemporary Ethiopia, and mostly on developments that have occurred since the millennium, the diachronic elements reach much further into Ethiopia's history. While imposing a temporal cut-off is often necessary to provide a practical and meaningful boundary to a study, historical political economy must be willing to trace the roots of current developments as far back as the causal chain meaningfully carries⁵.

The scope of the inquiry was also restricted in two other ways, pertaining specifically to the coffee sector. As the focus of the study was on the dynamics of capital accumulation that led to the formation of new coffee plantations, the concurrent privatisation of the existing large state-owned plantations is treated only peripherally and only in so far as it gives insights into sector-wide dynamics and government strategy. Similarly, farms that were not – at least in principle – eligible for official 'investor' status (i.e. those smaller than 30ha in size) were excluded. This leads to a systematic underappreciation of 'accumulation from below' and of differentiation amongst 'small' producers (see for instance Petit 2007 for a discussion of evidence of such differentiation). While these topics are much-deserving of research, they could not be adequately treated within the logistical confines of this study.

3.4 Structuring the empirical work

This thesis is based on fieldwork in Ethiopia, conducted between October 2012 and September 2013. While the study makes extensive use of the existing literature, as well as secondary data and available datasets, the core of the empirical material was collected by me. Having just one year during which to conduct field research, and

⁵ Meaningfully is the operative term here. The search for truly contingent first causes is – in my view – in many cases a fool's errand.

working subject to the constraints detailed below, meant that tough choices had to be made about how to structure the research in the field. In particular, I chose to adopt an asymmetric research design with respect to my cases.

3.4.1 Comparative case study research in practice

The decision to adopt an asymmetric research design, which favours the coffee case over the floriculture case, was made early in the fieldwork process. It was driven by the realisation of the size and explosive growth of the private coffee plantation sector. As the emergence of agrarian capitalism in the coffee sector had not been documented, it made sense to focus more on developments in that sector and employ floriculture as an analytical contrast. While many aspects of the Ethiopian economy and socio-political systems are comparatively 'under-researched', the spectacular growth of the floriculture sector has attracted a lot of attention. Whether due to its relative proximity to the capital or to the early and continuous involvement of foreign donors and capitalists, the sector has been highly visible in national and international media and has garnered the interest of researchers in Ethiopia and beyond. By contrast, Ethiopia's coffee sector has long suffered from a dearth of both research and policy attention. Most of the research covering the Ethiopian coffee sector comes from the natural sciences, and what little research is available in the social sciences deals almost exclusively with only one type of producer – the smallholder farmer – to the near-complete exclusion of capitalists proper. A symmetrical treatment of both sectors would have necessarily resulted in a more superficial treatment of the coffee sector.

Given these differences, the approach to researching accumulation processes in both sectors has to differ, and accordingly different approaches were chosen for the use of existing data, the construction of a sampling frame, the sampling method, and interview types. It therefore makes sense to discuss the approaches to both sectors separately.

3.4.2 Constraints to fieldwork

However, before moving on to these topics, some remarks about general constraints to the fieldwork are in order. Methodological choices have to be made within the

constraints of time and resources. I will highlight only the two most limiting constraints, namely the state administration and transport.

3.4.2.1 Administrative constraints

Ethiopia has no formal system of research visas or permits. In principle, research can be undertaken by anyone who legally entered the country. However, police have been known to harass researchers and it is safer to seek the approval of authorities before conducting field research. Permission to conduct fieldwork, in the form of a signed and stamped letter indicating official support, must be sought from a substantial, and at times slow-moving, government bureaucracy at federal level. Even with such permissions, research projects can be endangered by official and semi-official interference (see for instance Cramer et al. 2016). Subsequently, lower tiers of public administration at zone and *woreda* levels must be informed about the details of the proposed research in their particular areas, whereby letters from higher authorities are presented and written authorisation is in turn sought.

However, this ‘march through the institutions’ does have hidden benefits. While this process is very time-consuming, it also offers the opportunity to conduct informal interviews with a plethora of officials at various levels. Moreover, such letters of support are vital to getting any information at all from government offices and are also very helpful in gaining access to private companies and the civil society organisations.

3.4.2.2 Logistical constraints

One of the most binding constraints on my fieldwork was the issue of transport. Courtesy of a high import tax, cars are expensive in Ethiopia, both to buy and to rent. Funding for fieldwork was very limited and was mostly used to pay for a research assistant. Almost all travel for fieldwork was therefore undertaken using public transport. From time to time it was possible for me to travel with an international NGO, Technoserve, which is active in the coffee sector. Similarly, some of the visits to flower farms were undertaken by accompanying staff from the sector’s trade association EHPEA.

The consequences of transport constraints differed for the two sectors under study. As Ethiopia's floriculture farms are almost all clustered in the vicinity of Addis Ababa, reaching these farms was generally not a problem. Moreover, the vast majority of farms have offices within Addis Ababa itself and the sector's capitalists generally preferred to meet in the city. The situation was very different in the coffee sector. Because of insufficient transport connections in many of the coffee growing areas, much time was spent travelling to and from interview sites.

During the initial research phase farm visits were essential to building an understanding of production and labour processes and to gaining a direct impression of working and living conditions. While flower farms are easily accessible, coffee farms are generally located in the forest, often kilometres from the nearest road. Frequently, they are connected to roads only by rough dirt tracks. In fact, several of the capitalists I interviewed complained that their farms were so remote and difficult to reach they had to transport their coffee to the nearest road using donkeys. My ability to access farms usually depended on being able to negotiate transport with the farm owner. In the interest of maximising the number of interviews, most meetings with respondents were therefore scheduled in administrative centres whenever possible, as these have better access to public transport. Some interviews were also held in Addis Ababa, which many of the coffee capitalists visit frequently.

3.5 Sampling and representativeness

3.5.1 Sampling and sampling frames

As discussed above, the research into the two sectors covered is purposefully asymmetric and different data sources are used for the two sectors. However, it is worth highlighting the commonality in the approaches to both sectors, in particular in terms of the sampling methodology. In both cases respondents were chosen from a carefully constructed sampling frame. A complete sampling frame is a necessary condition for constructing an analytically relevant sample, otherwise an informed judgement about the inclusion or exclusion of particular cases is not possible. In both the coffee and floriculture sectors, samples were therefore purposively selected

from complete sampling frames so as to exemplify the salient features of accumulators in each sector as fully as possible.

3.5.2 Representativeness and analytical relevance

As the sampling methods employed in this study depart from the usual standards employed in quantitative work, which commonly use probabilistic sampling, a few words on the difference between the statistical representativeness and what might be termed analytical relevance are in order. When undertaking a statistically representative survey, a complete sampling frame is the necessary basis for sampling. By randomly selecting a sufficiently large sample from a complete sampling frame, researchers can – if certain conditions are met and appropriate methods for estimating effects and standard errors are used – make meaningful inferences from the chosen sample to the wider population under investigation (Deaton 1997). As explained above, the samples in each sector were chosen specifically to capture important cases of domestic accumulation in both sectors. A simple random sampling procedure would have missed many of these cases due to their relatively small numerical weight in the universe of possible cases. Moreover, many studies that claim to use statistically representative samples in fact do not expend enough effort on constructing the sampling frame and therefore work with biased samples.

In theory, the careful use of stratification could have produced samples that are both analytically relevant, in the sense of capturing important cases, and statistically representative. Sample stratification works by separating the sampling frame into strata according to variables of interest, and then randomly sampling from within each stratum. Oversampling of certain strata can be used to ensure the inclusion of particular cases. The representativeness of the sample is restored by weighting each case, usually by the inverse of their probability of inclusion (De Vaus 2004). However, this was impractical here. First, stratification is, as just explained, a two-step procedure which requires much information about the sampling frame before the sample is taken. Such information was available for the floriculture sector, but not for coffee, where, as explained below, the construction of a sampling frame was

an ongoing process. Second, such an approach only makes sense if the goal is to conduct data analysis using inferential statistics, which was not the case here.

A distinction must be made at this point between data covering the coffee sector and data about floriculture. Given the impossibility of first constructing such a complete sampling frame of coffee plantations, i.e. conducting a census to collect the information necessary for appropriate stratification, and then conducting the survey itself within the logistical confines of a PhD thesis, a random approach to sampling was consciously rejected in favour of purposive sampling methods. I judged it more important to use the limited resources at my disposal to construct a sample that contains key cases and is therefore analytically relevant for the purpose of providing both a description of, and an explanation for, the accumulation processes occurring. I contend that the resulting samples across both sectors, as well as the resulting data, are of far higher quality than could have been achieved – within the constraints of time and money – by relying on probabilistic sampling methods and incomplete or unreliable sampling frames. The lack of statistical representativeness is more than made up for by the care taken in constructing the sampling frame and the in-depth process of data collection. Thus, while conclusions can be drawn from my findings about developments in the coffee plantation sector as a whole, no attempt at statistical inference on the basis of my quantitative data is made. To do so would be methodologically indefensible. Descriptive statistics, by contrast, only relate to the characteristics of the sample at hand; they do not claim to provide information about the wider population, but also do not require a probabilistic approach to sampling, and are therefore appropriate for the analysis of my survey data covering the coffee sector. In the floriculture sector, the quantitative analysis is based on a quasi-census of flower farms, obviating the need for inferential sampling with respect to quantitative data for that case. From this sampling frame I carefully selected both foreign and domestic capitalists. The sample for qualitative interviews was chosen purposively, as is common in qualitative research (Flick 2014).

3.6 Sample construction in coffee

3.6.1 Availability of data

A key challenge in the construction of a sampling frame of coffee capitalists in Ethiopia was the lack of existing research on which to build. I was not able to find even a single piece of academic writing on the contemporary capitalist coffee plantations being established in Ethiopia's coffee lands⁶. To the best of my knowledge, this is the first study to tackle this subject using primary data.

The situation is only slightly better when it comes to official Ethiopian data. Official surveys covering large-scale 'commercial' farms have been carried out by the Ethiopian government's Central Statistical Agency (CSA), but these are not designed to cover the coffee sector. A further source of official information comes from the investment licences issued to each new investment project undertaken in the country. However, the use of investment licences has two major drawbacks. First, investment licences are not active projects. A prospective capitalist may very well be issued an investment licence, but never undertake any investment. Some studies do use investment licences to gauge investment volumes in Ethiopia, even while acknowledging the weakness of this approach (such as Baumgartner et al. 2015 for instance), but this is likely to result in a significant overestimation of the number of active investment projects. Second, in theory, licence databases are updated regularly at all levels and contain information as to whether projects have actually been implemented, but in practice the data on implementation status of licensed projects is woefully inadequate. This was confirmed time and again by government officials at all levels, and is not limited to the coffee sector.

For both sectors I was, however, able to draw on the rich datasets provided by the fair trade, employment and poverty reduction (FTEPR) project. This SOAS-led project has compiled a wealth of information on the characteristics of the labour forces in both sectors and on their wage and non-wage working conditions.

⁶ Apart from one study on land use on the Kaffa forest area, which remarks on the phenomenon in passing (El Ouaamari and Cochet 2014).

3.6.2 Constructing the sampling frame

The approach taken to constructing a sampling frame for the coffee plantation sector was thus multi-pronged and iterative, and relied heavily on the triangulation and cross-checking of data from a variety of sources. The most important of these, which are discussed in turn below, were: membership lists of sectoral associations and trade bodies, official administrative records, and information provided by key informants and survey respondents. Extensive scoping was undertaken to collect the data needed for the sampling frame, but also to identify and hold initial interviews with key informants and to observe the growing, processing and trading of coffee. These scoping trips were also used to collect the necessary administrative authorisations.

3.6.2.1 Initial sampling frame and study areas

The relatively young Ethiopian Coffee Growers, Producers and Exporters' Association (ECGPEA), only in operation since late 2008, was specifically founded – at the request of the Ethiopian government – to act as an interlocutor with officials on behalf of the new breed of coffee capitalists. The association was therefore the ideal body to use as a starting point and provided a list of its members. It is, however, a very small organisation, operating at the time of research out of a small office temporarily donated by the Ministry of Agriculture and with full-time staff limited to the director, his assistant and two further clerical staff. Many, but by no means all, of the plantation capitalists were ECGPEA members at the time of research, and membership was biased towards those with the greatest interest in exporting. A full list of all association members was made available at the start of the fieldwork and subsequently updated.

The other business association operating in the sector, the Ethiopian Coffee Exporters' Association (ECEA), refused to provide me with any information, which illustrates how sensitive many forms of research are in Ethiopia⁷. They also went so far to as refuse me access to a list of the association's members, despite the fact that lists of ECEA members were contained in annual reports, which were freely

⁷ Individual staff members were more forthcoming and unofficially provided some information on the largest exporters directly involved in production.

available on the association's website. The ECEA membership lists, though, were less useful for the construction of the sampling frame, as the membership consists mostly of companies that buy, process and then export coffee, rather than of plantations which export their coffee directly.

Official government records, the single most important input into the sampling frame, were arduous to collect and also had to be used and interpreted with great care. Ethiopia's coffee sector has suffered from years of relative administrative neglect, compounded by a dispersion of regulatory authority across various branches and layers of government. As a result, the state of official records for the sector is particularly dire⁸. Obtaining information required moving through the hierarchy of the administration from the top downwards and seeking written authorisation to conduct research and collect data at each step.

Despite the problems outlined above, investment licences are a useful starting point in constructing a sampling frame of coffee plantations, as most of the coffee capitalists are contained within those records⁹. However, the records are both incomplete, i.e. do not contain all plantations, and not up-to-date, in that they contain large numbers of projects that were never actualised. Moreover, information on land holdings, employment and start-up capital was more often than not wildly inaccurate and registered contact details of investors were often incorrect. These records could consequently serve only as one input into the sampling frame and all information in government records was carefully checked and cross-referenced. The licence information was taken from different government levels, allowing me to cross-reference these records against one another, as well as against other data sources. In this way, missing entries could be added and inactive projects could be eliminated from the sampling frame.

⁸ An exception to this is data concerned directly with exports, which is held by both the Ministry of Trade and the Ethiopian Customs and Revenue Authority (ECRA). This information is of much better quality as it is needed for the control of foreign exchange. While neither the ministry nor ECRA was willing to grant me access to this data, Minten et al. (2014) were able to access these datasets and their analyses have been used as background information.

⁹ Investment licences for coffee growing are only granted to plantations at least 30ha in size. As farms below this threshold were excluded from the study this did not present a problem.

Initially, investment licence data was taken from the Ethiopian Investment Commission (formerly Ethiopian Investment Agency – EIA) in Addis Ababa. The EIC shared its entire database of investment licences for the coffee sector, which includes coffee plantations, processors (*akrabe*), roasters, exporters and domestic wholesalers. This database was of extremely low quality, rendering it all but useless. The EIC was fully aware of the weaknesses of their database and officials there recommended relying on contacts provided by ECGPEA. The database did, however, confirm that very few coffee plantations had been licensed outside of Oromia and SNNPR.

The next, time-consuming, step was to seek investment licence data from the investment bureaus of Oromia region and SNNPR. It took several weeks and multiple visits to finally obtain the data. The initial analysis of this data, which was of better quality than that held at federal level, was useful in roughly determining the geographical distribution of private coffee plantations. For Oromia the database showed by far the largest concentrations of plantations in Jimma zone, with smaller numbers active in Illubabor and Guji zones and a handful of cases in West Wellega and Kellem Wellega¹⁰. The SNNPR data showed that the greatest number of plantations was located in Kaffa zone, followed by Bench Maji and Shaka zone. The lists showed that there were no licensed plantations at all in Gedeo zone (which contains the famed Jirgacheffe area) and just one in Sidama zone – two of the most productive coffee growing areas in the country. This absence of plantations was confirmed by collecting investment licence information from the zonal investment offices of both zones.

By combining the official records with the membership lists of the sectoral associations and cross-referencing against information obtained from key informant interviews during scoping trips it was now possible to assemble an initial version of the sampling frame. This contained all licensed plantations over 30ha in size. This was used to define a geographical scope for the study that was both analytically satisfying and achievable. It was immediately clear that a focus of the research

¹⁰ Please see the maps in Annex III.2

would have to be on the major concentrations of private plantations in Jimma and Kaffa zones. The initial idea was to include two other areas containing large numbers of plantations, namely Bench Maji and Sheka zones, along with a selection of plantations from ‘frontier’ areas characterised by small numbers of farms and long transport routes to population centres. While areas with many farms are analytically relevant as they are the most dynamic areas, the ‘frontier’ areas are important because they allow for an assessment of the importance of transport links and spillover effects amongst plantations for business success.

This plan was, however, amended after a further scoping trip encompassing Bonga, the administrative centre of Kaffa zone and Jimma town. Data collected in Jimma revealed a remarkable clustering of plantations within a single woreda of Jimma zone – Limmu Kossa woreda. More time was therefore spent exploring this cluster and its dynamics, at the expense of one of the other targeted areas, implying either Bench Maji or Sheka zone. Logistically, it made sense to retain Bench Maji, and Sheka zone was therefore excluded from the investigation. West Wellega and Kellem Wellega were chosen as ‘frontier’ zones, where there had been less investment activity. Both Illubabor and Guji zones were also excluded, in order to concentrate research efforts in the main clusters in Jimma and Kaffa. The final list of chosen research areas is presented in Table 3.1.

Table 3.1 - List of main coffee research areas

Zone	Region	Administrative centre
Jimma	Oromia	Jimma (town)
Kaffa	SNNP	Bonga
Bench Maji	SNNP	Mizan Teferi
West Wellega	Oromia	Gimbi
Kellem Wellega	Oromia	Dembi Dolo

3.6.2.2 Final sampling frame

As I visited each zone to conduct interviews, the sampling frame for that zone was compiled by taking data from the zonal investment office and cross-referencing this

with the information already in hand from higher level administrative records, key informant interviews, casual interviews and membership lists. Given the analytical importance of the cluster in Limmu Kossa woreda, data was also taken from that woreda's investment bureau. As interviews with plantation owners commenced in each zone, the sampling frames for each zone were completed by through snowballing, which is a good way of understanding relationships among capitalists. While the records kept at zonal level were much more reliable than those kept at regional or federal levels, this process of snowballing proved vital to filling in gaps in the sampling frame. The sampling frame for each area was only considered complete once snowballing among respondents produced no new names. In fact it was through snowballing that the whole issue of illegal plantations in Jimma zone, discussed at length in Chapter Six was discovered at all.

3.6.3 Sample selection in coffee

The final sample was purposefully selected from the completed sampling frames in each area. As the properties of the final sample are laid out in Chapter 6, a few notes on the selection criteria used will suffice here. The geographical boundaries of the research area have already been discussed above and respondents from all selected areas were included. Care was taken to cover the most dynamic capitalists, identified not through the size of their land holding but by their reputation for high quality, rapid growth and export success, although there was an overlap with the size of land holdings. To explore a stark contrast and make sure relevant categories are not missed out even if they may not represent a large proportion of total output from the capitalist sector in coffee, small plantations at the bottom end of the size distribution were also selected. Also, both fully domestic investors and those of diaspora origin were included. A conscious effort was made to interview female plantation owners. However, at the time of research there were very few women who owned coffee plantations and only two were willing to participate in the study.

The most important element was the oversampling of farms from the Limu Kossa woreda, where a network of local investors had emerged. The most striking aspect of the Limu Kossa cluster is the prevalence of illegal land grabbing in the area,

whereby plantations were established illegally and capitalists then sought to have them retrospectively licensed and legalised. Lastly, a number of the country's largest coffee exporters, who had begun a process of vertical integration down the value chain by involving themselves directly in coffee growing, were selected and interviewed¹¹.

3.7 Sample construction in floriculture

3.7.1 *Availability of data*

Unlike the coffee capitalists, the Ethiopian floriculture sector has received a lot of attention from both domestic and international researchers, meaning that there was a substantial body of evidence to draw on before beginning my own research. This included both academic and grey literature and covered a wide variety of aspects, from the international market environment to domestic policies and their effects, as well as labour issues and environmental concerns. In addition there was a plethora of news reports to draw on.

Crucially from my perspective, the available research included a high quality dataset on the sector, collected during several rounds of quasi-census of flower farms as part of a cooperation agreement between the National Graduate Institute for Policy Studies (GRIPS) in Tokyo and the main government economic research institute in Ethiopia, the Ethiopian Development Research Institute (EDRI). This largely obviated the need for quantitative data collection on my part. Moreover, the lesser relative weight given to floriculture, which serves mostly as a comparator for the more in-depth study of the coffee plantations, combined with the available research meant that a smaller sample of respondents was sufficient to obtain the information necessary to build a comprehensive picture of the sectoral dynamics.

3.7.2 *Constructing the sampling frame*

Access to the EDRI's data was difficult to negotiate and my research had to proceed for some time without access to the bulk of this data. Without access to the quasi-census it was necessary for me to construct my own sampling frame. As in the

¹¹ The involvement of exports in the coffee plantation sector is discussed in Chapter Six

coffee sector a membership list of the sector's business association, the Ethiopia Horticulture Producers' and Exporters' Association (EHPEA) was used. Unlike its counterpart in the coffee sector, EHPEA is a well-funded organisation and almost all flower farms in Ethiopia were members of the association at the time of research, so the association's membership list came close to a complete listing of active firms. This information was confirmed in a series of interviews with domestic and foreign members of the association's board, all of whom were themselves farm owners.

The official records held by the main government agency responsible for the sector, the Ethiopian Horticulture Development Agency (EHDA) were used as a second source of information. The EHDA keeps records on all firms active in the floriculture sector in Ethiopia and the difference in data quality compared to the coffee sector is striking. Neither cross-referencing with other information sources nor subsequent snowballing from respondents in the sector identified missing companies. Entries on some farms were not up to date in terms of ownership, but all farms were accounted for.

Only after the sampling frame had been completed and interviews had begun was I able to negotiate access to the EDRI's dataset. The dataset comprised data from four rounds of a quasi-census on flower farms. The questionnaire included sections on land and land development, production and inputs, sales, labour and labour force stratification and ownership structures. It is a quasi-census because all farms were targeted at each round of data collection, but not all farms agreed to take part in the survey. The non-response rate was small, however, and the largest and most dynamic producers were included in all rounds. This dataset was, and remains, the best data available on the Ethiopian floriculture sector.

3.7.3 Sample selection in floriculture

Paralleling the coffee case, the final sample is described in Chapter 7. Suffice to say here that the sample selection in floriculture was conducted using the following criteria. The sample was purposefully skewed towards domestic investors, in line with the key concerns of this study. Of course, leading foreign investors were also interviewed, as their contribution is vital to gain an understanding of the sector.

Moreover, foreign capitalists in the sector typically had experience with floriculture in other countries and so were able to provide a comparative international perspective.

To understand the origins and growth of the sector, early investors into the sector were included in the selection. As the sector has seen high rates of firm failure and exit, especially amongst domestic investors, capitalists no longer active in the sector were sought out and interviewed. One factor for differential performance among firms also has to do with farm location. The cut flower farms are for the most part situated in the vicinity of Addis Ababa, where they are grouped together in clusters with differing altitudes and soil characteristics. Farms from different clusters were thus selected so as not to bias the resulting data.

As in the coffee sector, every effort was made to contact female capitalists, and I was able to interview two women. Lastly, while production systems were quite uniform across the sector – although they varied in sophistication – one foreign capitalist was included on account of having a very different approach to production, which manages to be very profitable with a much lower capital investment per ha (see Chapter Seven for details).

3.8 Interviews and interview technique

As mentioned above, research tools should be appropriate to the research questions pursued and should be able to generate the kinds of data necessary to answer those questions as fully as possible. For this reason different types of interviews were used across the two cases and for different types of respondents ‘within’ each case. The number and distribution of interviews are given in Table 3.2. While quantitative research can in theory continue until the entire population of respondents has been interviewed, qualitative research normally works with much smaller sample sizes and ceases when a “point of meaning saturation” (Gaskell 2000: 43) has been reached. While the aim of qualitative research in this project was more focused on establishing concrete historical developments and causal mechanisms and therefore strove for comparatively large number of respondents, such a saturation point was nonetheless reached in both cases.

Table 3.2 - Overview of formal interviews

Sector	Respondent type	Number
Coffee	Large-scale farmers	46
Coffee	Medium-scale farmers	1
Coffee	Vertically integrated large-scale farmers	8
Coffee	Traders and exporters	3
Coffee	International buyers	2
Coffee	Business association staff	1
Coffee	Cooperative staff	4
Both	Government officials (incl. DBE, ECX and SOE staff)	11
Flowers	Flower farmers and farm managers	13
Flowers	Lobbying staff	3

3.8.1 Interview technique

Most interviews were held in Amharic so as not to impede the ability of respondents to express themselves as fully as possible¹². I employed an Ethiopian research assistant to translate during the interview process. This had the advantage of allowing me to immediately ask follow-up and probing questions, and to deviate from the interview guide to pursue analytically interesting directions as and when these came up (Helfferich 2005; Gaskell 2000). My knowledge of Amharic, while relatively basic, allowed me to understand enough of the answers given by respondents to check my assistant's translations for omissions.

With few exceptions, the interviews were not recorded, so as to put respondents at ease to discuss potentially sensitive topics. I took extensive notes during all interviews, and checked these with my research assistant as soon after the interview as possible to eliminate errors and add any omitted information.

3.8.2 Interviews in the coffee sector

The research in the coffee sector comprised four different types of interviews, with the choice of interview type dependent on the category of respondent being interviewed. The most important category of respondents were the coffee capitalists themselves. They were – whenever possible – interviewed using a combination of two different interview types: a structured questionnaire aimed at collecting

¹² Non-Ethiopian respondents were interviewed in English and some Ethiopian respondents chose to be interviewed in English.

quantitative data and a semi-structured qualitative interview, which sought to establish their personal trajectories of accumulation. The latter approach is drawn from the technique of collecting 'life histories' adapted in this case to focus more on the business and accumulation histories of respondents (Francis 1992). These interview sections – broadly narrative in structure - serve in particular to build up knowledge about developments through time, both about the personal business histories of respondents and also about the changing socio-economic circumstances around them (Jovchelovitch and Bauer 2000). They add a crucial diachronic dimension to the cross-sectional data collected through the quantitative instrument. Some of the capitalists refused 'formal' questionnaire-based interviews and in these cases only the semi-structured qualitative interview schedule was applied.

Quantitative data was collected to serve as an initial mapping of an effectively un-researched phenomenon in Ethiopia, and to help build profiles of the coffee capitalists. To the best of my knowledge, this survey is the first to systematically collect data on this new breed of agrarian capitalist. The data was collected using a structured questionnaire comprising sections on demographic information, land holdings, capital investments and vertical integration, production levels and processes, labour deployment and wages, marketing channels, sales volumes and prices, profits and losses, risk management, and non-plantation investments. The questionnaire was designed so that answers could be cross-checked, with important pieces of information asked for repeatedly in different ways across the questionnaire. The lengthy questionnaire also served as a useful 'anchoring device' to keep respondents in the interview. Once respondents had agreed to the questionnaire interview almost all felt obliged to stay until the questionnaire was completed, which allowed me to weave the qualitative component into the interview, i.e. to work through the semi-structured interview schedule while ostensibly filling in the questionnaire, which proved the most successful technique.

Key informants with specialised knowledge of the sector, including government officials at various levels, staff of the commodity exchange and government research institutes, coffee traders (both domestic and foreign) and NGO staff were

interviewed using a semi-structured interview schedule, which differed according to their area of expertise. These were vital to an understanding of the complex commercial and regulatory interactions and market structures in the coffee sector both in Ethiopia and globally, but also to gain deeper insights into technical issues around growing techniques, as well as harvesting, processing and grading practices, and their relationship to coffee quality. Finally, unstructured and informal interviews were held, whenever the opportunity arose, with local market traders, agricultural workers, farmers, cooperative staff and others with localised knowledge such as small business owners and local NGO field staff. Such interviews provided valuable local information and helped build a more complete sampling frame. In addition to interviews, I also observed a two-day export training held by ECGPEA and a one-day agronomic training session provided to NGO field staff by TechnoServe.

3.8.3 Interviews in the floriculture sector

With high-quality quantitative data already available for the floriculture sector, I conducted only semi-structured qualitative interviews with respondents in the sector. A single interview schedule was used for all of the flower sectors capitalists, which as in the case of coffee focused heavily on their personal business histories, as well as eliciting information about the impact of foreign direct investment and government policies on the sector.

Here too, I used different schedules for key informant interviews, depending on the expertise of the respondent. Respondents for such interviews were selected to provide background information on the technical aspects of the production and transport processes, capital equipment, but also the labour process and labour recruitment. Key informant interviews were also held with government officials, EHPEA staff and consultants, farm managers and technical staff on flower farms.

3.9 Research ethics

The fieldwork for this thesis was approved by the research ethics committee at SOAS, University of London, prior to the commencement of fieldwork. The ethics committee recommended that particular care be taken in the handling of personal

and business sensitive data. Accordingly, all electronic data was encrypted and has not been shared. Notebooks containing interview transcripts and field notes were at all times either carried on my person or were securely stored in locked containers or cupboards.

Only respondents who have given full and informed consent were interviewed for this study. All respondents were informed about the nature and aims of my research project in their own language and were made aware that the final research results would become part of the public domain. However, all respondents were assured of the complete anonymity of their answers, and all information derived from interviews has been presented in such a way as to make attribution to specific individuals impossible. All respondents in are referred to only by their code throughout this study to. Please see Annex III.1 for the list of codes.

3.10 Data analysis

3.10.1 *Quantitative data analysis*

As discussed above, the quantitative data for the coffee and floriculture sectors were collected in very different ways. Accordingly, they have been analysed differently. The quantitative data for the coffee sector was not collected using a randomised sampling method, and therefore cannot be used to make statistical inferences about the wider population outside of the sample. Descriptive statistics can, however, legitimately be used to describe the sample. The data was entered, checked and cleaned by myself and descriptive statistics were calculated using Microsoft Excel 2010 and Stata 12. Relationships between variables were established through cross-tabulation and appropriate graphing techniques.

Data for the floriculture sector was based on a quasi-census which eliminates the need for inferential statistics as the population of (almost) all flower farms was directly observed. The data was provided by EDRI in Addis Ababa and GRIPS in Tokyo. The data had been checked and cleaned by EDRI researchers during data entry, but I undertook additional cleaning and eliminated a number of errors. As above, data analysis made extensive use of cross-tabulations and graphing. The

floriculture data was cleaned and analysed using Stata 12, all graphs were made using Microsoft Excel 2010.

3.10.2 Qualitative data analysis

Qualitative data analysis did not differ across the two sectors. All qualitative interviews were analysed based on extensive notes I made during the interviews. As my goal was mostly to understand socio-economic processes of accumulation, rather than the construction of a capitalist identity among my respondents, a verbatim transcription of the interviews was usually not necessary. An exception was made for particularly illuminating or striking statements, which I did record verbatim (albeit in translation). I subsequently entered all interview and field notes into a word processor to allow for secure storage and easier subsequent coding. During this transcription process I again checked for errors and inconsistencies.

All transcripts were then personally coded by me using spreadsheets. The coding was done thematically (Gibbs 2008) with an emphasis on material change. Information was combined in spreadsheets to allow for cross-case comparisons. This approach also made a synthesis of quantitative and qualitative data easier, as quantitative data could easily be added to the coded information. During the write-up process I nonetheless kept referring back to the electronic transcripts to make sure that statements and pieces of information appeared in the correct context.

3.11 Weaknesses and limitations

There are two main weaknesses that result from the methodological choices I have made in structuring and conducting the research. The first concerns the external validity of my findings. While much of the empirical material assembled addresses issues affecting the whole of the coffee and flower sectors, the sampling techniques used do not allow for the generalisation of statements across the sectors in a formal manner. As I have argued above, my findings are nonetheless relevant for and able to describe processes of capital accumulation in both sectors, but the *quantitative* data assembled here cannot be taken as a representative reflection of the state of all accumulators in the coffee sector. However, I took great care to interview the most

relevant respondents and am confident to have captured the most dynamic accumulators.

The second limitation concerns the sample sizes achieved. Choosing a contrastive research design with two sectors, one of which is dispersed over a large geographical area, necessarily meant that only a smaller number of interviews could be held. I did not have the funds to hire more research assistants, nor would it have been appropriate to have research assistants conduct in-depth semi-structured interviews. However, a state of meaning saturation was achieved in both sectors. A fuller quantitative investigation of the coffee plantation sector in Ethiopia remains as an interesting topic for future research.

3.12 Conclusion

In this chapter I have outlined the research design and methods of empirical enquiry and analysis this study is based on. I have further discussed the structure of the field research, as well as the challenges in obtaining the necessary data. The practicalities of concurrently conducting a small survey on a previously untargeted population and doing in-depth qualitative work in two sectors were explained in detail. Finally, I have laid open the limitations of my research as I understand them.

It is now time to delve into the empirical material. The next chapter introduces Ethiopia as a polity and economy. As well as presenting basic economic data, it focuses on the nature of the Ethiopian state, and the political economy of its economic policies. Chapter Five introduces the coffee sector, first at global level and then with specific reference to Ethiopia, and charts the development of the sector's capitalists through Ethiopia's turbulent history. In Chapter Six, we take up the case of Ethiopia's coffee plantation capitalists, before moving to the comparator case, floriculture, in Chapter Seven.

Annex III.1

List of interviews

Code	Function or position	Sector	Date of first interview
CE	Coffee exporter	Coffee	08/03/2013
CB1	Coffee buyer	Coffee	01/11/2012
CB2	Coffee buyer	Coffee	12/02/2015
CELF1	Coffee exporter & large coffee farmer	Coffee	02/09/2013
CELF2	Coffee exporter & large coffee farmer	Coffee	05/09/2013
CELF3	Coffee exporter & large coffee farmer	Coffee	17/09/2013
CELF4	Coffee exporter & large coffee farmer	Coffee	04/09/2013
CELF5	Coffee exporter & large coffee farmer	Coffee	23/05/2013
CELF6	Coffee exporter & large coffee farmer	Coffee	24/08/2013
CELF7	Coffee exporter & large coffee farmer	Coffee	20/09/2013
ALF	<i>Akrabe</i> & large coffee farmer	Coffee	09/11/2012
AK1	Large <i>Akrabe</i>	Coffee	23/02/2013
AK2	Large <i>Akrabe</i>	Coffee	08/02/2013
LCF1	Large coffee farmer	Coffee	14/02/2013
LCF2	Large coffee farmer	Coffee	06/09/2013
LCF3	Large coffee farmer	Coffee	14/02/2013
LCF4	Large coffee farmer	Coffee	08/08/2013
LCF5	Large coffee farmer	Coffee	06/02/2013
LCF6	Large coffee farmer	Coffee	02/02/2013
LCF7	Large coffee farmer	Coffee	29/03/2013
LCF8	Large coffee farmer	Coffee	03/02/2013
LCF9	Large coffee farmer	Coffee	26/04/2013
LCF10	Large coffee farmer	Coffee	31/03/2013
LCF11	Large coffee farmer	Coffee	16/08/2013
LCF12	Large coffee farmer	Coffee	22/05/2013
LCF13	Large coffee farmer	Coffee	07/04/2013
LCF14	Large coffee farmer	Coffee	09/04/2013
LCF15	Large coffee farmer	Coffee	22/02/2013
LCF16	Large coffee farmer	Coffee	06/02/2013
LCF17	Large coffee farmer	Coffee	09/02/2013
LCF18	Large coffee farmer	Coffee	13/08/2013

LCF19	Large coffee farmer	Coffee	23/01/2012
LCF20	Large coffee farmer	Coffee	11/08/2013
LCF21	Large coffee farmer	Coffee	24/06/2014
LCF22	Large coffee farmer	Coffee	25/04/2013
LCF23	Large coffee farmer	Coffee	07/08/2013
LCF24	Large coffee farmer	Coffee	01/04/2013
LCF25	Large coffee farmer	Coffee	25/02/2013
LCF26	Large coffee farmer	Coffee	03/08/2013
LCF27	Large coffee farmer	Coffee	10/08/2013
LCF28	Large coffee farmer	Coffee	16/02/2013
LCF29	Large coffee farmer	Coffee	30/03/2013
LCF30	Large coffee farmer	Coffee	20/02/2013
LCF31	Large coffee farmer	Coffee	07/09/2013
LCF32	Large coffee farmer	Coffee	04/04/2013
LCF33	Large coffee farmer	Coffee	02/04/2013
LCF34	Large coffee farmer	Coffee	06/04/2013
LCF35	Large coffee farmer	Coffee	03/08/2013
LCF36	Large coffee farmer	Coffee	10/04/2013
LCF37	Large coffee farmer	Coffee	05/09/2013
LCF38	Large coffee farmer	Coffee	19/09/2013
LCF39	Large coffee farmer	Coffee	08/05/2013
LCF40	Large coffee farmer	Coffee	16/09/2013
LCF41	Large coffee farmer	Coffee	15/08/2013
LCF42	Large coffee farmer	Coffee	01/02/2013
LCF43	Large coffee farmer	Coffee	29/01/2013
LCF44	Large coffee farmer	Coffee	04/11/2012
LCF45	Large coffee farmer	Coffee	31/08/2013
LCF46	Large coffee farmer	Coffee	01/03/2013
LCF47	Large coffee farmer	Coffee	04/11/2012
MCF	Medium coffee farmer	Coffee	08/02/2013
NGO	Agronomic NGO, senior official	Coffee	31/10/2012
CC1	Coffee cooperative - representative	Coffee	21/02/2013
CC2	Coffee cooperative - representative	Coffee	21/02/2013
CC3	Coffee cooperative - representative	Coffee	21/02/2013
CC4	Coffee cooperative - representative	Coffee	01/08/2013
FFM1	Flower farm, senior manager	Flowers	30/05/2013
FFM2	Flower farm, senior manager	Flowers	30/05/2013
FFM3	Flower farm, senior manager	Coffee	19/06/2013
FF1	Flower farmer	Flowers	26/06/2013
FF2	Flower farmer	Flowers	10/05/2013
FF3	Flower farmer	Flowers	30/05/2013
FF4	Flower farmer	Flowers	19/06/2013
FF5	Flower farmer	Flowers	31/05/2013
FF6	Flower farmer	Flowers	18/06/2013

FF7	Flower farmer	Flowers	14/06/2013
FF8	Former flower farmer	Flowers	18/06/2013
FF9	Flower farmer	Flowers	17/06/2013
FF10	Former flower farmer	Flowers	08/06/2013
FF11	Flower farmer	Flowers	04/12/2012
FF12	Flower farmer	Flowers	17/12/2012
FF13	Flower farmer	Flowers	13/06/2013
EG1	Ministry of Agriculture, Director	Coffee	12/06/2013
EG2	Ethiopian Coffee Plantation Dev. Enterprise, Head	Coffee	21/08/2013
EG3	Limmu Kossa state coffee farm, senior manager	Coffee	02/08/2013
EG4	Jimma Agricultural Research Institute, Head	Coffee	05/08/2013
EG5	Jimma Zone Land Administration Office, senior official	Coffee	09/08/2013
EG6	K/Wollega Zone Investment Bureau, senior official	Coffee	25/02/2013
EG7	Jimma Zone Investment Bureau, former senior official	Coffee	31/03/2013
EG8	Kaffa Zone Investment Bureau, senior officials	Coffee	05/04/2013
EG9	Ethiopian Commodity Exchange, CEO	Coffee	25/06/2013
EG10	Ethiopian Horticultural Development Agency, Head	Flowers	24/04/2013
CL	ECCGPEA, Head	Coffee	19/10/2012
FL	EHPEA, President & members of board	Flowers	29/04/2013
DBE1	DBE Jimma Branch, senior official	Coffee	13/08/2013
DBE2	Development Bank of Ethiopia, Director	Flowers	23/04/2013

Map 2 – Administrative regions and zones (Source: Wikimedia Commons)



Chapter four

The political economy of agrarian change in Ethiopia: a historical perspective

4.1 Introduction

Ethiopia is a large and complicated country, deeply divided by lines of ethnicity, language, culture, geography and class. Today, even as the country struggles to manage the strains of undergoing extraordinarily rapid economic and social change, it is still affected by the legacy of its turbulent history. Now, as in the past, all efforts at economic development are tightly controlled by the country's narrow elites. And yet they have always also been subject to contestation from below. Situated at the heart of the volatile Horn of Africa, in Ethiopia state building has always been a violent process. These state building efforts have had a profound influence on the possibilities for – and contours of – agrarian development. Therefore the changing political economy of agrarian property relations in Ethiopia across the three very different political regimes that have characterised it since the late 19th century: the imperial regime (Section 4.2), the military Derg dictatorship (Section 4.3) and the current EPRDF regime (Section 4.4) will be discussed. Further, this chapter demonstrates how the actions of the state have always exerted a profound influence on the possibilities for agrarian accumulation. At the same time it will highlight how processes of agrarian accumulation have been marked by a degree of contingency throughout and have often emerged as unintended consequences of government action. To substantiate this argument I have to go into considerable detail about wider political and economic developments. Changes in

Ethiopia's agrarian structures cannot be understood outside of this context. In order not to clutter the text with unnecessary statistical detail, key economic data on Ethiopia under the EPRDF are presented in an annex to this chapter.

We do not have to reach too far back into history to find the roots of present-day agrarian developments. While Ethiopia's national myth paints the picture of an ancient society, its roots planted in time immemorial, the country in its contemporary form is actually a thoroughly modern creation and the state-building project is far from complete. For centuries the north of Ethiopia had been ruled by an exploitative quasi-feudal empire that presided over extreme inequality and economic stagnation. When the ruling elites of the old Amharan empire set out to conquer their neighbours to the south, east and west in the late 19th century, they established the borders of the modern state. In the conquered areas, which contained dozens of distinct ethnic groupings, a system of class domination stratified along ethnic lines was put in place. As Ethiopia entered the modern age, the quasi-feudal relations of the past started to give way to capitalist social relations when the first commercial farms were established in the heavily exploited south. However, the late and limited embracing of capitalism by the imperial elites only exacerbated the existing ethnicised class divisions and helped fuel the revolution that swept away the old order in 1974.

The military dictatorship that replaced the imperial system enacted a radical land reform and imposed a command economy that inhibited the development of capitalism for a decade and a half. The self-styled socialist dictatorship was unable to resolve the fundamental contradictions of poverty, stagnation and Amhara domination though. It consequently fell victim to its own venal brutality and was overthrown by a peasant-based ethnic insurgency, led by a disciplined guerrilla group from Tigay in the north. The new government sought to unite the country's varied ethnic groups by offering a new and more inclusive national identity. Driven by the desire to transform Ethiopia economically, it has opened the country once more to capitalist development, but has sought to maintain control over this volatile process by dominating the political space. When its authoritarian rule ran into crisis

in 2005 it sought to restore its legitimacy by positioning itself as the sole guarantor of rapid economic development. The political imperatives of this process continue to determine the contours of agrarian capitalism in Ethiopia today and have led to the emergence of a dynamic class of accumulators in the countryside.

4.2 State building, land ownership and agrarian capital in the imperial era

The modern Ethiopian state is the product of the aggressively expanding imperial state of Abyssinia, historically centred on the Christian Amhara and Tigre populations living in the northern highlands of what are now Ethiopia and Eritrea, though dominated for much of its existence by Amhara nobles (Henze 2004). By the late 19th century, the Ethiopian feudal state had achieved a high degree of centralisation under Emperor Menelik II, formerly king of the wealthy northern kingdom of Shewa, which stretched as far south as Addis Ababa. Moreover, the Ethiopian state had successfully defended itself against European imperialist aggression by defeating a major Italian invasion force at the battle of Adwa in 1896, which secured Ethiopia a high degree of independence – though this was eroded after the second World War – and became an important part of Ethiopian national pride (Zewde 2001).

The Kingdom of Shewa had grown rich during the preceding period of civil war, which lasted roughly from the mid-18th to the mid-19th century – the so-called Era of Princes (*zemene mesafint*) – that followed the decline of the last central authority in Gonder. Shewa not only emerged relatively unscathed from the wars that had laid waste to much of northern Ethiopia, but also sat at the intersection of important trade routes for both exports and imports. The rise of Shewa was based to a large degree on the slave trade from the south, and, it is conjectured, to a lesser degree on the export of coffee, although the historical record is far from clear on this (Aregay 1988).

As King of Shewa, Menelik had invested heavily into arming his military, which he dispatched south to conquer the highland peripheries and the lowlands beyond. His

conquest of the south was designed to give him the economic basis and military prestige necessary to become the next emperor of Ethiopia, an ambition Menelik achieved after the death of his predecessor Yohannes in 1889. At the same time, southward expansion was seen as a practical necessity. Livestock disease had killed the majority of all cattle and failing rains severely damaged crops between 1888 and 1892. Mass starvation caused an untold number of deaths and the fertile lands of the south were seen as part of the solution (Zewde 2001; Markakis 2011). Both highland and lowland peripheries were populated by Cushitic and Nilotic peoples, who were either Muslim, as in the case of many Oromo, or followed older, more local religions. The highland periphery contained a number of small independent kingdoms and principalities, the majority of whom were Oromo¹. That is, they were both ethnically and religiously distinct from the predominantly Christian Amhara (and Tigre) Abyssinian empire in the north. The expansion of the empire southward and the imposition of a quasi-feudal and highly exploitative landholding system there planted the seed of destruction for the imperial order through the intersection of class and ethnic identities it created – a legacy that haunts the Ethiopian polity to this day (Markakis 2011).

Owing partly to Menelik II's obsession with modern Western weaponry and especially rifles and cannon², a desire aided by Shewa's central position in the trade routes of the Abyssinian state, his armies had no equal in Ethiopia (Lewis 2001; Pausewang 1983). The military machine he built was able to inflict a crushing defeat onto an invading Italian army at the Battle of Adwa, Tigray in 1896; a rare instance of large-scale military victory of an African against a European army during the era of European colonial conquest (Pakenham 2010). By the end of the 19th century, the independent kingdoms in the highland peripheries of the south had either submitted to Northern rule or been destroyed (Markakis 2011).

¹ Often referred to as 'galla' in older texts. This term is today considered derogatory.

² Which, amongst many other sources, he bought from the French poet Artur Rimbaud, who after scandal and the bigotry of the times forced him to leave Paris, eventually settled in Harar in Eastern Ethiopia, where, in between expeditions deep into the deserts of the Danakil depression, he sold weaponry to Menelik II.

4.2.1 Imperial expansion and rural class structure

The system of land use and of land rights instituted in the southern highland periphery after the conquest was very different to that of the Northern empire, and laid the foundations for the growth of a very different agrarian structure of class relations³. While the land tenure of the north ensured that land was to some degree held communally amongst the peasantry, with nobility and crown entitled to taxes and labour services, the tenure system established in the south laid the foundations for the eventual emergence of rural capitalist enterprises based on large-scale private land holdings. Some of these holdings were to become the first coffee plantations in the country (see Chapter Five)⁴.

In the north of the country, the rights and obligations of the peasants vis-à-vis each other and the feudal lords⁵ were regulated by the ancient, yet evolving, *rist-gult* system. At the core of the Abyssinian empire, a sophisticated class society had evolved over the centuries. Intense cultivation of the northern highland plateau with ox-drawn ploughs allowed – regular famines notwithstanding – the peasantry to produce a surplus that supported both church and aristocracy, who extracted the bulk of this surplus from the peasantry using mostly administrative means, such as taxes and unpaid labour (Markakis and Ayele 1978). The *rist-gult* system of land ownership, which largely remained in place until the Ethiopian revolution swept away the imperial system, defined the relative rights and obligations of lords and peasants: the right to extract rent, tithe and labour service on the one hand and the right to land on the other. In the northern Ethiopian highlands society placed a high

³ In the following I ignore the substantial landholdings of the Ethiopian Orthodox Church; the structure and development of which is not of particular importance to the formation of capitalism in the south of Ethiopia.

⁴ This overview of land tenure systems draws heavily on Pausewang (1983), who focuses on the political economy of the different tenure systems. The imperial land tenure systems were very complex and I necessarily gloss over a lot of subtleties here. See also Pankhurst's very detailed economic history (1968) and the literature review by Cohen (1974).

⁵ The term 'feudal' is used here simply as a convenient shorthand for the imperial system in Ethiopia during the 19th and 20th centuries and is not meant to imply the existence in Ethiopia of a 'feudal mode of production', nor is it supposed to imply the existence of one single and uniform system of organising production throughout the country. For the problems and weaknesses of definitions of modes of production, see Banaji (2010), especially chapters two and three.

cultural value on farming and the worldview of the peasantry was built on the assumption that the cultivation of land is the ultimate sign of the value of an individual, both morally and economically. Under a complex mixture of individual and group rights, every member of a given community could claim a parcel of land. Each peasant who held land was responsible for tax and tithe payments on that land, which were paid in kind until well into the 20th century, as well as for the provision of labour services to the *gult* lord. The individual taxpayer, the *gabbar*, considered himself a holder of secure land rights vis-à-vis the nobility. The nobility depended on the passive acquiescence of peasants to their exploitation and generally sought to ensure some level of legitimacy, which limited the amount of deprivations visited upon the *gabbar* (Markakis 2011). Moreover, *gult* lords also shared a common ethnicity and culture with the peasantry, and the lower ranks of the aristocracy were themselves rather poor. These factors reduced the social distance between the landlord and peasant classes in the north of the empire (Markakis and Ayele 1978).

On the other side of the system, in the north stood the *gultegna* - lords who had been granted *gult*. Such rights meant administrative responsibility, including the duty to collect taxes and tributes on behalf of the emperor, over a certain geographical area. The *gultegna* collected payments from the *rist*-holding peasants in the area, delivered part to the crown and kept part of the proceeds for his or her own use. The *gult* lords relied on social prestige and their official position to justify their status as lords. The land rights of the peasantry tended to be largely unaffected by the frequent rotation of nobles and were subject to implicit community controls.

The outcome of this system was a comparatively static system of exploitation in which the historically evolved and highly valued land rights of an individualistic peasantry militated against the formation of large land holdings. The system led to an ever greater fragmentation of land holdings. The resulting encroachment of farmers into any available land on the northern plateau brought ever more marginal land under cultivation. As accumulation of land to any significant degree was all but impossible for the peasantry and the ruling class of lords was not willing to take

the political risk of expropriating peasants *en masse*, and anyway displayed no interest in agrarian ventures (or any other form of productive activity), the *rist-gult* system provided no basis for the emergence of a class of agrarian capitalists. Land holding patterns in the north therefore remained relatively unchanged for centuries, despite the wars, famines and other deprivations visited upon the peasantry (Markakis and Ayele 1978).

Where the system in the north had grown into a delicate, if very lopsided, balance between the lords, the peasantry and the church, the land tenure system in the south was a direct outcome of the economic and political needs of the centralised Abyssinian state and its ruling class in the wake of its conquest of the south in the late 19th century. The southern highland periphery was extremely fertile, offered ample land, and was suitable for the collection or production of tradable goods, not least coffee and ivory. The northern Abyssinians were also enthusiastic slave traders, and slaves were taken from amongst the conquered peoples of the south with alacrity. The conquests were aimed at establishing an expanded economic base, first to secure Menelik's ascent from the Shewan to the imperial throne and later to fill the coffers of the imperial treasury. The economic exploitation of the south became a top priority for Ethiopia's imperial rulers: "[c]ontrolling the periphery, exploiting its resources and binding it closer to the centre preoccupied the imperial regime throughout its reign. It shaped nearly all the important policies it formulated and consumed most of its energy and resources, economic, military and political. By contrast, the Abyssinian provinces in the north were ignored and stagnated as a result" (Markakis 2011: 131). But to be able to exploit the lands they had to be pacified and administered as cheaply as possible. The *gult* system that emerged in the south was meant to fulfil the twin aims of political oppression and surplus extraction. It inadvertently laid the foundations for the emergence of the first agrarian capitalists in the late imperial era, but also provided the basis for many of the grievances that were to fuel the Ethiopian revolution of 1974.

Following the military conquest of the south, the imperial state immediately seized two-thirds of all land (Markakis and Ayele 1978). Out of this land, hereditary *gult*

rights of varying size were given to the commanders of Menelik's campaigns, as well as to simple soldiers and settlers from the north, predominantly but not exclusively Amhara. As in the north, *gult* rights gave the lord the right to collect taxes and tithes from the inhabitants of the assigned area, the bulk of which was supposed to be passed on and up the hierarchy of the imperial state until it reached the imperial treasury in Addis Ababa. The new lords, however, were not only administrators but also an occupying military force. As both the economic and politico-military aspects of the exploitation of the south were directly financed through the taxes and tithes paid by the inhabitants of the southern provinces, the *gult* in the southern periphery was extremely cost-effective for the imperial centre (Markakis 2011).

The *gult* allocations could be of substantial size. Each *gult* allocation contained the farmsteads and families of local inhabitants. Their number depended on the size of the land and local population density. The smallest unit given out was normally one *gasha*, the size of which depended partly on the number of inhabitants it contained, but was generally considered to be around 40ha (while peasant holdings in the northern provinces were frequently around 1ha in size) (Rahmato 2009). The land itself was initially of limited value to the northerners; it required human labour to produce anything. Each of the new lords from the north was thus given control over both land and people, and charged with the exploitation of their labour and resources.

The armed men from the north, known as *neftegna*⁶, based their rule, quite literally, on the barrel of the gun. This freed them from the need to maintain 'reasonable' community ties, as in the north. *Neftegna* soon became a by-word for cruelty and brutality. The dizzying variety of established social orders in the multi-ethnic south were overthrown and subverted, and customary systems of land ownership were replaced with a centralised system of surplus appropriation, designed to serve the interests of the imperial centre. However, the *neftegna* understood that they could not rule alone. In the time-honoured tradition of empire-builders everywhere they

⁶ Lit.: gun man; from *neft*, meaning gun, rifle or musket (Leslau 1976: 118)

therefore bent the social systems they encountered to their needs by co-opting existing elites, often granting them arbitrary powers they did not previously possess. These tamed elites, the *ballabat*, served as arbiters between the local populace and the *neftegna*, who held themselves to be superior in terms of both class and ethnicity (Markakis 2011).

4.2.2 *The birth of agrarian capitalism*

In the final years of the 19th and the first half of the 20th century European imperialism, and the spread of global capitalism that followed in its wake, dragged Ethiopia from the relative isolation it had enjoyed for centuries. Greater integration into global circuits of capital ushered in a period of social, political and economic changes that led to the first instances of domestic capitalist development in the country. The internal contradictions of the decrepit imperial regime meant that the economic fortunes of the northern and southern provinces sharply diverged in this period. While the northern provinces began a long era of slow economic decline caused by a mixture of land fragmentation, soil overexploitation and deforestation (Baqala 1995), the much less densely populated and fertile lands of the southern highlands witnessed the first instances of capitalist agriculture in Ethiopia. Here the development of first *de facto* and then *de jure* private property in land, a novelty in Ethiopia, allowed for land to be rented by those seeking to invest on it to make a profit – the first capitalist farmers.

Better transport links encouraged foreign investment and the southern highland periphery became the centre of Ethiopia's fledgling manufacturing sector (Markakis 2011; Pankhurst 1968), which brought with it labour migrations from the north. There are many reasons for this development: the north, along with other areas in the south, lacked a land 'frontier' to allow for larger holdings necessary for capitalist agriculture. Meanwhile in the south the *neftegna* and also many *ballabat* – unwelcome in the countryside – congregated in newly founded garrison towns that became centres of trade and manufacturing, at least compared to the more or less complete lack of urbanisation in the north.

One of the more immediate reasons for the (gradual) change in the land tenure system in the southern highlands was economic, and closely tied to the class interests of the ruling elites. Beginning in the early 20th century, declining terms of trade meant that more and more exports were necessary to finance the foreign luxury goods coveted by the imperial elite, while the greater integration of Abyssinia into the global economy brought with it increasing foreign investment. Both served to slowly change the nature of land ownership in Ethiopia. In the south, where old communal relations had been destroyed and reordered, this process was far easier. The southern highland periphery also held greater promise for commercial agriculture. The elite's need to increase surplus extraction meant they had to increase exports and generate greater revenues from their lands to finance rising import bills.

Most of the new *gult* lords of the south held their vast lands *in absentia* and in many cases left the administration of their holdings to hired agents (Markakis and Ayele 1978). This absentee ownership and arms-length management encouraged the renting of land to those who offered to provide better returns. The (slow and uneven) rise of commercial agriculture, which required the ability to lease out land to capitalist farmers, gradually led the *gultegna* to view themselves as landlords and their peasants as tenants – forms of property relations which had not previously existed in Ethiopia (Pausewang 1983).

These forms of property relations were formalised during the rule of Haile Selassie I., who ruled Ethiopia as regent from 1916-1930 and as emperor from 1930. He came to the throne at the end of a protracted series of complicated machinations and intrigues that began with Menelik's death in 1913. He survived the invasion and occupation of Ethiopia by fascist Italy in 1934 and was reinstated to the throne after the defeat of the fascists in 1941. He ruled Ethiopia until the revolution in 1974 and was murdered in unclear circumstances by revolutionaries in 1975.

Beginning during his regency under Empress Zewditu, the first female head of state in modern Ethiopian history, Haile Selassie aimed to build on the centralised state created by Menelik, and on the first fitful steps towards modernisation taken during

Menelik's rule, to transform Ethiopia into a modern nation-state (Marcus 2002). He used the modernisation of the Ethiopian state apparatus to create a degree of centralisation that had been hitherto unknown. The aim was to ensure the continuation of the imperial system under his own absolute authority (Markakis 2011). The process has been fittingly described as 'authoritarian modernisation' (Tareke 2009). Where Menelik's inspiration had come from Zarist Russia, Japan – a rising non-Western power – was the new model for Ethiopia's elites (Clapham 2006). Haile Selassie undertook the creation of a modern civil service and fostered the growth of an administrative elite composed of young intellectuals (Zewde 2002). He also abolished slavery (though not until 1942, by which time it had become thoroughly unfashionable globally) and made attempts to modernise the economy, encouraging foreign investment, banking and the acquisition of new technologies. However, up until the Italian invasion in 1936 these development efforts were anaemic and remained focused mostly on Addis Ababa and parts of the southern highland periphery, which housed most of the new foreign-owned manufacturing sector (Pankhurst 1968).

A more serious modernisation drive began after the emperor's restoration, following the defeat of the fascist occupation force by British troops and Ethiopian partisans in 1941. Haile Selassie began giving away lands in the southern highland periphery to loyal nobles. A series of decrees over the following years gradually clarified the status of large landholdings as private property. In 1966 feudal land rights were formally abolished and replaced by tax registration and absolute private property in land, a move which was anticipated by many land owners, who managed to register the land they possessed as their property (Pausewang 1983).

Throughout the imperial period the state paid little heed to agriculture and even less so to 'peasant' agriculture, focusing instead on providing funds for defence and industrial development. From 1957 onwards a series of strategic five-year plans aimed to drive the economy forward. Tellingly though, the first of these plans contained no real agricultural strategy. The second and third plans, beginning in 1962 and 1967 respectively, provided more concrete plans for interventions in

agriculture. In the second plan more than half of the planned funding was allocated to support large-scale farms – doubtless due to the influence of the large landlords in the nobility. The third plan was similarly tilted toward large-scale farming (Adams 1970). The state not only created the property relations necessary for the growth of capitalist large-scale farms, but also supported them financially.

The supposed modernisation and rationalisation of land ownership under Haile Selassie, which had made the growth of agrarian capital possible, had unintended effects though. The multiple layers of *gult* rights granted to the old and new aristocracy in the highland periphery had served, to some degree, to mystify property relations in land. As the *gult* lords needed the peasantry to stay on the land and work it to produce a surplus, evictions were rare even in the south, while the ownership of the land by the *gult* lords was hidden by the veil of feudal state-vassal relations. However, the shift to more clearly identifiable private property rights in land changed this dramatically. So, “when the haze [of feudal land rights] was swept aside by economic and political currents in the period following the Second World War, it revealed the stark fact of irreparable loss of possession and the reduction of the southern peasantry to tenancy” (Markakis and Ayele 1978: 26). This change in land rights was necessitated by the arrival of capitalism and the perceived need of the landlord class to be able to rent out their land and evict peasants to make room for the more profitable ventures that now became possible, such as large-scale capitalist agriculture. Thus, “[...] the appearance of capitalism quickly polarised the society [in the highland periphery] and dissolved traditional disguises, thereby revealing the objective situation of the tenant” (Markakis and Ayele 1978: 28).

4.3 The Derg, the end of capitalism and civil war

The Ethiopian revolution put a harsh – and in many cases bloody – end to the capitalist experiment. Imperial misrule, inequality, oppression and the inability of the feudal elite to create a modern society had angered urban Ethiopia in particular and a radical student movement had arisen in the capital, demanding change. When large rural areas fell into famine in 1973 and the government responded by

trying to cover up the crisis, revolution was in the air (Markakis and Ayele 1978; Markakis 2011).

Ethiopia's limited capitalist development meant that both the bourgeoisie and the proletariat were tiny and of little consequence. The spark for revolution came instead from a military mutiny in a remote outpost in 1974, that rapidly spread through the armed forces. The student radicals, who had kept the resistance to the imperial regime alive in the face of harsh repression, now took to the streets, where they were joined by teachers, taxi-drivers and other groups. The imperial regime, undefended by its own military, fell with relative ease. However, the revolution lacked a coherent organisation. The military, which had been cautious throughout, now moved rapidly to fill the power vacuum at the centre of the state left by the crumbling away of the imperial system. Adapting the Marxist rhetoric of the student movement, the soldiers under the leadership of a coordinating committee (*derg* in Amharic)⁷, took control of the country. What followed was an extraordinarily violent struggle for power both within the military and between the soldiers and the Marxist student radicals. The students lacked both organisation and arms, and the military, which unleashed a campaign of relentless terror against any perceived opposition, inevitably prevailed. By 1977 the Derg had managed to replace the absolutism of the emperor with an even more totalitarian military dictatorship, led by Colonel Mengistu Haile Mariam, who had secured his rule through a series of bloody purges (Tareke 2009).

4.3.1 Land to the tiller and the end of tenancy

The most salient aspect of the revolution with regard to agrarian development, and the one with the most long-lasting consequences, was the enactment of radical land reform. Under pressure from student radicals, who had formed the intellectual backbone of the revolution, and keen to gain legitimacy in the eyes of the overwhelmingly rural populace, in March 1975 the Derg regime issued the 'proclamation for the nationalisation of rural land'. This was a truly revolutionary

⁷ Sometimes also spelt *dergue*, this was the popular name for the Provisional Military Administrative Council (PMAC).

act that instantly and permanently destroyed the social, political and economic foundations of the imperial regime. It also upended the link between class and ethnicity which had been a hallmark of the imperial regime (Markakis 2011). The proclamation declared all rural land the collective property of 'the Ethiopian people'. It outlawed all forms of tenancy and rental payments on land. Land sales, mortgages or other transfers were banned. Nor could land any longer be cultivated through the use of hired labour. Instead, true to the slogan they adopted from the radical student movement '*meret le arashu*' (land to the tiller), the Derg decreed that land should go into the possession (but not ownership) of whoever had been cultivating it before the revolution, provided that the area did not exceed 10ha. Anyone who had owned more than 10ha was considered a 'landlord' and was banned from participation in the new peasant associations (*kebele*) that were being set up everywhere (Pausewang 1983). The landlords' possessions, mostly but not exclusively in the south, were expropriated and nationalised⁸. With private ownership of land, land rental and wage labour all banned, the land reform dismantled the basis for capitalist agriculture. State ownership of all land has since been a key feature of Ethiopian agriculture and political economy. The implications of this for the Ethiopian coffee sector are discussed in Chapter Five.

Overall, the Derg period was a disaster for Ethiopia, which suffered civil war, famine and mass starvation, and was left economically debilitated by the time the EPDRF defeated the Derg's army in 1991. John Markakis has probably penned the most erudite summary of Mengistu Haile Mariam and his 'socialist' military dictatorship. Of Mengistu, he says: "[h]is recklessness and ruthlessness were responsible for a series of ill-fated, blood-stained schemes, whose wreckage comprises the forlorn record of this regime." (Markakis 2011: 169).

The dictatorial attitude and extremely violent methods of the Derg, along with its insistence on having 'solved' the question of national Ethiopian identity by substituting it for a class identity through broad based educational programmes (Vaughan and Tronvoll 2003), fuelled resistance. One the eve of the revolution the

⁸ Tenancy in the northern provinces had been relatively rare, see Baqala (1995: 113ff).

student movement had been split between those who viewed class oppression as the primary evil in Ethiopia and those who insisted that the subjugation of ethnic minorities by the Amhara-dominated centre had to be solved first (Tareke 2009). Eritrean nationalists had been fighting for independence from the Ethiopian state since the 1960s, and after the revolution ethno-nationalist Tigrayan students took the battle to the rural north.

4.3.2 The TPLF, peasant war and the fall of the Derg

The Tigrayan People's Liberation Front (TPLF) was founded in 1975 as an ethno-nationalist resistance movement committed to overthrowing the Derg regime by force of arms. Unlike the ill-fated student radicals who – having identified the urban proletariat as the agents of history – attempted to build a revolutionary force in the cities and were rapidly wiped out, the TPFL opted for a guerrilla war in the countryside. Together with the fighters of the Eritrean People's Liberation Front (EPLF), with whom they formed a strategic alliance, they ultimately prevailed against the Derg, who at the time commanded the largest military force in Africa, when their combined forces took Addis Ababa in 1991. The TPLF went on to form the backbone of the EPRDF coalition, which still rules Ethiopia today (Markakis 2011).

More important for the discussion at hand than the history of the TPFL's struggle itself (see for instance Berhe 2008; Hammond 1999; Markakis 2011; Tareke 2009; Young 1997) is the type of organisation that emerged from that struggle, its ideological orientation and the basis of its claim to political legitimacy. The TPFL was formed by a tiny group of student radicals who took up arms and headed for the rugged mountain terrain of Tigray to begin their armed struggle in 1974 (Berhe 2004)⁹. Using Marxist theories of revolutionary guerrilla war, the TPLF were able to overcome regional rivals and build a successful and highly disciplined fighting force with next to no outside support. Key to their success was their ability to ground their movement in the villages of Tigray through mass associations, village-levels councils and a highly effective internal organisation that included

⁹ Though the TPLF was not formally founded until 1975.

departments for political education, economic affairs and mobilisation. The TPLF enjoyed broad and deep popular support (Young 1997).

Leadership of the front rested with a politburo drawn from a central committee. The front adopted the principle of 'democratic centralism', meaning that decisions were vigorously debated, but once agreed had to be followed by all with no further discussion and no tolerance of dissent. This political culture, extremely well-adapted to the needs of a guerrilla group, quite possibly lies at the centre of the deep intolerance for dissenting opinions that pervades Ethiopia today. The party saw itself as a vanguard, whose role was not only to fight and win the armed struggle, but also to unite and educate 'the people' in preparation for a better society. Despite the front's collegiate style of leadership, one of the TPLF's leading theoreticians, Meles Zenawi, slowly managed to manoeuvre himself into a position of *primus inter pares* (Berhe 2008). Once it became clear that military victory was both possible and imminent, the TPLF decided that it could not rule Ethiopia in the name of Tigray alone. In the dying days of the struggle the TPLF therefore founded the Ethiopian People's Revolutionary Democratic Front (EPRDF)¹⁰. The new coalition consisted of the TPLF, an old ally from the struggle (the Amhara National Democratic Movement, ANDM, formerly the Ethiopian People's Democratic Party) and a party founded by TPLF prisoners of war to represent the Oromo people (the Oromo People's Democratic Organisation, OPDO) (Aalen 2002). The EPRDF achieved total victory over the Derg in 1991. A fourth member, the Southern Ethiopia People's Democratic Movement (SEPDM), completed the coalition in 1992.

4.4 The EPRDF and state-directed development

The victorious EPRDF set out to rebuild the Ethiopian state anew. A transitional conference was called in 1991 (see Vaughan 1994 for a detailed account), setting in motion a transition process that culminated in the election of a constitutional assembly in 1994 and the adoption of a new constitution in 1995. The Derg's military machinery was dismantled and the EPRDF's forces became Ethiopia's new military. Following a referendum in 1993, Eritrea was allowed to peacefully secede,

¹⁰ More commonly known in Ethiopia by its Amharic acronym *ehadik*.

once again severing Ethiopia's link to the sea. While the transition process involved a wide variety of voices, the leadership clearly rested with the TPFL and Meles Zenawi was made head of the transitional government in 1994, before later becoming Ethiopia's first prime minister. The dominance of the TPLF was assured by the resounding military victory it had achieved, and the party was in no mood to share power. The entire transition process, including the formation of political parties, was tightly controlled by the EPRDF throughout (Abbink 1995). And, as mentioned above, the TPLF's partners in the EPDRF were largely its own creations. A partial exception to this is the Amhara National Democratic Movement (ANDM), which was formed out of a war-time ally of the TPLF and has over time become the second most powerful of the EPDRF's coalition members, supplying key members of the governing elite (Markakis 2011).

The TPLF had long viewed the centralised notion of Ethiopian nationality, which in practice had meant the dominance of the centre over the periphery (including Tigray), as one of the central contradictions of the Ethiopian polity. To simplify somewhat, where the Derg had sought to create social peace by 'solving' the land question, the TPFL instead focused on the 'national question', that is, the discrimination of ethnic and national groups (Clapham 2009). In other words, where the Derg had sought to create national unity by fashioning a shared class identity, the TPLF wanted to produce unity by broadening out the notion of Ethiopian nationality to encompass all of the different ethnic and national groups in the state territory (Markakis 2011). The TPLF believed that both democracy and the lasting integrity of the Ethiopian polity and state could only be guaranteed through a recognition of the group rights of the various ethnic and sub-national groups in the country – a policy they referred to as ethnic federalism (Abbink 1995). The constitution which emerged from the transition period in 1995 therefore defined the new state as a federal republic, consisting of (initially 12, later nine) regional states and two federal cities (Addis Ababa and Dire Dawa)¹¹. The regional states were, with the exception of the multinational SNNPR, supposed to contain one large

¹¹ The regions (*kilil*), consist of zones, which in turn are made up of *woredas*. The lowest level of the administration is the *kebele*.

ethnic group each and so to reflect the ethnic make-up of the country, with smaller ethnic groups granted their own administrative areas (zones or special *woredas*) within the regions. However, the data upon which such decisions were based was both outdated and incomplete, and conflicts soon emerged (Markakis 2011, see also Vaughan and Tronvoll 2003 for a detailed overview of the administrative structure of the state). Each region was given its own parliament and became in theory self-governing in a number of important respects. The Ethiopian constitution framed the federation as a voluntary union and – controversially – included the right for groups to secede¹².

The constitution not only guaranteed group rights but also enshrined a wide-variety of human and democratic rights at an individual level. It formally introduced a multi-party electoral system in a country that has never had multiple political parties, allowed for the formation of a relatively free press and committed the country to a market based economy. Crucially, the new government finally brought peace to the war-ravaged country. It also began the reintegration of Ethiopia into the ‘international community’, having consulted the US even before gaining power. Given the geopolitical constellation after the demise of the Soviet Union, Ethiopia’s new leaders were under no illusions about their options in terms of the broad direction of economic policy and the TPLF quickly embraced a move towards a market economy, although it remained deeply suspicious of economic liberalism (Clapham 2009) and sought to balance its outward embrace of liberalism with a continued commitment to mass economic development (Weis 2016). As Meles apparently later put it: “For the first ten years after we took over we were bewildered by the changes. The New World Order was very visible and especially so in this part of the world. The prospect of an independent line appeared very bleak. So we fought a rearguard action not to privatize too much” (Zenawi, cited in: de Waal 2013: XX). Quite apart from geostrategic considerations, the supposed ‘command economy’ of the Derg was by 1990 in such a state of disarray that

¹² “Every Nation, Nationality and People in Ethiopia has an unconditional right to self-determination, including the right to secession.” (Constitution of the FDRE, Art 39, §1).

effective government control over the economy was in any case no longer possible (Chole 2004).

Democratic pretensions and the federal system notwithstanding, the state the EPRDF built was to become one the most centralised and powerful states in Ethiopian history (Abbink 2011b). In a sense this is not surprising. In Markakis' (2011) analysis, the EPRDF regime is but the latest attempt at state-building in the country (after the empire and Derg), and like its predecessors the regime is faced with dissent in the periphery and – increasingly – in the Oromo centre. An ethnic federalism which co-opts local elites but lacks in real democratic roots has shown itself incapable of resolving these grievances (see for instance ICG 2009) and the state once again comes to rely on violence and coercion to maintain the integrity of the polity. As is shown below, the reaction of the EPRDF state to political crises has indeed been a strengthening of the centre and a fortification of its own rule.

4.4.1 Ethiopia's developmental state

Economic development in Ethiopia thus continues to be an elite-led process and shifts in economic policies can only be understood by looking at how elite perspectives on the relative importance and most appropriate instruments of economic growth and development have evolved over time. This analysis is complicated on the one hand by the shifting boundaries between party and state, and on the other hand by the waxing and waning of the relative importance and authority of party and state structures with regard to one another. Moreover, we must contend with shifting political weights of parties within the ruling coalition where the power of the TPFL has generally been decisive but far from absolute. And lastly power at the very top has shifted from rule by committee to personal rule to what has been described as a more collegiate approach to ruling. So while the EPRDF seemingly dominates Ethiopian politics completely, its leadership is – as we shall see – by no means monolithic and even authoritarian governments have to respond to popular pressures.

In political terms the rule of the EPRDF can be usefully subdivided into three periods: the period of state reformation beginning with the conquest of power in

1991 and ending in a leadership crisis in the heart of the TPFL in 2001, the period up to and including the 2005 election and the brutal crackdown that followed, and finally the restoration of authority up to the 2010 election, which heralded the decisive end of the government's brief flirtation with greater openness (Vaughan 2011). In terms of economic strategy a decisive break can be identified with the embrace of a developmental state strategy after 2001, a project which was deepened and accelerated after 2005 (Weis 2016).

During its first decade in power, the EPRDF leadership faced the challenge of having to manage the transition from the Derg's disastrous economic inheritance to a far more liberal market economy, while at same time seeking to maintain its own power. A major focus was placed on building up the EPRDF's constituent parts in the parts of Ethiopia it had not hitherto controlled. In parallel a concerted effort was undertaken to bring the Derg's civil service fully under its control (Vaughan 2011). The party's economic components were registered as private companies – the so-called endowment companies – during the mid-1990s. Substantial liberalisation of the economy did occur, although the government maintained control over strategic sectors and companies (Vaughan and Gebremichael 2011). At the same time efforts were undertaken to devolve real administrative powers to the regions and to sub-regional entities, and the various ethnic and other groups in these areas were (in many but not all cases) able to enjoy unprecedented involvement in their own administrative structure. Real decision making power, however, often remained at the centre (Vaughan and Tronvoll 2003).

In 1998 a bloody war broke out between Ethiopia and Eritrea, as longstanding tensions escalated into armed conflict¹³. The war precipitated a crisis within the central committee of the TPLF, bringing to a head longstanding disputes between the circle of leaders around Meles who were engaged in leading the federal state in Addis Ababa and the TPLF's regional leadership in the Tigrayan regional capital of Mekelle, which was more engaged in leading the party. The war had strengthened

¹³ The war itself, its complex causes, its diplomatic aftermath, and the ongoing cold war it initiated are not of direct concern to the argument at hand, but further discussion can be found in Gilkes and Plaut (1999), Negash and Tronvoll (2001), Steves (2003) and Plant (2001).

the latter faction as the war effort itself was directed more from Mekelle than from Addis Ababa. (Weis 2016). This faction had wanted to continue the war, while Meles had sought peace when Ethiopia was militarily at an advantage. Meles lost a vote for peace in the TPLF's central committee, which drew the battle lines between Meles' supporters and a dissenting faction. Meles engaged in a series of political manoeuvres that culminated in the split of the central committee "in acrimony" in 2001 (Tadesse and Young 2003: 389)¹⁴.

The outcome of this inner-party conflict was a triumph for Meles, who emerged as the unchallenged leader and proceeded to purge dissenters from the TPFL, the EPRDF and the army¹⁵. There was an important shift of power from the party to the state apparatus as Meles consolidated power within his own person and empowered the prime minister's office at the expense of the party headquarters in Mekelle (Vaughan 2011). Efforts were undertaken to create a clearer distinction between the state apparatus and the party (Vaughan and Tronvoll 2003). This laid a critical organisational foundation for the change in economic strategy that was to follow. Importantly, while Meles certainly enjoyed unprecedented power, Ethiopia did not descend into a one-man dictatorship. The party remained an essential tool of governance, and party elites continued to exert real influence, albeit only under Meles' leadership. Party elites were thus able to orchestrate a smooth transfer of power after Meles' death, and have seemingly reverted back to a more collegiate form of leadership.

A perhaps even more important outcome of the split in the TPLF was, however, the ideological shift which Meles imposed. After 2001 Meles was powerful enough to use the following party congresses to commit both the TPLF and the EPDRF to a new policy of supporting capitalist development, based directly on his own ideas about the political economy of economic development. Tadesse and Young (2003: 392) are worth quoting in full:

¹⁴ The dissenters later spoke with regret of the decision to entrust Meles with the leadership of both party and state after 1991 on the mistaken assumption that "he could be handled", i.e. that his power could be curtailed by collegiate leadership of the party (Tadesse and Young 2003: 395).

¹⁵ This was framed as a necessary renewal (*tehadso*) of the party.

“[T]hese meetings served to shift the ruling party away from its longstanding radicalism in at least two critical areas. First, it was resolved that the EPRDF, in origin a coalition of peasants, workers and revolutionary intelligentsia, would now open its ranks to the national bourgeoisie. Second, it was decided that the country would be integrated into the global economy. In a related move, the EPRDF endorsed a clear statement in favour of capitalism, thereby resolving abiding tension and confusion within the movement. Thus it would appear that while the TPLF crisis did not begin with serious ideological concerns, it did produce a significant shift in the ideological orientation of the party. The leadership claimed – with some justification – that it had brought clarity and unity of purpose to the EPRDF. Until this time, it was said, politics dictated everything. Afterwards everything would be dictated by the economy, or at least argued from that premise.”

Meles’ ideas about how to achieve economic development would now become the foundation of a bold new vision of economic transformation through capital accumulation, guided and goaded by an interventionist state. His views on economic theory and practice in a poor country were an amalgamation of heterodox economic ideas about developmental states (see also Chapter Two), his own views on rent-seekers (*kiray sebsabe*, lit.: rent collector) and EPRDF dogmas about ‘revolutionary democracy’ (*abyotawi demokrasi*) (Weis 2016). Meles agreed with the developmental state theorists that industrialisation had to be the ultimate means of economic transformation, but he believed that in a poor country such as Ethiopia prospective capitalists could not be relied upon to drive productive investment, as it would always be easier for them to engage in low-risk, but highly profitable, activities in trade and services – what Meles called rent-seeking. Instead, as in South Korea or Taiwan, the state would have to step in to build technological capacities (de Waal 2013).

Moreover, the Ethiopian context, marked by a mostly rural population and widespread poverty, presented particular challenges which necessitated an adaptation of the developmental state model. First, the initial basis of economic transformation would have to be agriculture, where initiatives to raise the productivity of farming would provide the material and fiscal basis for a process of industrialisation. Second, the country would have to use its sparse resources carefully and focus on labour-intensive industrial sectors that utilised agricultural inputs, in order to

maximise linkage effects. Combining both agricultural and industrial development in this way is the basis of the notion of agricultural development-led industrialisation (ADLI). These ideas were formalised in 2002 in a new rural development strategy (MOFED 2003) and – for the first time in Ethiopia’s history – in an industrial development strategy (MOFED 2002a), the latter of which also made clear that industrial development should target exports and be led by the government, while the contribution of foreign investors would be welcomed. Similar points are also made, albeit in more guarded language, in the country’s poverty reduction strategy paper of the same year (MOFED 2002b). The conceptual foundations for Ethiopia’s developmental state were laid.

As discussed in Chapter Two, developmental states have often been established by authoritarian regimes and Meles made clear that he saw the creation of a successful developmental state in Ethiopia first and foremost as a political project to which a Western-style democracy would be ill-suited (Weis 2016). Instead Meles drew upon the EPRDF’s concept of ‘revolutionary democracy’, which is defined as a system based on (ethnic) group rights and the direct involvement of ‘the people’ in the process of governing – in supposed opposition to Western liberal democracy (Bach 2011). By forming a ‘developmental coalition’ with the rural population and parts of the urban proletariat and lower bourgeoisie, the developmental state could assure policy continuity across several electoral cycles (Weis 2016), thus creating the basis for rent centralisation and a long-horizon strategic outlook (Kelsall 2013). The ‘democratic’ element comes not through free elections and a representative democracy, but through the direct participation of ‘the masses’ in the process of development, in a way reminiscent of the TPLF’s mass mobilisation during the struggle (see Young 1997). This concept was pragmatically employed to explain the (renewed) necessity of a vanguard party achieving hegemonic status in the state (Bach 2011).

Bit by bit Ethiopia now put in place an activist industrial policy and the state structures necessary to implement it. The specific policy measures have been reviewed elsewhere (see for instance Abebe and Schaefer 2015; Altenburg 2010;

Gebreyesus 2013; Gebreyesus 2014; Oqubay 2015) and are also taken up across the next chapters, so it is more important here to lay out broad contours and implications. The state apparatus was brought into line through a major civil service reform undertaken by the newly founded ministry of capacity building (Vaughan 2011). The reform, which extended through all levels of the civil service, was highly centralised and focused both on capacitating and politicising the civil service (World Bank 2013). The party-linked endowment companies were given a new lease of life, placed under tighter management and made one of the centre-pieces of the new economic strategy (Vaughan and Gebremichael 2011). At the same time privatisations were halted and in sectors seen as politically important or strategic (such as sugar or fertilizer for instance) state-owned enterprises and the public administration acted in concert to push out private companies. In political terms private sector capital thus played almost no role in the design of the developmental state, whose focus was firmly on state-owned and state-linked enterprises and the rural sector (Weis 2016)¹⁶.

FDI flows, which had begun to accelerate at the end of the 1990s, further increased (UNCTAD 1999; UNCTAD 2005), and foreign investment played an important part in the establishment of many of Ethiopia's leading private sector industrial companies (Sutton and Kellow 2010). The new policy also saw the beginnings of large-scale private capital investment in agriculture – a point I return to in detail in Chapters Five, Six and Seven. Both of the latter two trends were, however, sharply accelerated after 2005.

4.4.2 Crisis and renewal of the developmental state

A fundamental reorientation of economic strategy and of the developmental state, as well as of wider state-society relations, occurred after the election crisis of 2005. The election of 2005 had been marked by an unprecedented degree of openness and contestation. However, irregularities and delays in vote counting sparked opposition protest once the EPRDF was declared to have won. The election results

¹⁶ An exemption to this is the MIDROC Group (see Sutton and Kellow 2010), which enjoys close links to Ethiopia's political elite.

were close, with a greatly reduced share of votes for the EPRDF especially in urban areas, where the opposition won most seats. Opposition leaders refused to accept the election results and called for mass demonstrations (Carter Center 2005). The regime accused the opposition of trying to engineer a *coup d'état* and reacted with a brutal crackdown: security forces fired live ammunition at protestors, killing dozens (and possibly many more) in the streets of Addis Ababa – the numbers are heavily disputed. A wave of arrests and arbitrary detentions followed, which swept up most of the opposition leaders, as well as tens of thousands of others. The EPRDF returned to government (Abbink 2006; BBC News 2006).

The election and its aftermath damaged Ethiopia's international standing and exposed the insecurity of the EPRDF's rule – the 'developmental collation' had very nearly failed. The reaction of the regime was threefold: a closing down of the political space and return to a much more authoritarian rule (Lovise Aalen and Tronvoll 2009), a concerted effort to both expand the party and to make the developmental state a hegemonic project in society as well as the state (Weis 2016), and, relatedly, a marked acceleration of capitalist development. Economic and social development now became the primary sources of legitimacy of the regime, which proudly pointed to the recent acceleration in GDP growth (Hagmann and Abbink 2011, see Annex IV).

On the political level the regime appears to have concluded that the democratic experiment it had undertaken in the run-up to the 2005 elections had run out of control and needed to be closed down. Over the next few years there was a decisive crackdown on opposition parties, the media and the judiciary, which left the country without a credible legal political opposition¹⁷. Critical voices in politics, the media and civil society were progressively silenced through repressive new laws and an increase in prosecutions (Lovise Aalen and Tronvoll 2009), including accusations of terrorism against journalists (BBC News 2014).

¹⁷ There continue to be outlawed groups fighting armed insurgencies in parts of the periphery.

The party was vastly expanded, including by forced conscription, and grew from 700,000 members in 2007 to 6.5m members in 2012. Direct political control over society was extended downward through a reinvigoration of the *kebele* system, as well as various sub-*kebele* entities, which ostensibly all serve to further development. Noteworthy in this respect are the *limat budin* (development team; collectively they form the 'development army') and the *and-le-amist* (one-for-five) system, which extends down to household level¹⁸. The civil service was subjected to multiple waves of 'political training' to hammer home the new ideology of rapid growth. At the same time an immense propaganda drive was initiated to convince the populace of the virtues of the EPRDF's development drive. A national flag day was instituted, and the Ethiopian millennium in 2007 was used to launch the so-called 'Ethiopian renaissance', which promised rapid economic growth and benefits for all. Development was redefined as a collective national endeavour. *Limat* (development) and mega-projects, in particular the vast 'Grand Ethiopian Renaissance Dam' in Benishangul-Gumuz, became central to government propaganda (Hagmann and Abbink 2011; Vaughan 2011; Weis 2016).

Inner city youths, who had been active participants of the 2005 demonstrations, were targeted by mobilisation and development programmes, which included the expansion of networks of street-level spies and informers (Di Nunzio 2014). Unsurprisingly, the EPRDF swept the *woreda* and *kebele* elections in 2008, in part because the number of elected posts had been increased to around 3.5m and the already decimated opposition could not begin to field the necessary number of candidates (Aalen and Tronvoll 2008). In the 2010 elections, the EPRDF and its affiliates won 99.8% of the available seats, delivering a powerful demonstration of the party's now unassailable position and its capacity for mass mobilisation (Tronvoll 2010)¹⁹. However, dissent was suppressed and dissipated, but not

¹⁸ Under the *and-le-amist* system one 'model' household is supposed to lead and inspire five others to take up the challenge of national economic development.

¹⁹ It is, however, also possible that this very Soviet-style result was simply a political error, the result of overreach and hubris, or possibly even an accidental outcome produced by overzealous party organisers at all levels.

extinguished (Di Nunzio 2014), and the government is now forced to consistently deliver on its economic promises to ‘make up’ for the lack of political freedom.

This political imperative explains the shift in economic strategy that occurred after 2005. This shift combined two elements: first, a strengthening of the state’s and party’s direct productive capabilities, via state-owned enterprises and the endowment companies, designed primarily to drive technological capacity building, especially in industry and other strategic sectors. Weis (2016) has aptly described this renewed developmental state as a ‘vanguard capitalist state’. Running a vanguard capitalist state requires huge amounts of funding, not only to finance the politically important mega-projects, but also to sustain a growing public sector and build the infrastructural backbone of an industrial economy. Second, there has been an acceleration and expansion of the push for foreign direct investment (see Annex IV) and – to a more limited extent – for domestic capital investment.

The shift in Ethiopia’s economic strategy is illustrated by the difference in tone between the two five-year strategic plans promulgated since 2005, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which covered the years 2005 to 2010, and the Growth and Transformation Plan (GTP) for the years 2011 to 2015²⁰. PASDEP, which was largely written before 2005, for instance lists “a massive push to accelerate growth” amongst its key targets, but goes on to explain that these should be achieved through the “commercialisation of agriculture and the accelerating private sector development”, while no mention is made of state-owned enterprises (MOFED 2005: 46). The GTP on the other hand clearly states that one of its key objectives is to “establish favourable conditions for sustainable state building through the creation of a stable democratic and developmental state”(MOFED 2010: 7). After 2010 a raft of new public enterprises were created (Weis 2016) and the GTP for the first time makes clear that “state enterprises will increase investment either jointly with private sector or alone in strategic areas where there is a clear market

²⁰ A second Growth and Transformation Plan is due to be published in 2016.

gap or insufficient private investment flowing to the strategic industries” (MOFED 2010: 29).

Chief among the state-owned enterprises is the Metal and Engineering Corporation (METEC), which had capital of around US\$1bn when it was founded in 2010 and had some 14,000 employees by 2014 (Weis 2016). METEC is a military-run company that began with the production of military hardware, but is increasingly focused on technology-heavy civilian sectors such as power equipment, vehicle assembly, spare parts manufacturing and plastics. A number of companies that were in the process of being privatised were transferred to the corporation instead and METEC ran a total of 75 factories in Ethiopia in 2013. The company is also heavily involved in key public works, serving as the main electro-mechanical contractor for the Renaissance Dam. It actively seeks engagements with foreign companies to facilitate technology transfer and expand its own technological capabilities (Davison 2013). By 2015 METEC had over 16,000 employees (Worku 2015). It is supposed to be a driving force for Ethiopia’s industrialisation, and the main government English-language newspaper, the Ethiopian Herald, has rather fittingly described METEC as a “centrepiece for Ethiopia’s industrial sector” (Gebrehiwot 2015), which “has been playing a key role for industrial transformation of the country” (Worku 2015). In other words, METEC is a classical national champion²¹.

While the GTP still notes that, with respect to industry “private sector is considered as the engine for the sector’s development” (MOFED 2010: 29), there is seemingly a contradiction between expanding the state sector and furthering private sector investment at the same time. In the simplistic terms of state-vs-market analysis it would seem that an increased productive role for the state would ‘crowd out’ investment by private capital, especially as the amount of credit the domestic financial sector can extend is limited and foreign exchange is in even shorter supply. And indeed there is some truth in this, even though this contradiction dissolves upon closer inspection. The solution chosen by the EPDRF – and this is apparently

²¹ The other national champion is Ethiopian Airlines. But whereas METEC’s role is in technological development and in saving foreign exchange through ISI, Ethiopian Airlines is the main earner of foreign exchange in the country (World Bank 2014).

not uncontroversial within the party²² – was to try to import as much capital from abroad as possible. Whereas the PASDEP, apart from a single reference to “exploiting the potentials and opportunities of regional and global economic integration” (MOFED 2005: 151), had made almost no reference to FDI, the GTP lists support for foreign investment as important strategies for both industry and agriculture (MOFED 2010: 26, 29).

Foreign capital flowing into Ethiopia comes from four sources: remittances, FDI, loans and aid. The main source of remittances is of course the Ethiopian diaspora, who have special legal status in Ethiopia. A charm offensive was unleashed on the diaspora after 2007, who then began to return in greater numbers to take advantage of investment opportunities and special privileges granted by the government (see Chapter Six). Gross financial flows from the diaspora to Ethiopia have been estimated at up to US\$20bn (Lefort 2015) – a figure that seems impossibly high in an economy where total GDP is around US\$60bn. Whatever the actual level though, the vast majority of these funds are used for consumption and are not directly available for investment.

Much more important in terms of direct flows into the productive sector has been the growth in foreign direct investment, which reached a cumulative level of US\$7.26bn in 2014 (see Annex IV). FDI has been actively courted by the Ethiopian government, and the government has offered a plethora of incentives to foreign investors, founded supporting institutions, directly provided inputs and invested heavily in the necessary infrastructure (Oqubay 2015). A good example of such support is provided by FDI in the floriculture sector, which is discussed in detail in Chapter Seven. The most recent example of this strategy is the construction of large industrial parks, financed through loans from donors and foreign banks and Ethiopia’s first ever international bond offering (Davison 2015).

There has also been a significant expansion of credit from abroad. The most important source here has been China. Ethiopia is second largest recipient of Chinese loans after Angola, and accounts for 14% of all Chinese loans to African

²² Personal communication with a well-placed expert.

countries since 2000. Between 2000 and 2014 the Ethiopian government and its state-owned enterprises received over US\$12.3bn in loans from China, of which the Exim Bank alone provided over US\$7bn (Hwang, Brautigam, and Eom 2016). Most of this money flows into the construction of infrastructure projects, including the aforementioned business park, which are a key element in the government's growth strategy²³.

Ethiopia has also benefited from large inflows of foreign aid, in the form of grants and concessional loans, from both bi- and multilateral donors. Since the EPRDF took power, aid has provided an average of 28% of government spending, although there has been substantial short-term variation and a number of structural breaks (Mascagni 2014b). As aid flows mostly into social sectors, the Ethiopian government uses aid money strategically to relieve itself (to a degree) from financing social programmes and instead free up funds to pursue its industrialisation and investment drive (Furtado and Smith 2009). Econometric testing confirms that aid to Ethiopia does not displace tax income, but rather tends to raise it (Mascagni 2014a), showing that the government treats these income sources as complementary. Ethiopia enjoys a special relationship with western donors, especially the US and UK, due to its strategic importance as hegemon in an unstable region and its status as an ally in the 'war on terror' (Feyissa 2011; for the wider regional context see De Waal 2015). Its perceived geostrategic weight provides the Ethiopian government with substantial lee-way in its relations with donors, allowing it the fiscal space to pursue its own economic agenda, while having donors finance large amounts of social expenditure. This is evidenced, for instance, by the rapid resumption of aid to Ethiopia under the mantle of the Protection of Basic Services programme after the post-election crackdown in 2005 (Lefort 2012, 2015).

From the Ethiopian governing elite's perspective, foreign funds, and FDI in particular, solve several problems at once. On the one hand, they provide a level of job creation that would be impossible to achieve by relying on domestic sources

²³ This money is lent to Ethiopia, but is in practice used to pay for projects constructed by Chinese companies. So while these funds do support infrastructure development on a massive scale, the Ethiopian government is not free to disperse these funds as it pleases.

alone. According to the Ethiopian investment commission, foreign companies had created over 100,000 permanent manufacturing jobs in Ethiopia by 2014 (EIC 2015)²⁴. Jobs are a vital ingredient to social peace in Ethiopia where unemployment is already high. On the other hand, they help raise economic growth, even in the face of relatively weaker domestic investment. A crucial ingredient in this is also the rapid expansion of basic infrastructure enabled by Chinese loans. Moreover, the flipside of this is that FDI allows for economic development to proceed at speed, while slowing the growth of a class of domestic capitalists that could threaten the political supremacy of the regime. Limited supplies of both credit and foreign exchange also make it easier to control domestic capitalists. This supposed antipathy to private sector growth should not be overstated. The Ethiopian government has been actively seeking to develop the domestic private sector, albeit to a lesser degree than it has been pushing the state-owned and party-linked sectors and foreign capital. The point is that the Ethiopian government does not appear to view private capital as either the primary engine of growth (statements to the contrary in the GTP notwithstanding), nor would it find such a situation politically desirable in the short term.

4.4.3 The developmental state, land and agrarian capital

The adoption and adaption of the developmental state has had direct and far-reaching effects on Ethiopia's agricultural sector. As has been made clear in the above chapter, land ownership has always been a deeply political issue in Ethiopia. The EPRDF government, with its roots in a peasant army, had long held that a close partnership with, and control over, the smallholder farmers was essential to maintaining political supremacy (Rahmato 2009). A relatively homogeneous mass of smallholders was seen as the backbone of the developmental coalition so essential to the maintenance of revolutionary democracy (Weis 2016). The state had therefore put in place a variety of measures to limit accumulation and

²⁴ Due to the weak monitoring capabilities of the EIC this figure is unlikely to be very reliable.

differentiation in the countryside, not least by maintaining state ownership of all land²⁵.

After 2002, however, the government began opening up agricultural land for investment. Where previous agricultural policy had focused mainly on smallholder agriculture, the 2002 poverty reduction strategy paper made clear that the government was no longer relying solely on smallholder farmers to drive agricultural transformation: “[T]he government has already recognized the key role that the non-peasant private sector is expected to play in directly taking part in agricultural production, agricultural marketing and processing agricultural products. The government will make every effort to enhance and buttress the contribution private sector (domestic and foreign) will make to agricultural development endeavours. The federal government, in collaboration with regions, will work hard to allocate land for commercial farming, make sure that there are adequate infrastructure facilities, and streamline and make efficient land lease procedures for entrepreneurs who wish to set up large-scale commercial farms. For those who want to rent land from farmers and take part in agricultural activities, the federal government, again in collaboration with the regions, will work out an efficient arrangement, which will safeguard the interests of all parties concerned” (MOFED 2002b: 37).

While some private coffee plantations (and other commercial agricultural ventures) were founded at the time, it was the floriculture sector that pioneered private capital investment in Ethiopian agriculture – see the discussions in Chapter Six and Seven. The successes achieved in floriculture appear to have motivated the government to help expand the activities of agrarian capitalists. Regional government were instructed to open additional land to investors after the Ethiopian millennium in 2007, which unleashed a land rush in the country’s coffee lands (see below and Chapter Six). In 2010 the GTP devoted a whole section to private

²⁵ These measures served only to slow, rather than prevent, differentiation, which is a fact of life in rural Ethiopia (see for instance Petit 2007; Taffesse, Dorosh, and Asrat 2012). The government acknowledged this reality by attempting to politically co-opt larger ‘smallholders’ (Lefort 2012).

investment in agriculture, which explicitly referenced the “policy success [...] registered in the floriculture sub-sector” (MOFED 2010: 24f). The GTP went on to promise that “in the coming five years efforts will be made to make a meaningful change in terms of the private investment role in agriculture”, and that “efforts will be made to make [sure] the private investor gets government services in an efficient way”(MOFED 2010: 25, 26). Investment projects were to be tailored to the different population densities found across Ethiopia: high-value crops – such as cut flowers – on relatively limited amounts of land in the densely populated highlands and large-scale expansive projects in the less densely populated lowlands. Here foreign investors were to play an important role.

Ethiopia’s shift towards making room for agrarian capital is due to the resource requirements of running its remodelled developmental state, especially in terms of foreign exchange (Lavers 2012). The GTP is clear that the output produced by private capitalist farms, both small and large, is not for domestic consumption, but must neither be exported nor used as inputs to industry (MOFED 2010: 25f). As the need to generate foreign exchange seems to have overruled all other concerns, huge tracts of land in Ethiopia were cleared for investment (Abbink 2011a; Rahmato 2011).

How much land was actually transferred is a matter of some controversy, but these discussions have become part of a global debate around large-scale land leases – popularly referred to as land grabs. A major concern is that large-scale land leases in developing countries are taken out by large foreign agricultural concerns, who aim to produce food for export back to their ‘home’ countries, while leaving local communities to suffer the consequences. Such leases are typically granted in poor countries, often by governments perceived to be either vulnerable, corrupt, or simply not interested in the socio-economic effects of such deals on local communities, who suffer the loss of land (Daniel and Mittal 2009; Pearce 2012). However, as Cotula et al. (2014) point out, the evidence base for claims about both the extent of large-scale land leases and the effects of land grabs on local

communities is still weak, with few methodologically sound evaluations having been undertaken – owing partly to the fact that the phenomenon is relatively recent.

Ethiopia has been a particular focus of such debates due to the enthusiasm with which the government has been leasing out land for large-scale commercial agriculture as part of its official development strategy (Lavers 2012). The main focus of inquiry has been on the fertile lowlands of Gambella and Benishangul-Gumuz, where small, large and some truly huge concessions have been made²⁶. Unlike in the highlands where land tenure is considered politically sensitive, in the lowlands these land leases often appear to result in the dispossession of locals (Makki and Geisler 2011). Unsurprisingly, given the harshly authoritarian nature of the Ethiopian regime, as well as its earnest belief that it offers the only viable development path for the country, many of these leases have been accompanied by reports of human rights violations, including intimidation by ‘security’ forces, arbitrary arrests, beatings, torture, rape and murder (HRW 2012; Oakland Institute 2015). Following mounting evidence of abuses, as well as court cases brought by former residents of the Gambella region, DFID has recently withdrawn all support for the Protection of Basic Services (PBS) programme in Ethiopia, following allegations that funds from the programme were financing human rights violations (Jones and Anderson 2015). First attempts to systematically evaluate the impact of lowland land leases in Gambella and Borena have also found that local farmers were more likely to suffer greater losses than gains from large leases (Baumgartner et al. 2015; Shete and Rutten 2015).

Possibly because of these startling developments, much less consideration has been given to land leases by Ethiopian capitalists. Even a cursory evaluation of the evidence shows that the vast majority of land has in fact gone to domestic²⁷ rather than foreign capitalists. This is often not recognised due to the use of unreliable and

²⁶ Including the famous and ill-fated 100,00ha lease to Indian agro-business giant Karaturi, who failed to develop large parts of the land it leased, ran into financial trouble (Fikade 2014) and subsequently had their lease terminated by the Ethiopian government (Fikade 2016).

²⁷ Domestic capitalists refers here to Ethiopian nationals and to returning members of the Ethiopian diaspora.

misleading data sources. Baumgartner et al. (2015: 177f) for instance report that while domestic capitalists represent some 80% of the requests for investment land in Ethiopia, the majority of land is actually requested by foreign capitalists, as they apply for much larger tracts. This information is, however, taken from the EIA database of investment *applications*, and, as the authors freely acknowledge, does not represent how much land was actually transferred²⁸. According to Baumgartner et al. applications for land peaked in 2008, when foreign investors alone apparently applied for over 1.8m hectares.

A more informative approach is taken by Ali, Deininger, and Harris (2015), who rely on data from various rounds of the CSA's commercial farm survey, which allows them to assess how much land was actually transferred to investors and subsequently 'developed'. They calculate that between 1991 and 2014 a total 1.33m hectares have been officially transferred to a total of 6,612 commercial farms active in 2014, giving a mean farms size of around 200ha, though there are large variations both between and within regions (Ali, Deininger, and Harris 2015: 8)²⁹. Of these farms 93% are held by private capitalists. In terms of magnitude these figures are much closer to the amount of land the Ethiopian government claims has been identified for investment in commercial agriculture, namely 3.5m hectares (EG1), and also with the 3.3m hectares slated for transfer during the GTP period (MOFED 2010b).

The commercial farm sector is predominantly in Ethiopian hands. According to 2013 CSA data on official holdings, there are 6,287 Ethiopian-owned commercial farms covering a total of around 1.1m hectares, while 134 foreign-owned farms hold just over 112,000 hectares and 36 joint venture farms, co-owned by foreign and domestic capitalists, have control over approx. 18,000 hectares. Foreign farms are, on average, much bigger, with mean land holdings of 841ha, against 173ha on Ethiopian-owned farms (Ali, Deininger, and Harris 2015: 15).

²⁸ See Chapter 2 for a discussion of the weaknesses of this database

²⁹ Some commercial farms, notably the state coffee farms, were created before 1991.

These figures indicate that the land policies of the EPRDF have allowed for the creation of a substantial class of domestic agrarian capitalists in Ethiopia. Official land acquisitions peaked between 2007 and 2013 and this period accounts for the majority of new farm establishments: 56% of land transfers to commercial farms occurred after 2002 and 39% after 2007 (Ali, Deininger, and Harris 2015: 16). Clearly, this is the direct result of the strategic reorientation of the developmental state and the increased need to raise revenues – and especially foreign exchange – from agriculture. As Chapter Six will show, this period coincides precisely with the boom in coffee investments. It is important to note the somewhat unplanned nature of this process of class creation though.

While the federal government certainly set the broad contours of land policy and – as noted – directly controls all concessions in the lowland periphery and all that are larger than 5,000ha elsewhere in the country, 96% of land transfers (accounting for 77% of the area transferred) were either negotiated at *woreda* or *kebele* level, or were entirely private transactions (Ali, Deininger, and Harris 2015: 9). Almost three quarters of the land transferred went to farms less than 500ha in size and some 35% of the land is on farms less than 100ha in size, indicating that medium-sized capitalists play an important role in this sector (Ali, Deininger, and Harris 2015: 16). Moreover, commercial farms as a whole have been able to expand beyond their official land allocations to a total of 1.77m hectares between 1991 and 2014, that is, they now cover around 440,000ha more than they were officially allocated³⁰. A large majority, some 86%, of commercial farms are smaller than 500ha, and it is these farms in particular that have expanded past their initial land allocation (Ali, Deininger, and Harris 2015: 10f)³¹. We are dealing here with the “anarchism of the Schumpeterian entrepreneur and the animal spirit of Keynesian capitalist predator”³², who “routinely subvert extant social order in rational-egoistic pursuit of economic gain” (Streeck 2009: 4)³³. These capitalists are the subject of Chapter Six,

³⁰ Although some of this difference is undoubtedly due to measurement error.

³¹ By contrast, farms larger than 500ha typically use less land than they have been allocated.

³² Not to mention the ruthlessly exploitative behaviour of the Marxian capitalist.

³³ Streeck is referring to post-reunification Germany.

which discusses accumulation in the coffee sector, and Chapter Seven, which deals with the rather better behaved actors in floriculture.

4.5 Conclusion

This chapter has analysed the evolution of the Ethiopian state and has demonstrated how the actions of the state, and in particular the strategies pursued by its ruling elites, have structured the contours of agrarian capital accumulation. Efforts at state building, mostly via the centralisation of power, have been the key influence here. As has been shown, the actions of past regimes continue to influence Ethiopian politics today.

Under the imperial regime the emergence of different agrarian class relations in the north and south as a direct result of imperial aggression allowed capitalist agriculture to emerge in the south, albeit slowly and fitfully. This first capitalist experiment still has important ramifications today, which are dealt with in the following chapter. The revolution that ended the imperial regime nationalised all land in Ethiopia – a powerful level of control that the current regime has used to drive its own vision of Ethiopia's economic transformation. Lastly, and most importantly, the chapter has demonstrated that the recent emergence of a new class of agrarian accumulators is the direct result of the need of the current Ethiopian state for revenue generation. In order to maintain its own power, the EPDRF regime has wedded itself to a vision of rapid economic and social transformation from which it cannot back down without significant political consequences. The EPDRF state thus has to find the funds necessary to ensure that its particular vision of state-directed development continues to drive high rates of economic expansion. Capitalist agriculture has become a tool of the developmental state.

At the same time though, the state lacks the capacity to control capitalist development at the local level, especially outside of the core areas of the country. The development of contemporary agrarian capitalism has therefore also been heavily influenced by the agency of capitalists vis-à-vis the federal state. The agency of the capitalists in turn is limited by the relational agency of their large workforces

and by the structure of the markets they serve. In the subsequent chapters of this thesis the accumulation behaviour of capitalists in the coffee and later the floriculture sector will be analysed against the background laid out above. Before we turn to the coffee capitalists themselves though, in Chapter Five the political and economic evolution of the coffee sector, both internationally and in Ethiopia will be examined. In this context particular emphasis is placed on the state's need to control the revenues from this strategic sector, and on the regulation of the sector by the state that resulted from this need.

Annex IV.1

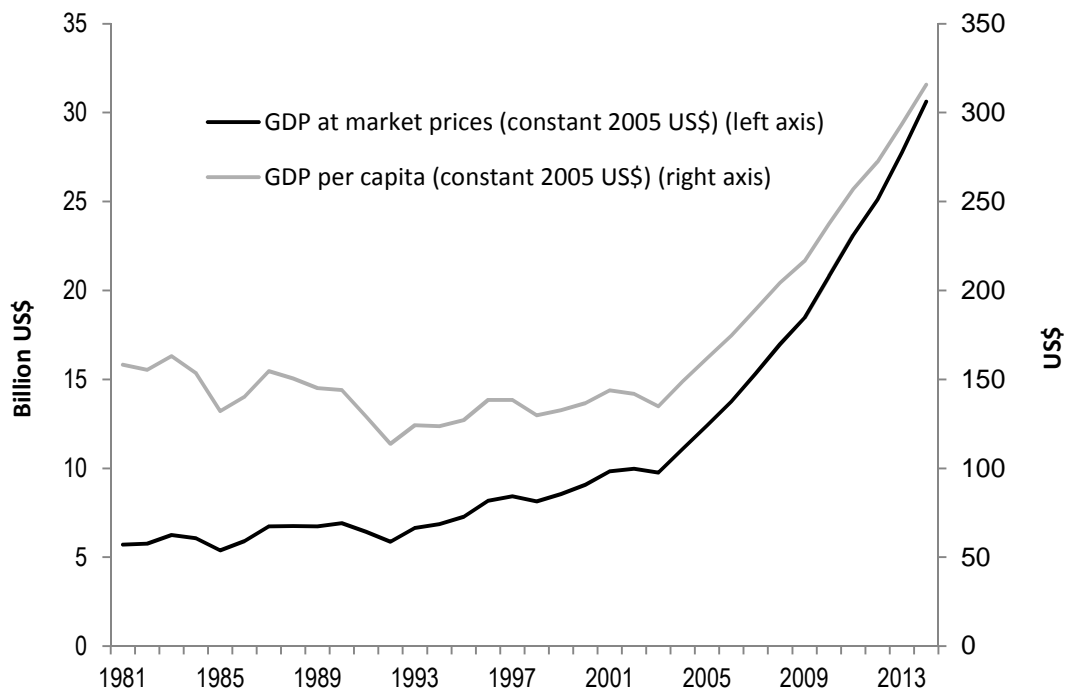
Ethiopia's economic performance under the EPRDF

Before delving into the EPRDF's economic record a note of caution is in order. Economic data for Ethiopia is contested and should be read with care. IMF staff frequently estimate lower rates of GDP growth than the Ethiopian government, calling implied productivity growth rates in official data 'implausible' (IMF 2012: 20). More disturbingly, the level of agricultural output – a key component of Ethiopia's GDP – have been called into question (Dercon and Vargas Hill 2009). The head of a leading Ethiopia-based research institute also confirmed in personal communication that independent survey work suggests that official growth rates for agriculture are broadly correct, but that output levels are vastly overstated (Lefort 2013 reports similar conversations). With this in mind we can now turn to the data.

In economic terms, the EPRDF period has been largely successful, though profound weaknesses remain. Having inherited an extremely weak economy, destroyed by war and ravaged by the famine of 1985, the government has succeeded in stabilising the economy and generating economic growth, in particular after it switched economic strategies from 2002 onwards. According to official data per real capita GDP has expanded from around \$117 in 1981 to over \$315 in 2014, while aggregate GDP grew from around \$5bn to some \$30bn over the same period (in constant 2005 USD, see Figure IV.1)¹.

¹ GDP is higher if expressed in purchasing power parity (PPP) terms, which better reflects people's ability to purchase commodities locally. However, PPP figures are based on intermittent surveys and are not suitable for the construction of annual time series (even

Figure IV.1 - Real GDP and real GDP per capita 1981-2014 (Source: World Bank WDI database)



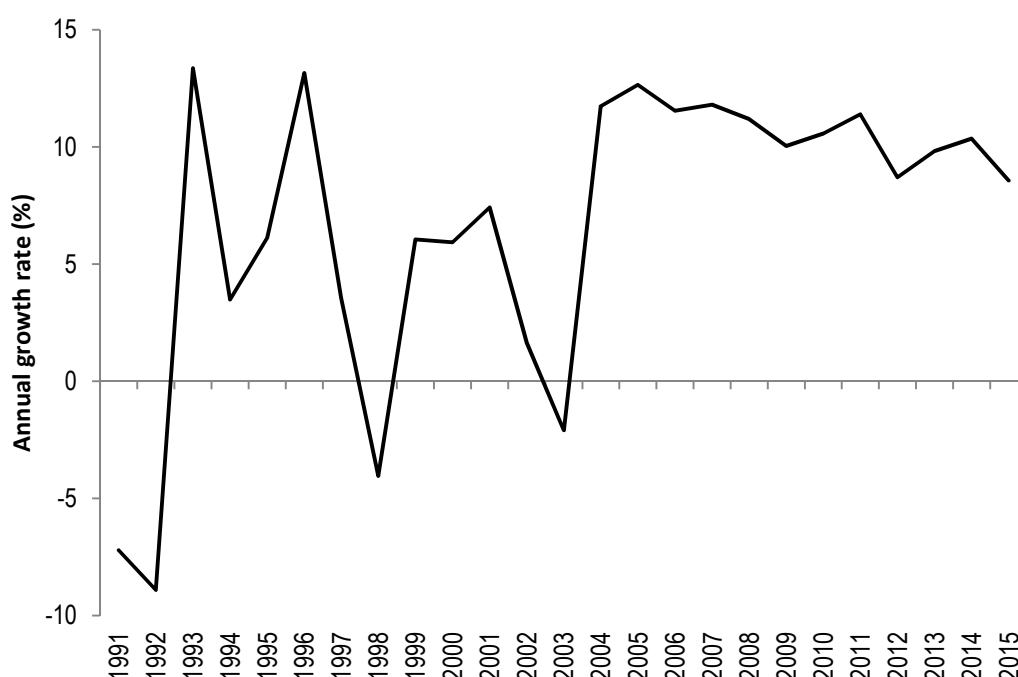
Growth has been driven mostly government investment (World Bank 2015a), and the country has sustained a rate of gross fixed capital formation of over 20% of GDP since 2000 (NBE 2015b). Despite the country's industrial growth strategy, agriculture and services continue to dominate the economy and the contribution of manufacturing to structural change has been limited (World Bank 2014). While the contribution of the industrial sector as a whole to GDP has increased from 9.7% in 1999/00 to 14.2% in 2013/14, almost all of that growth occurred only after 2010, with the contribution of industry hardly rising for a decade prior to that (NBE 2015b). The manufacturing sector used to be the single largest recipient of investments in the country (taking in over 22% of investment in 2009/10, NBE 2011), but now only accounts for 9.2% of invested funds, with the lion share feeding the ongoing construction boom instead². The national bank estimates the contribution of manufacturing to GDP growth at just 4.4% in 2013/14 (NBE 2015a).

though this is often done). In PPP terms Ethiopia's per capita GDP was \$1,214 in 2011, the last available year (World Bank 2015b).

² Construction accounted for just 14.2% of investment in 2009/10 (NBE 2011), a figure that had risen to a staggering 49.9% by 2013/14. Sadly, the data does not allow for a quantification of the share of public infrastructure in this figure.

As shown by Figure IV.2, the EPRDF era has been marked by high but uneven annual GDP growth. The economy remained in recession in the immediate aftermath of the civil war and growth was highly volatile during the EPRDF's first decade in power, with further recessions in 1998 and 2003. However, beginning in 2004 the economy has been successfully put onto a high growth path with growth rates above 10% in most years since. Figure IV.2 also clearly shows a declining trend in GDP growth, with the rate of expansion dipping to 8.6% in 2015.

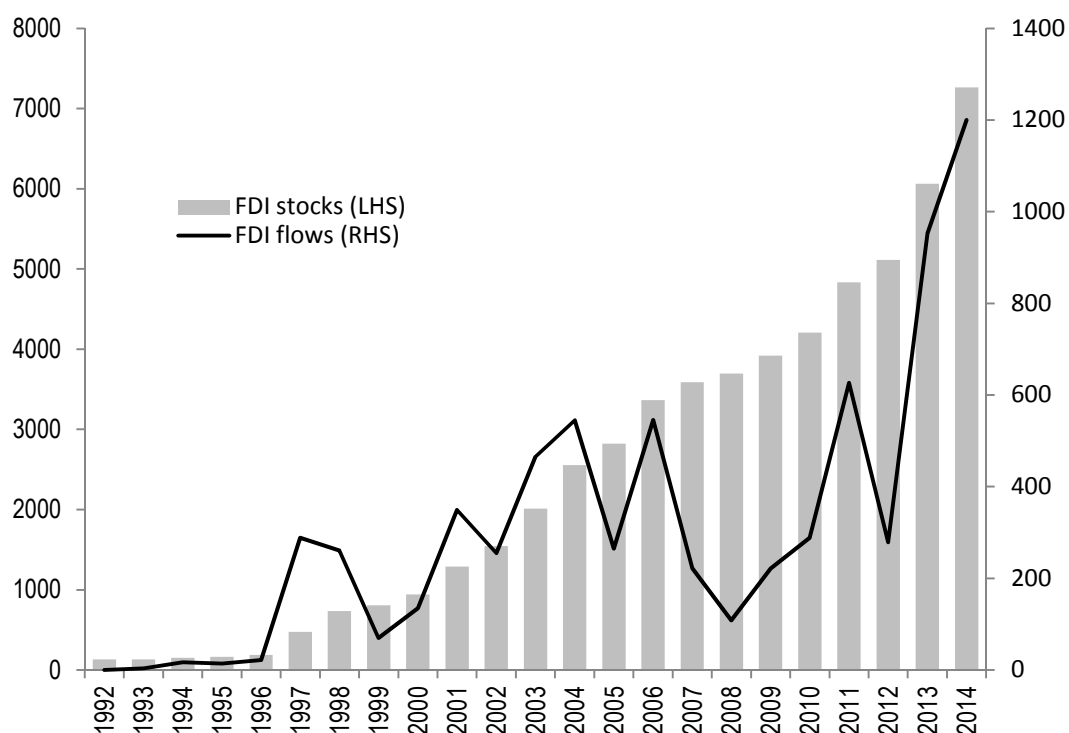
Figure IV.2 – Real GDP growth 1991-2015 (Source: IMF WEO database)



While the government's growth strategy continues to fuel investment and manufacturing growth is picking up, much of the growth is either debt-financed or uses foreign capital, raising issues about the sustainability of growth in the event of a global slowdown or serious domestic political crisis. Growth continues to be driven by the public sector. The share of state-owned enterprises in the domestic credit stock rose from 21% in 2007/08 to 62% in 2013/14, while that of the private sector contracted from 37% to 28% (World Bank 2015a). This has resulted in a pronounced credit-squeeze for private capital, made worse by the country's perennial foreign exchange shortage, which in turn is due to a sizeable current account deficit (IMF 2015b).

The government therefore continues to rely on both foreign credit and foreign direct investment to maintain high levels of investment. The vast majority of external debt is either public or publically guaranteed (IMF 2015b). The growth in foreign direct investment has been spectacular, albeit from a very low starting point. FDI stocks in Ethiopia have increased from \$165m in 1995 to \$7.2bn in 2014, of which \$1.2bn came in 2014 alone (UNCTAD 2015). As shown in Figure IV.3, annual FDI flows have been volatile and declined markedly during the global financial crisis. They have however been rising most years since 2008, and have accelerated especially sharply since 2012. On average FDI stocks have expanded at a rate of over 16% since 2000.

Figure IV.3 – Nominal FDI stock and flows 1992-2014 (in million US\$) (Source: Ethiopian Investment Commission)



Growth in FDI is a direct outcome of the government’s new economic strategy and it is therefore not surprising that the surge is both recent and highly concentrated in manufacturing. According to official Ethiopian data, 60% of all FDI received between 1992 and 2015 went into the manufacturing sector, while 17% flowed into agriculture and much smaller amounts into a variety of other sectors. More than half of all FDI received since 1992 arrived after 2010 and 95% came after 2006 (EIC 2015).

Economic growth has been accompanied by substantial reductions in the relative numbers of poor people, i.e. the poverty rate. At the same time the incomes of the poorest appear to have stagnated. Both un- and underemployment remain high and the absolute number of people living in extreme poverty and deprivation, i.e. the poverty headcount, has remained stable at around 25 million (UNDP 2015).

Reductions in poverty have seemingly been accompanied by rising inequality, though inequality remains relatively low for the country as a whole by international standards, and there is substantial disagreement on the data. According to the a new composite dataset, Ethiopia's Gini coefficient fell from 0.4 in 1995 to 0.28 in 2000, before rising back to 0.33 in 2011, the last year for which data is available³. Other data, however, has the overall Gini coefficient starting a much lower level and remaining relatively stable, with an increase from 0.29 in 1995 to 0.3 in 2004 (Dercon, Hoddinott, and Woldehanna 2008). According to these estimates the Gini for urban areas increased from 0.34 to 0.44 over the same period, with the coefficient for Addis Ababa rising from 0.35 to 0.46. Authorities insist that urban inequality fell between 2004 and 2010, but concede that it has risen since (IMF 2015a). Economic growth has created a new class of increasingly wealthy capitalists and the number of dollar millionaires in the country has doubled between 2007 and 2013 (Smith 2013). Measures of overall inequality are held down by the relatively more equal distribution of income – at very low levels – in rural areas. Also, the Gini coefficient, by construction, at present measures only relative, rather than absolute, income inequality (Ravallion 2016). And the Gini coefficient of income of course does not take account of the distribution of wealth. No data is available for the latter, but a rapidly increasing concentration of wealth in the country seem likely⁴.

³These Ginis are taken from Branko L. Milanovic, *All the Ginis Dataset*, World Bank Group, which calculated composite coefficients from five different datasets. See: <http://data.worldbank.org/data-catalog/all-the-ginis>.

⁴This is based on anecdotal evidence, but is very much the consensus view amongst all the economists and other specialists I spoke to in Ethiopia and is also increasingly visible in Addis Ababa and other large cities.

Chapter five

The politics of coffee production and the role of the state

5.1 Introduction

This chapter provides a background on the coffee sector in Ethiopia and in other coffee growing countries. The purpose is two-fold: first, based on the analysis in the previous chapter, to trace the role the Ethiopian state has played in the development of the sector over time, and second to account for the circumstances which allowed a dynamic class of large-scale capitalists to emerge in the Ethiopian coffee sector after the turn of the millennium.

To understand the opportunities and constraints facing the various actors, which include the private capitalists engaged in production, processing and trade, I examine the changing distribution of power over revenue appropriation in the sector, both domestically and internationally, as well as looking into the part played by the state. As the last chapter has shown, such an inquiry has to proceed historically. The analysis shows that the structure of the coffee sector, from imperial times to the present day, is shaped by continuous effort by Ethiopian government elites to centralise and manage the flows of foreign exchange the sector generates. While Ethiopian official rhetoric and policy documents stress the need to maximise the output of the sector, the imperative of maximising government control over foreign exchange flows from the sector is not necessarily compatible with maximising the profitability or output of the sector as a whole, and the ensuing conflicts continue until today. Together with international market conditions, over which Ethiopia has only negligible influence, this provides the framework within

which all other actors manoeuvre to ensure their own economic and political reproduction.

In the imperial era and during the Derg, the state relied on direct surplus appropriation through export taxes and price setting via a state marketing board. Under the current regime, however, the control of foreign exchange flows is more important than the tax income itself. Given Ethiopia's large and growing trade deficit (World Bank 2014), control over foreign exchange flows is a vital necessity for the government, as it seeks to finance public investment projects, which rely heavily on imported inputs. As illustrated in the last chapter, rapid and continuous economic growth, as well as the completion of prestigious mega-projects, have become essential elements of the government's claim to legitimacy. For the EPRDF's developmental state the generation and control of foreign exchange have become issues of political survival.

To understand the current Ethiopian coffee sector and in particular its capitalist plantations, the legacies of previous regimes and their influence on the possibilities for accumulation today must be examined. This chapter therefore describes the organisation of production under the imperial regime up to 1974, the military Derg regime from 1975 up until 1991 and lastly under the incumbent EPRDF regime since then. For each of these periods I identify how the production and sale of coffee was organised and the ownership relations in terms of land and capital.

Despite its economic backwardness and relative stagnation overall, the imperial regime saw the rise of a group of large-scale capitalist coffee farmers. They foreshadowed the current rise of private capitalist coffee plantations in a variety of ways. These early capitalist experiments fell victim to the Ethiopian revolution and the subsequent land reform in 1975, which nationalised many of the large coffee estates, concentrating them into huge state farms, and broke up others to redistribute the land to the 'peasant associations', or *kebele* (Pausewang 1983). The revolutionary government expelled all private capital from the production process of coffee, and restricted it to strictly circumscribed roles in coffee processing and export, where some private capitalists were allowed to maintain small companies

on the margins of the trade (ICO 2000a). This allowed private capital to survive, but prevented accumulation. The fall of the Derg and the coming of the EPRDF regime in 1991 signalled the beginning of a state retreat from the processing and later even production of coffee. It is only comparatively recently that private capitalists have once again moved into coffee growing. At the same time, the EPRDF government, after nearly two decades of neglect, suddenly began a thorough restructuring of the Ethiopian coffee sector, imposing an entirely new regulatory regime. While they are ostensibly based on free-market dogma, I argue that the regulatory changes were motivated primarily by the need for government control. The EPRDF regime therefore reverts to the standard position of all Ethiopian governments in modern times, which is to seek to regulate the revenues gained, in this case from coffee exports. Ethiopia's first commodity exchange, introduced as a mandatory hub for the coffee sector under the EPRDF, is the most advanced example yet of a monitoring and control system for the sector. At the same time a confluence of external and internal factors opened up a window of opportunity for private capital to expand once more into coffee production.

I begin the chapter with a discussion of the global coffee trade and an explanation of how the current value chain has emerged historically (Section 5.2). This section also explores the implications of the chain structure for producers in Ethiopia. Next I turn to the history of the Ethiopian coffee sector (Section 5.3) and the importance of its legacies for understanding current patterns of accumulation. The political economy of the contemporary Ethiopian coffee sector is analysed in Section 5.4, and the implications of the current regulatory regime for private capital accumulation are explored in Section 5.5. Section 5.6 concludes the chapter.

5.2 The history and structure of the global coffee trade

5.2.1 From bean to brew

Before discussing the structure and price setting mechanisms of the coffee sector I briefly lay out some of the specificities of coffee as a product, as these are important for understanding what follows. Compared to many other 'commodities', coffee is

a highly differentiated product, with widely differing origins and processing methods producing huge variations in availability, quality, marketing opportunities, and hence, prices. For producers of quality coffees, such as those produced by many Ethiopian farmers, the niche markets for 'specialty coffee' that exist alongside and within the 'world market' present a lucrative opportunity. However, even for producers of high quality coffee, specialty coffee represents only part of their output and we must understand both the 'normal' and the specialty coffee markets to make sense of the possibilities for capital accumulation in Ethiopia's coffee sector.

The perennial tree shrubs from which coffee is harvested are native to the tropics. The coffee we drink comes from two different members of the *coffea* family: *coffea arabica*, or Arabica coffee, and *coffea canephora*, better known as Robusta. Roughly 70% of all coffee grown and traded is Arabica coffee and many high quality coffees or coffee blends are pure Arabica. Robusta coffee is widely considered to have an unpleasant flavour and is therefore mostly used as a cheap filler for blends or in instant coffees.

The best Arabica coffees are grown in high altitude areas of the tropics that have abundant rainfall. In Ethiopia the ideal altitude range is from about 1,500m to about 1,800m (Dubale 1994, various interviews). The relatively lower temperatures found at altitudes above 1,500m serve to slow the development of the coffee beans, allowing a fuller flavour to develop. A similar effect is achieved by raising the coffee trees in the shade of other tree species. The quality of coffee beans also depends on the varieties of coffee that are grown. The viability of varieties depends on local microclimates and soil conditions, and national networks of research and extension services are often crucial to developing new varieties. Almost all coffee in Ethiopia is grown under shade and much of it at very high altitudes. Together with the locally available varieties of the plant and the favourable soil and climactic conditions, this explains the – at least potentially – very high quality of many Ethiopian coffees.

Coffee beans must be carefully harvested and processed before they can be sold, and these processes are key determinants of coffee quality (coffee quality is discussed below and in more detail in Annex V.1). Ethiopia has a single annual coffee harvest and almost all Ethiopian coffee is harvested between September and January. When producing high-quality coffees the aim is to harvest only the ripest – that is the reddest – cherries. The highest quality of coffee is achieved by selecting, by hand and on a daily basis, only those cherries that are ripe on that particular day¹. Lower quality coffees are harvested by ‘stripping’ the branches of all cherries at once, thereby mixing ripe and unripe cherries together. In some countries, such as Brazil, this process has been largely mechanised, but Ethiopian coffees are exclusively hand-picked.

5.2.2 A history of coffee market regulations and prices

The possibilities for capital accumulation in the Ethiopian coffee sector are the outcome of a long and complex interplay of domestic and international factors. The Ethiopian coffee market is small compared to the world market for coffee (see Section 5.2.3). The structure and regulation of the Ethiopian coffee market can therefore in many ways only react to changes in the structure of power of the global coffee value chains. Therefore, before delving more deeply into the Ethiopian coffee market and its idiosyncrasies, we need to examine the global value chains for coffee and the structure of the world market for coffee. The brief discussion that follows, while providing an overview, will necessarily sidestep complexities that are not relevant in this context.

Coffee is by value one of the most important legally traded goods globally, with exports in 2009/10 valued at US\$15.4bn. In the same year the coffee sector in producing countries alone was estimated to be employing around 26 million people (ICO 2014). Compared to many other ‘commodities’, the global value chain for coffee is relatively simple, as “the central fact continues to be that over 90 percent of all coffee is exported by relatively poor tropical countries, and a similar percentage

¹ This makes the labour process and labour mobilisation vital to the production of high quality coffee. Both are discussed in Chapter Six.

is imported by rich, temperate countries” (Topik 2003: 22)². The structure of the coffee supply chain is straightforward (ITC 2011)³: coffee is grown in tropical countries, mostly by smallholder farmers, but also on plantations of various sizes. It is processed into green (i.e. unroasted) coffee, graded and packed either by producing country exporters or by consuming country importers, depending on the country in question. In Ethiopia, all coffee is by law exported by domestically-owned firms. Leaving aside instant coffee, almost all coffee is exported from producing countries as green coffee. Past the green bean stage, almost all other steps in creating the final product bought by consumers (notably blending, roasting, packaging and distribution) occur in consuming countries. The coffee is purchased either by international trading houses (or by roasters directly) and is imported into consuming countries. The imported coffee is sold to roasters, who prepare it for the wholesale and retail markets.

The current coffee market is the outcome of a slow process of ‘commodification’⁴. While coffee had long been grown (or collected), including for commercial purposes, by small farmers in Ethiopia and Yemen, the Dutch in the late 17th century were probably the first instance of merchant capital organising the production of coffee when they introduced it to their colony in Java. In the early 18th century it spread from there to the Americas. European powers had little success in coffee production in their colonies and by the end of the 18th century the independent states of the Americas were supplying the majority of the world’s coffee. In the 19th century Brazil began its dramatic rise to become the world’s largest producer. Vast plantations tended by slaves, built on stolen forest land and connected by a growing network of railways drove a breathless expansion of coffee production. From independence in 1822 until the end of the century Brazil’s production expanded seventy-five-fold. By 1906 Brazil produced six times more

² I use the term commodity (*Ware*) in the Marxist sense of describing a good produced for sale in the market, and ‘commodity’ to refer to an undifferentiated mass product, generally sold in bulk.

³ The production and sale of instant coffee follows a slightly different supply chain, but Ethiopia does not currently produce any.

⁴ Unless otherwise indicated, this brief history of the early coffee trade draws heavily on Topik’s (2003) excellent account.

coffee than the rest of the world combined. Brazil has dominated the world coffee trade ever since, although its share of the market has fallen.

The modern coffee market was born in the late 19th century. Steam shipping reduced transport costs and further expanded production. Falling prices made coffee affordable to working class people in the global north and coffee became a mass beverage. A telegraph line connecting South America to New York and London, then the centre of global finance, was completed in 1870. Suddenly market participants could almost simultaneously access similar information on prices, weather conditions in producing countries and stock levels. The foundation of the New York coffee exchange in 1882 provided a global marketplace for the trade. The exchange slowly completed the 'commodification' of coffee by hastening the introduction of standardised grades and contracts.

Coffee prices in the emerging world market of the late 19th and early 20th century were extremely volatile. Much of this volatility is driven by the so-called tree price cycle (Talbot 2004). The cycle is driven by the mechanisms of supply adjustments in the coffee market, driven in part by plant physiology and in part by the reactions of growers to price changes. Coffee trees have two important characteristics in this respect: first, individual trees have a two-year yield cycle, meaning that a large harvest is likely to be followed by a smaller one, which is a source of natural volatility. And second, it takes three to four years after planting to bring a coffee tree into production, which introduces substantial lags into the supply adjustment. To simplify somewhat, a typical cycle may develop as follows (see Talbot 2004 for more details): a weather event causes a sharp contraction in coffee production, leading to rising coffee prices as demand remains relatively unchanged⁵. Higher prices encourage increased planting of trees. As the newly planted trees take several years to produce any coffee, prices remain high for some time, during which further planting takes place. As the production begins to expand, the scale of excess capacity, compared to relatively flat demand, becomes clear. Prices begin to fall. A

⁵ Not only is coffee demand at consumer level relatively inelastic (caffeine is addictive after all), but price movements are not always passed on to consumers by roasters, either to reap extra profits or to protect their market share.

fall in coffee prices leads growers to either curtail their labour input or, in the extreme case, uproot their coffee trees and plant other crops. In the case of smallholders this can be accompanied by significant hardship, and the reduction in labour inputs hits wage labourers in both large and small operations. In both the upward and downward part of the cycle, prices will 'overshoot' due to these lags in supply adjustment. Talbot (2004) identifies a number of such cycles throughout the 19th and 20th century, while Gilbert (2005) finds an irregular 11-year cycle in coffee prices.

As producing countries became more dependent on coffee, this volatility, paired with low coffee prices, fuelled popular unrest in poor producing countries. But especially in parts of Latin America the coffee trade had provided the material basis for the rise of powerful oligarchies, who had a vested interest in stability (Paige 1999). A first international coffee agreement, covering the producing states of Latin America and the United States as the main consumer, was implemented in the immediate aftermath of World War II. Export and import quotas led to a doubling of coffee prices (Talbot 2004). The United States ensured that a comprehensive International Coffee Agreement (ICA), aimed at establishing an effective price floor for coffee, was finally signed in 1962 (see also Bates 1997). The agreement assigned export quotas to all major coffee producers, which would come into effect if coffee prices fell below the price floor. It also established the International Coffee Organisation (ICO), in which both producers and consumers were represented, to monitor and administer the agreement. Originally signed for a five-year period, the ICA was renewed, with minor adjustments, three times before the quota system was allowed to lapse in 1989. The agreement was relatively successful in curtailing the chronic oversupply of coffee in world markets (Talbot 2004), resulting in higher overall prices levels (Gilbert 2005). Measured effects of the ICA on price volatility appear to depend on the periodization of the analysis. Gilbert (2005) finds no evidence of significant differences in volatility in international coffee prices when comparing the period from 1962 to 1989 to the post-ICA period, while Akiyama and Varangis (1990) maintain that the agreement did stabilise prices between 1980 and 1989. In many ways the debate around volatility is somewhat beside the point.

What matters more to producers is the price level, and here the effects lifting the ICA have been less ambiguous.

The ICA was ultimately undermined by a combination of structural weaknesses internal to the agreement and the disappearance of communism as an immediate alternative to capitalism, which lessened incentives in consuming countries, and the USA in particular, to support producer prices (Talbot 2004). On the side of producing countries, there was disagreement about the levels of export quotas, and some producing countries joined the US in withdrawing support for a renewal of the agreement. The era of market regulation came to an end in 1989 and the governance of the coffee chain, in which producing countries had played a powerful role, was rapidly taken over by large corporations.

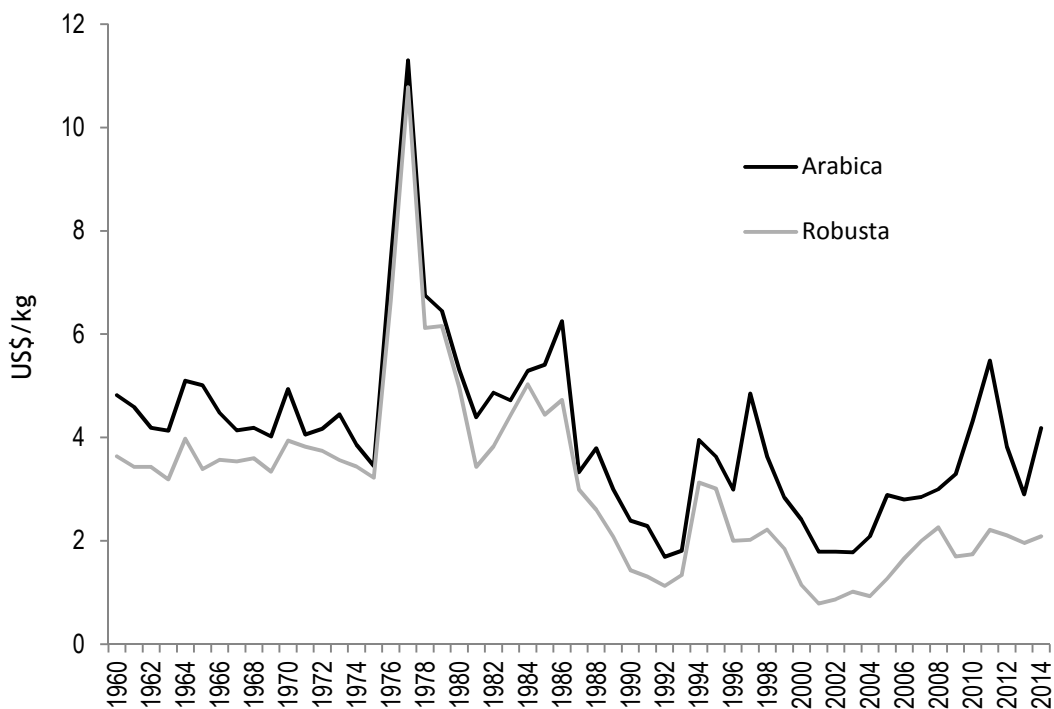
As a result, the global coffee market today is extremely concentrated, with a few large transnational enterprises controlling much of the import and roasting stages of the chain. This concentration began with the onset of globalisation in the 1970s and the liberalisation programmes that followed in the 1980s, and so in part preceded the demise of the ICA, but was then exacerbated by it. Talbot (2004) estimates that the four largest roasters, most of which are multi-commodity corporations, control around 60% of coffee sales in major consuming markets, while Panhuysen and Pierrot (2014) estimate the market share of the ten largest roasters at 40% of all coffee consumed worldwide. Coffee imports are dominated by international trading houses, of which the three largest alone are estimated to control 50% of the world's trade in green coffee (Panhuysen and Pierrot 2014).

As shown in Figure 5.1, coffee prices, which had begun to fall in the late 1980s, dropped precipitously after 1989, to reach their lowest point in over three decades in 1992. Gilbert (2005) has calculated that, excluding the price spike from 1976 to 1979, coffee prices after 1989 were on average more than 50% lower than their pre-1989 levels. The fall was caused by the lifting of ICA export quotas⁶. The quota system had led to the accumulation of large stocks in producing countries, which,

⁶ Gilbert explains this drop as the delayed adjustment of prices to productivity increases, which had been suppressed by the ICA.

due to falling prices, now suddenly flooded the market (Talbot 2004). The importers who bought these stocks were betting on rising prices in the future and so bid purchasing prices down to ensure their subsequent appreciation (Gilbert 2005). One result was the transfer of most of the world's stocks of coffee from exporters to importers at rock bottom prices, which undermined the ability of producing countries to control prices (Daviron and Ponte 2005). The collapse in prices had devastating impacts on many direct producers. Farmers large and small were driven out of business, workers laid off and poverty increased in many places as a result (Gresser and Tickell 2002).

Figure 5.1 - Real coffee price composites (in constant 2010 US\$/kg), 1960-2014 (Source: World Bank 'pink sheet' commodity markets dataset).



At the same time, the price crash hurt importers, due to outstanding futures positions, large stocks bought at high prices before the crash or falling price-related commissions, and many importers left the coffee business. Roasting companies, who had already been consolidating due to competitive pressures in the larger consumer markets (Pendergrast 2010), were increasingly able to dictate terms even to the largest importers. Importers in turn were able to take over export companies in producing countries, where many markets had been liberalised in the era of

structural adjustment programmes (Talbot 2004). The increased concentration in the coffee chain is similar to the 'cascade effect' identified in other supply chains by Nolan, Zhang, and Liu (2008)⁷. At the same time, roasters concentrated more and more on their core businesses, leaving the sourcing and supply chain management operations to importers. Power in the coffee chain shifted from sellers in producing countries to buyers in consuming countries and within the purchasing segment of the chain, from importers to roasters (Daviron and Ponte 2005; Fitter and Kaplinsky 2001).

A second price collapse occurred in the year 2000. As shown in Figure 5.1, prices fell to levels nearly as low as in the early 1990s, precipitating another wave of impoverishment in producing countries (see also Varangis et al. 2003). Low prices benefited the large roasting companies, as falling green coffee prices are generally only partially passed on to consumers, if at all, and so contribute to higher profits (Talbot 1997, 2002). The impact on producers, large and small, was even more severe than the first crisis (Gresser and Tickell 2002). The results in producing countries were uprooted trees, abandoned farms and an increase in rural-urban migration as coffee producers sought alternatives. The damage to coffee production, especially in the higher-quality, but less mechanised Arabica segment, which has much higher unit labour costs than Robusta production, was sufficiently large to raise concerns about the feasibility of (socially and ecologically) sustainable coffee production in the future (ICO 2002).

The reasons for the crisis are complex and there is substantial regional variation (Lewin, Giovannucci, and Varangis 2004), but the essence of the global situation is neatly encapsulated in the term 'coffee paradox' (Daviron and Ponte 2005). This refers to the simultaneous overproduction of coffee *in general*, which results in downward pressure on prices, and the simultaneous shortage of high-quality Arabica coffees *in particular*. The former is partly a result of an explosion of Robusta

⁷ The cascade effect described the tendency for increasing concentration among large firms at the top of a value chain to result in greater concentration in all lower segments of the value chain as well. This is partly because large firms increasingly come to depend on suppliers who are capable of operating at similar volume levels to themselves.

production (see Section 5.2.3) and of the relentless pursuit of market share through productivity increases in a market where quality and price expectations are largely set by a few large roasting companies with a direct interest in persistently low prices – precisely the failure of coordination the ICA had contained for so long. Though prices over the 2000s rose back to roughly their pre-1989 levels (see Figure 5.1), the latest crisis is unlikely to have been the last and calls for a global and systemic solution are increasing (Vega, Rosenquist, and Collins 2003).

Together with the uncertainty and volatility caused by natural events, the physical trade of coffee is also impacted by the operations of secondary markets and increasing speculation. Financial markets, finance capital and derivatives have become increasingly central to the operation of coffee markets (ITC 2011). There have been huge increases in coffee derivatives trading since the 1980s due to the increasingly sophisticated stock, margin and cash-flow management by coffee importers and roasters through complex hedging operations. Coffee futures are traded in international financial markets in New York for Arabica coffees and in London for Robusta coffees. In addition to supporting their physical trading activities, large importers and roasters began to generate speculative profits from trading coffee derivatives and these have become central elements of their business strategies (Talbot 2004). Fuelled by a wider boom in commodities derivatives, coffee markets have also attracted increasing numbers of pure speculators with no interest in physical coffee at all. While large corporations with ready access to both own capital and credit have been able to profit from these developments, the risks of speculation-driven volatility have accrued upstream in the value chain with direct producers (Newman 2009).

Since the lapsing of the ICA, coffee prices have increasingly been driven by developments in the futures markets and spot prices for coffee tend to converge on prices for short-term futures (ITC 2011). However, not all coffees are directly tradeable as futures contracts, only so-called ‘deliverable growths’ are. Coffees are sold at prices set with reference to a particular futures price, the New York-C price (ICE 2015). Coffees not included in the ‘C’ contract are traded at differentials to the

base price of the contract (ITC 2011). ‘Deliverable growths’ have fixed differentials to the basic ‘C’ price while the differentials of other coffees, including Ethiopian coffees, fluctuate, but tend to be relatively stable in the short term. Ethiopian coffees tend to trade at differentials of about US\$0.10-0.20 above the ‘C’ price (EG9). Mass market coffees are traded against standardised contracts and prices are based on quality grades. While most of the world’s coffee prices are determined in this way, price setting in the specialty coffee sector, to which we turn briefly in Section 5.2.4, functions quite differently.

5.2.3 Major producers and consumers

The global coffee market is dominated by very large producing and consuming countries. Figure 5.2 shows the production volumes for selected producing countries between 1961 and 2015⁸. The most noticeable feature is the aforementioned dominance of Brazil, where increased capital intensity and mechanisation have led to a sharp rise in output since the late 1990s. By 2014 Brazil was responsible for around 35% of global coffee production and around 31% of coffee exports (USDA 2015)⁹. Brazil also has some of the southern-most coffee plantations in the world, which makes them vulnerable to frosts and droughts, both of which can have devastating impacts on production in any given year. Because of the sheer size of Brazil as a producer, weather events there immediately impact global price levels.

Equally noticeable is the growth of Vietnam into a major coffee producer, based on the clearing of vast areas of forest for smallholder-driven production of (very) low-quality Robusta coffee¹⁰. Along with an expansion of Robusta production in Brazil, this led to a fall in the price of Robusta, a widening of price differentials to Arabica coffee, and also a drop in coffee prices more generally, as large roasters discovered new processing techniques allowing them to use greater quantities of low-quality Robusta coffees in their blends (Gilbert 2005; Wild 2005, see also Figure 5.1). Over

⁸ The standard unit of measurement in the international coffee trade is a 60kg sack, called a ‘bag’.

⁹ However, due to the size of its economy, Brazil is also one of the least coffee dependent producer countries, with coffee representing just 3% of Brazil’s total exports.

¹⁰ See Giovannucci et al. (2004) for an overview.

the same period Ethiopian production has grown steadily, but at an unremarkable pace, and Ethiopia remains a relatively minor producing country, despite being the largest producer in Africa. Ethiopia's 2015 production is estimated at about 6.35m bags of coffee or about 381m kilogrammes (see Figure 5.2).

Figure 5.2 - Coffee production volumes for selected producers (in million 60kg-bags), crop years 1961-2015 (Source: USDA).

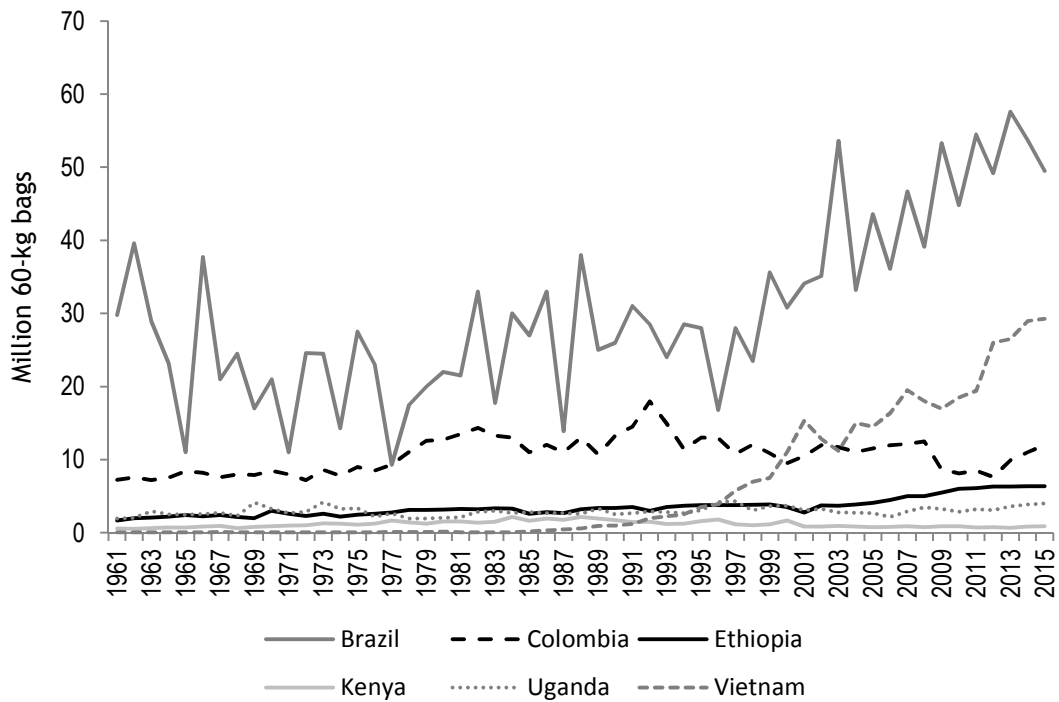
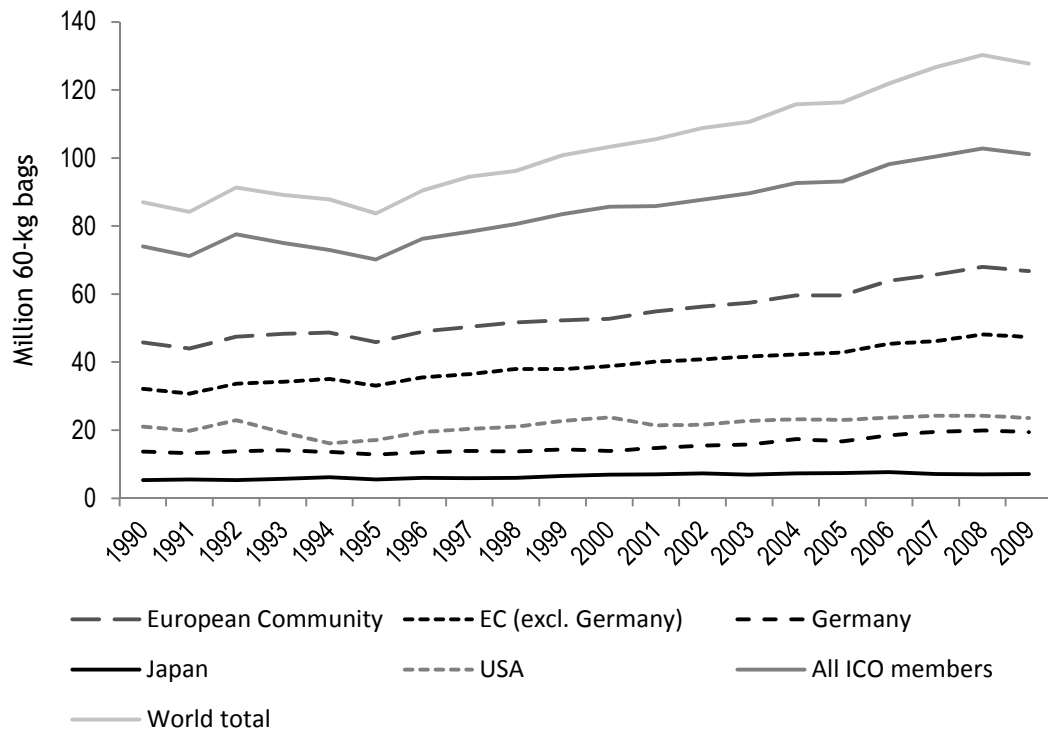


Figure 5.3 gives analogous data for importing countries from 1990 to 2009. While globally imports continue to expand, demand growth has been slow in major consuming markets, such as Japan and the EU. The same has recently been true of the US, the second largest importer after the EU (USDA 2015). The growing difference between total global imports and imports by ICO members illustrates the growing importance of new consumer markets, in particular in Asia. Moreover, these overall import trends mask the rise of niche coffees, in particular the various ethical labels and specialty coffees. As is discussed below, this 'latte revolution' (Ponte 2002a) has opened up new opportunities for capital accumulation in producing countries.

Figure 5.3 - Coffee import volumes of main importing countries and regions (in million 60kg-bags), 1990-2009 (Source: ICO)



5.2.4 Coffee quality and specialty coffee

The specialty coffee sector functions as a niche market within the global coffee trade, albeit one that is expanding rapidly and is a major source of dynamism for the industry as a whole (Daviron and Ponte 2005; Lewin, Giovannucci, and Varangis 2004). Specialty coffees are differentiated by careful selection and processing and are (mostly) of much higher quality than mass market coffee. These coffees are bought either by small importing companies and independent roasters, or by specialised trading arms of larger conglomerates. Most specialty coffee is sold as ‘single origin’, meaning that the precise growing and processing location, as well as the processing procedures used are of vital importance to buyers. These help supply the unique ‘narratives’ which, together with better taste and bolder flavour profiles, are used to justify premium prices to final consumers (more information on coffee quality and the specialty trade is provided in Annex V.1).

Price setting in the specialty sector is akin to practices in, for example, the market for fine wines. Prices in the specialty trade are not normally set according to grades but are negotiated directly between buyer and seller. Buyers will often cultivate

long-term relationships with particular producers. Specialty buyers will in most cases insist on visiting the farm or cooperative where the coffee is produced and will taste all coffee prior to purchase. Even once a purchasing agreement is in place all deals are subject to approval of a final sample by the buyer. This gives buyers a lot of control over the quality of the coffee they buy. As the retail prices of specialty coffees are frequently multiples of that of mass market coffee, substantial price premiums can be achieved by growers capable of producing the highest quality coffees. As we shall see, Ethiopian growers are in principle very well placed to take advantage of these opportunities – this issue is also taken up again in Chapter Six.

5.3 The history of regulation and accumulation in the Ethiopian coffee sector

5.3.1 The role of coffee in Ethiopian economy

Despite its relatively small share of coffee exports, Ethiopia plays a unique role in the global coffee industry. It is widely considered to be the genetic home of all Arabica coffees and the diversity of wild varieties found in its high-altitude cloud forests is unmatched anywhere else (Labouisse et al. 2008; Hein and Gatzweiler 2006). Ethiopian coffees are also, at least when processed and stored correctly, some of the finest Arabica coffees in the world and are popular with roasters both for sale as single-origin coffees but also as an ingredient in blends to raise the overall flavour profile (CB1). Moreover, Ethiopia's picturesque coffee culture provides a perfect backdrop for the images and narratives of charming and romantic 'otherness' so valued by coffee marketers.

Within Ethiopia coffee plays a vital role in several respects. Firstly, many Ethiopians are heavy coffee drinkers, and in many parts of the country drinking coffee is woven deep into the fabric of everyday interactions. In the central highlands and most parts of the highland periphery, guests are received with several cups of coffee, always freshly roasted and prepared on the spot in an elaborate ritual that may feature scented grasses, frankincense and popcorn, and an inability to do so would be a source of shame for many households. In fact, coffee is so popular that

the domestic price of coffee often exceeds international prices, creating incentives for the smuggling of coffee into the domestic market.

Secondly, coffee plays a very important macroeconomic role and is one of the main avenues through which Ethiopia earns the foreign exchange needed to finance the growing trade deficit, investment in infrastructure and on-going mega-projects. As noted in the last chapter, foreign exchange generation is vital to the economic strategy pursued by the EPRDF state. Coffee revenues thus play a strategic role in contemporary Ethiopia, and the effective control over income streams from coffee is an important political issue.

Despite a fall in the value share of goods exports from over 34% in 2002/03 to just over 24% in 2012/13, coffee remains the most important item of merchandise export. However, it is not, as is often erroneously stated, the largest foreign exchange earner in the country – as also mentioned in Chapter Four, this is an honour which belongs to Ethiopian airlines (World Bank 2014: 34). The falling share of coffee in total goods exports is largely due to the rapid rise in the value of floricultural and horticultural products, oil seed, and gold exported (World Bank 2014: 70).

Despite this importance of coffee for foreign exchange earnings, the Ethiopian coffee sector is still largely characterised by great poverty, low yields and unnecessary loss of product quality through inappropriate harvesting and processing practices. This is puzzling, as Ethiopia is chronically short of foreign exchange, which is severely rationed and must be obtained from the NBE directly. Given the importance of foreign exchange not just for private sector companies, but for the completion of development programs upon which the ruling party has staked its claim to political legitimacy, it is surprising that the government showed very little interest in the sector until well into the 2000s. At this point, however, the government embarked on a series of major reforms, the aim of which was the complete control of the sector and associated resource flows. The next sections will show how the Ethiopian state has long depended on coffee revenues for its survival and how the need to control the sector is a historical constant, irrespective of the way in which social production and reproduction are organised.

5.3.2 *The imperial regime and the first agrarian capitalists*

The southward expansion of the Ethiopian state in the late 19th century has already been chronicled in the last chapter and does not require repeating here. As discussed, the modernisation drive under Haile Selassie gradually created the conditions for agrarian capital to emerge. Particularly important in this regard was the slow conversion of quasi-feudal property relations into landlord-tenant relations in the fertile southern provinces, as feudal lords became private landlords.

5.3.2.1 The failure of the first coffee plantations

This is the context in which, beginning in the 1920s, private capitalist coffee farms were first established in Ethiopia. The discussion here will focus on the area around Jimma and Kaffa, then known collectively as Kaffa *awraja* (province), for which the evidence is the strongest. While research into many aspects of imperial-era agricultural development in Ethiopia must contend with a lack of reliable data (Rahmato 2009), the early history of capitalist coffee farming has suffered particular neglect. Very little was ever written on the topic and the following has been carefully assembled from the sparse information available.

While coffee has been exported from Ethiopia since at least the 16th century (Aregay 1988), if not much earlier (Topik 2003), purposive coffee cultivation, as distinct from the gathering of forest coffee, is probably much younger. In the Jimma area cultivation is said to date back to around the mid-19th century (Gemeda 1994), though the beginnings have also been placed as far back as the 1830s (Aregay 1988). What is more certain is that Ethiopia witnessed a coffee boom in the 1920s, driven by rising world market prices. Exports grew to significant levels (Berhe 2010). Feudal lords and the late King Abba Jiffar of Jimma encouraged the planting of coffee on their lands. Despite the fact that they used a mixture of (non-cash) wage labour and slavery, these lands were the first capitalist coffee plantations in Ethiopian history, their aim being the appropriation of surplus through the production and, in this case, export, of commodities¹¹. However, the early plantations were generally run by absentee landlords with little interest in

¹¹ See Banaji (2010) for discussion of why the presence of wage labour is not always a necessary condition for capitalist production.

agronomy (Gemedda 1994). Investments were minimal, and some of these 'plantations' are perhaps better regarded as (barely) managed forests. Nonetheless, they served as important forerunners for the modern plantations that were to follow. The first plantation boom was to prove short-lived, as the depression in consuming countries in the 1930s drove down coffee prices. The invasion by fascist Italy in 1936 put an end to the experiment.

5.3.2.2 Imperial modernisation and the new agrarian capitalists

The second wave of coffee plantations has unfortunately also not received much interest from historians and there are very few writings on the topic. Due to the limited source material, the discussion here is limited again to the areas around Jimma and Bonga. The Jimma area was the most important centre of early capitalist coffee plantations, making it an appropriate example. When the Development Bank of Ethiopia began giving out loans for coffee production in 1954, plantations received 33% of the disbursed monies, of which some 48% flowed to the Jimma area (Gemedda 1994).

The rise of these early capitalist plantations is interesting for at least four reasons. First, they were responsible for a number of organisational innovations including the much more widespread use of wage labour and a reliance on modern agronomy. Second, the social origins of the capitalists and their means of accumulation foreshadow some of the aspects of contemporary accumulation in Ethiopian coffee farming in surprising ways. Third, the scale of their operations was completely unprecedented in the country and laid a lasting legacy in the area and beyond, not least in the form of Ethiopia's – now once again privatised – state farms, which rank amongst the largest coffee plantations on in the world. And fourth, unlike now, the government of the day was an enthusiastic supporter of these farms.

The first truly modern coffee plantations, using intensive planting and contemporary agronomic techniques, were founded in the 1950s, when a conjuncture of several factors meant that a new breed of capitalist farmers were able to access land, labour, investible funds and the necessary know-how. As slavery

had been abolished in 1942, surplus appropriation on these plantations proceeded through the exploitation of wage labour. Ethiopia's growing integration into international trade flows provided this emergent class of capitalists with access to a reliable market for their produce, allowing them to complete the money-commodity cycle (Gemedo 1996; Pausewang 1983).

As discussed in detail in the last chapter, the land tenure system had changed enough to allow for the rise of capitalist coffee farmers. The final crucial element, knowledge, was added when, beginning in 1945, international organisations, such as the UN and bilateral aid agencies, in particular USAID, began providing development aid to Ethiopia. While agriculture was sorely neglected by the imperial government and accounted for only eight percent of all foreign loans up to 1974, USAID and the World Bank began funding agricultural development programmes in the 1950s (Bekele 1995). For the first time, these programmes introduced scientific management techniques of an appreciable scale. Donor funds also financed the creation of two specialised agricultural universities, at Jimma in 1952 and at Haramaya, just outside Harar, in 1954 (Rahmato 2009). Haramaya University became the nexus of the first agricultural extension service in the country, a role that was taken over by the newly formed Ministry of Agriculture in 1963 (Berhanu and Poulton 2014). The new universities and the extension services trained agronomists, who were able to support the new capitalist farmers. A milestone was the formation of the Jimma Agricultural Research Institute (JARI) in 1967. The institute conducted applied research on coffee cultivation and was key to introducing the new capitalists to scientific coffee farming methods – and it was to play a similar role again in the future (EG4).

After the Second World War, Haile Selassie had opened the economy to foreign investment, leading to a – modest, but unprecedented – surge in capital inflows. For the first time in Ethiopian history, something resembling a national economy was born, linking the southern periphery ever more closely to the centre, which depended more and more on the surplus produced there for its own survival (Markakis and Ayele 1978). These inflows led to new investments in roads in the

southern periphery and brought large numbers of migrant workers to the area (Gemedra 1994). While the financial flows were small in absolute terms, the monetised part of the Ethiopian economy was miniscule, with the results that by 1968 "[a]lmost the whole export trade, and in particular that of coffee, hides and skins and cereals - the three major items which make up almost 75% of the whole trade of Ethiopia - are dominated by foreign investments" (Mohammed 1969: 57). In coffee, however, these foreign investments tended to be downstream of the production phase. The first plantations were mostly Ethiopian owned.

Unless indicated otherwise, the discussion that follows relies heavily on the detailed historical work provided by Gemedra (1996). The plantation owners who established themselves in the areas around Jimma and Bonga came from two distinct social groups. They were either aristocrats, who had largely inherited their wealth, or self-made men. Of the latter some accumulated capital working in the growing civil service or in the military, while others had made enough money to finance a plantation by trading in urban centres. Many farm owners who did not have access to aristocratic wealth and privilege remained so dependent on either wages or income from other business lines, even after founding their plantations, that they 'straddled' jobs (see also the discussions in Chapter Two and Six). That is, they hired farm managers to allow them to tend to another job or business, usually located in an urban centre. Their accumulation was the product of the opportunities provided by the relatively rapid urbanisation and concomitant growth of the service sector in the highland periphery.

The new farmers, whether of feudal origin or not, were the clearest example of modern capitalists yet seen in the Ethiopian coffee sector. They rented, or otherwise acquired, lands on which they employed wage labourers in the production of commodities with the aim of making a profit. They employed modern agronomic techniques, pruning and fertilizing their trees to increase yields, and organised workers into supervised work gangs to increase labour productivity. Their endeavours were also distinguished by their scale; their farms consisting of hundreds of hectares of coffee trees. Local landlords had also been attracted to

coffee farming, but they organised production very differently. As these *balabat* were related to the local population, they were able to recruit sharecroppers, who received half of the coffee harvest in return for their services. The new capitalists however, found this arrangement much too expensive and relied instead on migrant labour, which was cheaper. They often encouraged labour migration from the north, sometimes offering work on their plantations in lieu of labour duties up north (Wood 1983).

The new coffee capitalists had an important and powerful ally in the governor of Kaffa *awraja*, Mesfin Sileshi, who ruled the province from 1945 to 1954. Himself an aristocrat, landlord, and large-scale coffee plantation owner, he enthusiastically supported the new coffee capitalists and helped them acquire land. The most common method of land acquisition was simply grabbing land illegally for one's own use¹². Mesfin supported such land grabs and also sold the new capitalists land from his own vast possessions. This combination of land sales to profitable capitalists and own-account large-scale coffee farming helped make Mesfin one of the wealthiest people in Ethiopia at the time, a position which underlines the vast riches that could be made through coffee plantations. Land grabbing and subsequent land leases to capitalist farmers proved a popular model, even for large capitalist farmers themselves. One of the aristocratic new farmers, Fitawari Gebre-Kristos, the grandson of the general in Menelik's army who conquered the area, converted his lands into a commercial coffee and maize farm in 1959/60 by means of a violent land grab that cleared it of tenants, and later rented hundreds of hectares of unused land out to two other capitalist coffee farmers (Matsumura 2003: 16f).

Initially, these new large-scale farms were hugely successful and expanded rapidly. It is estimated that during the 1960s, 5% to 10% of Ethiopian coffee was produced by "modern or quasi-modern coffee plantations owned and managed by private entrepreneurs" (Rahmato 2009: 47). By the time they were swept away by the revolution and subsequent land reform in 1975, they covered more than 14,000ha

¹² As discussed in the next chapter, this practice was also used in establishing some of the contemporary wave of large-scale capitalist coffee farms.

(Gemedda 1994). As Ethiopia at the time had relatively few landless inhabitants (Ghose 1985), and the highland periphery was not very densely populated, there was a perennial lack of workers, despite the mass involvement of the local peasantry as part-time wage workers on the plantations. In response, the federal government instituted a settlement scheme to bring migrant workers to the Jimma area in 1952 (Gemedda 1994). Farmers who agreed to settle in the Jimma were offered 20ha of land to allow them to grow food for a growing population of local and migrant workers. Fitawari Gebre-Kristos reportedly employed some 400 migrant workers during the harvest season¹³. The living conditions of wage workers appear to have been dismal. A 1963 study of wage labourers on coffee plantations around Jimma found them to be severely malnourished and so prone to disease as to pose a health threat to the wider community (Giel and Vanluijk 1968).

From 1954 loan financing for plantations was made available from the local branch of the DBE, completing the trinity of land, labour and capital, which the imperial government helped supply. The feudal lords slowly became capitalist farmers – a classic case of ‘capitalism from above’ (Byres 1996)¹⁴.

5.3.2.3 The regulatory regime and the centralising state

The imperial government, at both national and provincial levels, was thus directly involved in the formation of this new class of capitalist farmers. Along with the rise of the coffee capitalists, the late imperial era also witnessed increasing attempts to regulate the sale and export of coffee. While coffee exports had received very little regulatory attention since the export boom of the 1920s, the government was driven to action when in 1952 Ethiopian coffee was dumped at New York harbour for failing to pass basic cleanliness inspections (Berhe 2010). However, the rise in regulation must also be seen in the wider context of state centralisation under Haile Selassie. The conquest of the south had shown how inadequate the established feudal system was for effectively governing (rather than just occupying) the south.

¹³ Though we do not know the size of his holdings.

¹⁴ See Chapter Two for a discussion of Byres’ notion of ‘capitalism from above’ and ‘capitalism from below’. How these notions map onto the Ethiopian coffee sector is examined in Chapter Six.

As at least a basic level of effective governance became more important due to the spread of capitalism, more and more of the administrative functions once fulfilled by the aristocracy were taken over by the central state. In turn this hastened the transformation of the southern aristocracy into a class of landlords who viewed their holdings as private property (Markakis and Ayele 1978). At the same time, the state began to build up its coercive power, creating a modern standing army, a police force and an increasingly professional bureaucracy. The revenues from coffee exports, which constituted over 50% of all foreign exchange in the 1950s and 1960s, were indispensable to this state building project (Love 2001). Coffee exports peaked at 64.8% of total export revenues in 1964 (CTDMA 1978: 28). It is therefore not surprising that the state began to regulate the coffee sector much more closely during this period.

In response to the 1952 fiasco, the government banned the export of uncleaned coffee and empowered the Ministry of Commerce to licence and control coffee graders and the grading process. The famous coffee types Jimma, Lekempt (or Nekempt), Sidamo and Harar, as well as a 5-point grading scale were introduced in 1955. The biggest push to control the sector came with the formation of the National Coffee Board (NCB) in 1957. The board had broad regulatory powers across the sector and set up the coffee auctions in Addis Ababa and Dire Dawa (the latter only for Harar coffee). The same piece of legislation introduced the first coffee export tax, increasing the stream of revenues from the sector to the central government. Regulation was further sharpened in 1965, when all export coffee was required to have a certificate of origin issued by the NCB prior to leaving the country (Berhe 2010).

It was in this period that the coffee licencing system was developed, which still exists today in a modified form (ICO 2000b; Petit 2007). Anyone involved in the coffee trade needed a licence and was only permitted to fulfil the particular function described by that licence. It was not possible to hold multiple licences. *Sebsabe* (collectors) were only allowed to buy coffee directly from farmers, usually at the farm gate – hence the name. They had to deliver the coffee to the *akrabe* (processors)

they worked for. The *akrabe* was only licensed to process the coffee and bring the beans to auction. Only licensed exporters were allowed to purchase coffee at the auction and the auction was the only place coffee could be traded. The movement of coffee through the country was controlled by means of road blocks and customs checks. The state thus benefited from coffee in the forms of direct taxes (on land, profits and exports), indirect taxes and licence fees. By 1969, coffee was generating 6% of all tax revenue taken by the Ethiopian state (Love 2001). In part this system reflected the needs of the international coffee market, where, beginning in the USA, the rise of larger and larger roasting companies had driven a process of standardisation, which required higher levels of quality and consistency. But in part it was also driven by the difficulty of effectively raising direct taxes on the large mass of small farmers, who grew most of the coffee (Love 2001; Pendergrast 1999).

5.3.2.4 Implications for capital accumulation today

The legacy of the early capitalist plantations of the imperial era is important today in three respects. First, the establishment of large plantations set an important example. As the next chapter will demonstrate, several of Ethiopia's current coffee capitalists were raised on or around these plantations. Some are the descendants of this landlord class, and farm ownership has been a lifelong ambition for them. Others worked on these farms in their youth or are the descendants of labourers who worked there. Large-scale coffee farming formed the cultural backdrop to their upbringing and is a frequently cited inspiration for aspiring to land ownership. Moreover, at least some of the plantations were examples for scientific management and modern agronomy, and the systems and skills developed there lived on in those who experienced them. The research institutions founded at the time still play an important role in supporting Ethiopia's capitalist coffee farmers today.

Second, the surge in production led by these farms cemented coffee as Ethiopia's main 'political' crop, and controlling it became a key element of state revenue management, thus laying the foundations for the long and uneasy relationship between coffee wealth and state power (Love 2001). The control of coffee revenues has been vital to the economic strategy of every government since.

A third important aspect was the demand for wage labour and the large migrations it triggered. It is estimated that by the early 1970s around 50,000 migrant workers, mostly from modern-day Amhara and the northern part of SNNP, travelled to the coffee farms in search of jobs every year. This represents an estimated 5% to 10% of the entire population of the area (Wood 1983). It is difficult to know exactly how many labour migrants settled in the area and there are no reliable numbers for how many northern farmers the government resettled in the area, but it is clear that the population make-up of the area underwent dramatic change. Many of the current coffee capitalists are the children of migrants. Migration and the cash wages available to migrants created a dynamic environment in which (petty) accumulation and self-improvement became possible – for some. This was unusual in the rigid social hierarchies of imperial Ethiopia and the pathways of accumulation through straddling wage labour and trade was to be much imitated.

5.3.3 Revolution and the end of the coffee capitalists

As discussed in the last chapter, the imperial regime was broken by the revolution of 1974, which brought the military Derg government to power. The land reform in 1975 marked the end of the capitalist plantations. The land reform and subsequent efforts at agricultural modernisation had a lasting impact on agrarian relations in Ethiopia. In legal terms, personal land ownership is still all but impossible in Ethiopia today, and the state farms that replaced some of the capitalist plantations of the imperial era still exist today and are an important source of knowledge, seeds and skilled manpower for the contemporary coffee capitalists.

The land reform was not only revolutionary in its ambition and scope, it was also carried out with unsparing effectiveness. The new government dispatched student radicals to the countryside *en masse* as part of a *zematcha* (campaign) to educate and indoctrinate the peasantry, who had hardly played a role in the fall of the imperial regime, and to carry out the land reform. In Ethiopia's highland periphery the grievances built up under the previous regime of ethnicised class domination meant that the immediate aftermath of the revolution was especially violent. In fearful anticipation of a backlash against their despotic rule, most landlords had vacated

their property and made for the relative safety of cities or their home areas in the north (Markakis and Ayele 1978; Pausewang 1983). One respondent, who was part of the *zematcha* in the Babu area, close to Limu Genet, recalls the conflicts with feudal landlords: “When we first came to take the land, they [the landlord’s men] shot at us. We went back and asked the soldiers for help. They sent a truck with soldiers to the land and I went with them. When we arrived they [the soldiers] shot some of the men. After that, the news spread and there was no more resistance. You see, the soldiers had machine guns. No one here had ever seen machine guns, and the landlords were very shocked” (LCF31). The *zematcha* in the Gumma area, which was to become part of the Limu Kossa state farm, is said to have killed seven landlords (Matsumura 2003: 18).

5.3.3.1 The state coffee farms

The other key aspect of the land reform, from the point of view of explaining contemporary accumulation patterns, was the formation of the gigantic state-owned coffee farms out of the holdings of the erstwhile coffee capitalists, along with the ambition to move to a more scientific form of agriculture. By pooling together the coffee estates of the large capitalists and adding surrounding suitable lands, the young revolutionary government created three giant coffee plantations: Limu Kossa, near Jimma, Tepi, in western Oromia close to the border with Gambella, and Bebeke, in Bench Maji zone at the south-westerly end of SNNPR. By the time the EPRDF began to privatise these in 2008, they had reached 11,000ha, 9,000ha and 10,000ha in size respectively (EG2). Despite intense efforts to create showcases for the virtues of collectivist agriculture, the Derg’s state farms were run very inefficiently, had comparatively low levels of productivity, and hence made substantial losses and required heavy subsidies in order to survive (Griffin 1992). Despite heavy injections of inputs and funds, most state farms were still loss-making by 1984 (Ghose 1985). Towards the end of the Derg period, the yields on state coffee farms were only about 260kg/ha, when the farms would have needed an estimated 450kg/ha to break even (Griffin 1992). However, after the fall of the Derg, the EPRDF government managed to successfully turn them into highly profitable ventures, while still under government ownership (EG2, EG3).

Table 5.1 - Ethiopian coffee export volume and nominal value, 1961-1976 (Source: CTDMA 1978).

Year	Volume (tons)	Nominal value (ETB)	Value per ton (ETB)
1961	55,743	93,645	1,680
1962	62,463	107,100	1,714
1963	67,194	110,882	1,650
1964	70,228	158,841	2,262
1965	87,654	188,179	2,147
1966	73,642	155,673	2,114
1967	73,604	139,182	1,891
1968	80,270	152,962	1,905
1969	88,383	173,947	1,968
1970	70,861	181,268	2,558
1971	80,822	175,210	2,168
1972	82,522	182,574	2,212
1973	76,082	189,771	2,494
1974	55,846	152,384	2,729
1975	57,723	152,661	2,645
1976	68,002	324,636	4,774

Table 5.1 shows the nominal volume and value of Ethiopian coffee exports between 1961 and 1976. The external environment was favourable, as evidenced by the increase of the unit value of coffee during most of that period. Nonetheless, coffee exports by volume peaked in 1969, and declined sharply during and immediately after the revolution. Some of this decline is attributable to coffee berry disease (CBD), a fungal infection of the coffee tree, which had arrived in Ethiopia in 1971 and by 1974 had spread to all of the major coffee regions. But in large part it reflects a wider fall in smallholder production across all crops in the post-revolutionary period. This agrarian crisis was the result of the Derg's disastrous agricultural policies (Chole 2004; Griffin 1992), which included forced mass resettlements in reaction to the devastating famine that began in 1982 (Keller 1992). The state farms, the formation of which was accelerated after 1979, are therefore best understood as a response to falling agricultural surpluses.

5.3.3.2 The coffee chain under the DERG

The Derg government not only restructured the production of coffee, but also changed the entire marketing chain. Increasing the extraction of revenues from the

sector required both a functional marketing system and effective mechanisms for surplus transfer. The government employed a combination of taxes and price setting to ensure such transfers. Immediately after the revolution, the government moved to strengthen its control over the sector, giving the National Coffee Board the authority to store and trade all coffee in the country as early as 1975 (Berhe 2010).

To allow the government to be directly involved with the production and sale of coffee, the NCB was replaced by the Coffee and Tea Development and Marketing Authority (CTDMA) in 1977/78, which later became a full ministry in 1979/80 (ICO 2002). In 1978 the government created the Coffee Marketing Corporation (CMC), which was empowered to control the entire coffee marketing chain, and was given special purchasing rights. At the central auctions in Addis Ababa and Dire Dawa, the CMC was allowed to buy coffee up to a fixed quota limit, before other buyers were given a chance to purchase coffee. In this way the CMC bought up about 80% of Ethiopia's coffee production and about 90% of all export coffee, with the remainder handled by private traders (Berhe 2010). Prices were in effect set by the CMC. Private traders were banned from trading washed coffee, meaning they had to contend themselves almost exclusively with low-quality coffee. According to the ICO only 14 private traders were still active in the Ethiopian coffee business by the end of the Derg regime (ICO 2000a). In the words of a leading coffee exporter, whose father was a coffee trader during the Derg: "They [the Derg] nearly killed the business" (CELF6).

Unlike the EPRDF today, which is mostly interested in controlling the foreign exchange generated by the sector, the Derg sought to secure a direct transfer of resources from coffee growers and traders to the government. To achieve this they set coffee prices paid by the CMC low, and instituted a host of taxes on the sector. This transfer was vital to the economic survival of the government. Coffee taxes constituted around 30% of all government revenue in 1978 (Griffin 1992).

5.3.3.3 The legacy of the Derg

As well as instituting the land reform that overthrew the feudal system, the Derg constructed the first truly modern state in Ethiopia and greatly expanded both its administrative and repressive capacities (Markakis 2011; Pausewang 1983). This also extended to the coffee sector, where a new licensing regime was instituted in 1984. Licences were very expensive and were only issued for a single function at a time (Berhe 2010). At the same time the Derg hardly altered the structure of the lower end of the supply chain, with coffee going from farmer to the *sebsabe* to the *akrabe* to the auction (Love 2001). While the costs of licences were slashed later under the EPRDF, key aspects of the licensing system were kept in place (Petit 2007). Apart from the land reform, the level of government control attained through increased licensing, along with the state farms, forms the most lasting legacy of the Derg in Ethiopia's coffee sector.

5.4 The contemporary Ethiopian coffee sector

5.4.1 Coffee under the EPDRF

As discussed in Chapter Four, the fall of the Derg and the subsequent take-over by the EPRDF in 1991 completely transformed economic policy in Ethiopia. While the state continued to play a major role in the economy, many markets were liberalised. In coffee, private actors were allowed much greater leeway, the state marketing board was disbanded, and the state ultimately withdrew from direct involvement in coffee production entirely. However, due to the economic importance of coffee as a source of livelihoods for small (and not-so-small) farmers, as a source of rural jobs and – most importantly as far as the federal government is concerned – as a source of foreign exchange, the sector remained tightly regulated.

As stated in the introduction to this chapter, it is important to understand that from the government's perspective what is imperative is the *control* over revenue flows, rather than the *ownership* for those funds. This is particularly true for foreign exchange. For instance, the government has recently privatised all of the state-owned coffee farms, despite the fact that these were highly profitable (EG2). These farms are large and concentrated, and revenue control is not difficult to achieve,

hence the government was willing to give these over to – politically trustworthy – private sector actors¹⁵. On the other hand, the privatisation of the farms was a useful symbolic concession to the IFIs, who have long demanded a greater role for the private sector in Ethiopia. The plan to privatise the state farms was first published in a government strategic plan in 1997 (ICO 2000b). This was also the year that the government broke off relations with the IMF, after failing to reach an agreement and refusing to give in to pressure for faster and deeper neoliberal restructuring (Wade 2001). As the government wished, and still wishes, to maintain (partial, but substantial) direct ownership in sectors such as finance and telecommunications for strategic reasons, it was useful to find another sector to privatise. The regulatory reform the sector has seen since 1991 is best understood from this perspective.

The regulatory regime facing the sector after 1991 can be divided into two distinct periods. The period up to 2008 saw efforts to liberalise the sector in line with the tenets of the – at least outwardly liberal – economic paradigms the government had committed itself to. The auction system at Addis Ababa and Dire Dawa was retained and continued to serve as the pivot of the sector. With the withdrawal of state agencies, private capital reasserted itself in coffee processing and the export trade and by the mid-1990s Ethiopia's coffee auctions were once again dominated by private traders. The second period began in 2008 when new legislation suddenly forced all coffee trade in the country to use the recently established Ethiopian Commodity Exchange (ECX) system, with far-reaching consequences for the sector. What is striking across both periods is the attention to detail in coffee regulation and its aggressive enforcement, coupled with the striking absence of any kind of strategic vision or growth policy for the sector¹⁶.

¹⁵ The holding company of the famously well-connected Ethiopia-born Saudi billionaire Al-Amoudi, which is by far the largest private sector entity in Ethiopia, bought two of three farms; some 21,000ha in total. The other farm, around 9,000ha, went to a coffee exporter who had just publically made a very large donation towards the construction of the Renaissance Dam. Apparently, this latter farm was sold without any kind of competition or tender (EG2).

¹⁶ Such a growth strategy has now been developed, but as of early 2016 had not yet been published.

5.4.2 1991-2008: a tightly regulated liberalisation

The liberalisation of the coffee sector began under the Transitional Government in 1992. Direct government control over much of the sector was relinquished in favour of a market system dominated by private capital¹⁷. While the state farms were kept under government control, these produced less than 5% of Ethiopia's coffee during the 1990s and early 2000s (USAID 2010). Private capital was allowed to expand in or enter the areas of processing, trading, export and even (to a limited extent) the production of coffee. High licensing and licence renewal fees had served to keep all but a few traders out of the market, but these were cut in 1993. The new fee regime and the vacuum left by the withdrawal of the CMC's quota privileges drew new participants into the market and by 2008 there were 104 active exporters (Berhe 2010). With private traders now also allowed to trade washed coffee, private capital soon handled 85% of all coffee at the auction (ICO 2000a).

The sector as a whole remained under tight control though and the movement of coffee in Ethiopia was, and still is, regulated by strict rules (Petit 2007). An ICO report on the regulation of the sector under the EPRDF states that: "[t]here 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." (ICO 2000b: 28).

The rationale for the liberalisation of the market was to increase the share of the export price received by farmers, which would incentivise them to increase both output and productivity. Liberalisation was very much in line with the mainstream of development economics at the time and many producing countries opened up their coffee markets after 1991. A World Bank study of major coffee producing countries found that liberalisation of coffee markets did indeed raise the share of export prices received by direct producers in most countries (Krivonos 2004). In Ethiopia liberalisation increased the producers' share of export (f.o.b.) prices from

¹⁷ While the regulatory minutiae of the liberalisation process are not directly relevant here, excellent overviews can be found in Berhe (2010) and Petit (2007).

an average of around 40% during the 1980s, to 60-70% by 1997, while export taxes fell from around 35% of the export price to just 6.5% (ICO 2000a). The export tax was scrapped completely in 2002 (Berhe 2010). But an analysis of price volatility in the Ethiopian coffee sector between 1992 and 2001 also found evidence for increased volatility and warned of detrimental impacts on small producers in particular (Gemech and Struthers 2007). A detailed analysis of Ethiopian price data from 1992 to 2006 revealed that while auction prices were highly responsive to movements in world prices for coffee, these movements were only partially transmitted to producers. In particular, rising prices tended to benefit only auction traders, while falling prices were passed on to producers (Kuma et al. 2008). One reason for this was the growing concentration at the trading and export stage of the value chain, where traders acquired substantial market power (Alemu and Worako 2011).

The auction system, though now open to private traders, was heavily controlled by direct government intervention. Throughout the 1990s a committee at the National Bank of Ethiopia set minimum export prices (Love 2001). But this direct control did little to increase the efficiency of the system. The auction was non-transparent in its operation and cheating was rife. Exporters who – routinely, but illegally – also worked as *akrabe*, used to buy their own coffees at the auction, often at inflated prices so as to discourage other buyers. Price fixing appears to have been the norm (Berhe 2010, CELF5, CE). Illegal as this practise was, it did allow exporters to obtain fully traceable coffee of known quality. As will be discussed in the next chapter, the rupture of this link between *akrabe* and exporter (who were often the same person) by the ECX was one of the key drivers of the move by exporters to establish private plantations (see also Section 5.5 and Chapter Six).

The auction had other problems, too. The grading system was corrupt and dysfunctional, and payment defaults were common (CELF2). A report prepared prior to the introduction of the ECX lists a catalogue of issues: “warehousing problems, improper sampling and quality inspection, problems associated with brokers and suppliers, poor processing, high transportation costs, inadequate coffee market financing and unfair distribution of marketing margins.” (ECEA 2008: 9). It

was clear that a thorough reform was needed if the sector was to continue to provide large amounts of the country's foreign exchange.

5.4.3 After 2008: the Ethiopian Commodity Exchange system

The regulatory landscape of the Ethiopian coffee was suddenly and radically altered in August 2008, when the Ethiopian government issued Proclamation 602/2008, which forced the entire country's coffee trade to be carried out through the ECX. The proclamation, along with two subsequent regulations, disbanded the coffee auctions in Addis Ababa and Dire Dawa, through which all coffee had flowed since 1967. Instead, the entire coffee trade of the country was now to use the newly established ECX, which had been set up earlier that year as a modern trading platform for certain agricultural commodities. It is organised around an open-outcry auction in Addis Ababa, where buyers and sellers could trade 'lots' of commodities using standardised contracts and grades. The auction centre is supported by an efficient back-up office operation and IT system, which records all trades, disseminates prices and clears balances. The trading platform itself is built on a network of warehouses in the main agricultural production areas of the country, where producers and suppliers can safely deposit their goods against electronically-registered warehouse receipts.

While the ECX is no doubt an impressive achievement, not least in logistical terms, it was not designed to channel the entire coffee trade of Ethiopia. In fact, its own management had not expected to have to deal with the coffee trade so early in the life of the exchange, and as a result the ECX was woefully underprepared on a number of fronts (Gebre-Madhin 2012). In particular it was "not ready" to handle all of the country's coffee due to "shortages in terms of logistics and human resources" (EG9). The ECX as a trading mechanism is unsuited to the diverse needs of the various actors in Ethiopia's coffee sector, and forcing all coffee through the ECX very nearly had disastrous consequences. The move primarily reflects the priorities of the Ethiopian government with regard to the coffee sector, namely to ensure the flow, growth and – importantly – complete control of the revenues generated by the sector. Somewhat ironically, it was the free market fantasies of

foreign-educated Ethiopian economists, enthusiastically supported by Western donors, which handed the Ethiopian government the perfect instrument to control these flows.

The conceptual basis of the ECX as well as the details of its functional structure, are the subject of Annex V.2 and a brief description of the system will suffice here. Coffee is deposited into the ECX system by *akrabe*, cooperatives or private plantation owners at its regional warehouses (obviating the need for them to truck the coffee to Addis Ababa). The coffee is then graded by the ECX and a warehouse receipt is issued to the depositor to allow for later payment. On the trading floor in Addis Ababa registered buyers (or their agents) then bid for lots of coffee sold through standardised contracts. Coffee is bought anonymously, i.e. based only on the broad locality of origin and the assigned grade – the producer of the coffee is not disclosed. Once a particular lot has been bought the purchaser takes physical possession of the coffee and the producer of the coffee is paid electronically. The standardised contracts offered by the ECX, however, are not diverse enough to reflect the variety of different coffees produced in Ethiopia. Moreover, the ECX system severs the link between the processing station and the purchaser, and thus undermines the traceability that is an important feature of high-quality coffees.

5.4.3.1 Killing the goose: specialty coffee and the ECX

The introduction of the ECX into the Ethiopian coffee trading system was widely resented, both in Ethiopia and amongst foreign coffee buyers (CB1, CB2)¹⁸. The ECX was not only logistically ill-prepared for handling the nation's coffee, as acknowledged by its founders (Gebre-Madhin 2012), which led to substantial delays in warehousing operations, but the very design of the exchange system made it fundamentally unsuitable for trading Ethiopia's coffees. The ECX system was particularly damaging to the specialty coffee sector. Its grading system undermined the incentives to produce the highest quality coffees and the lack of traceability

¹⁸ Although many Ethiopian respondents were noticeably guarded in their criticism and some categorically refused to discuss downsides to the introduction of the ECX. This underlines the politically sensitive nature of the ECX and the importance ascribed to it by the Ethiopian state.

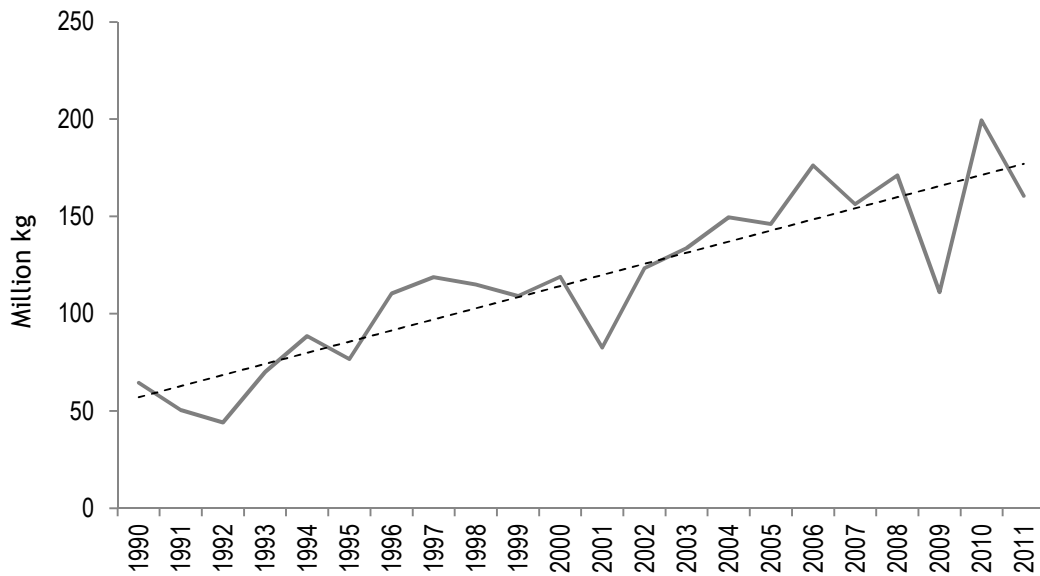
removed a key element for determining the value of such coffees in international markets (CB1)¹⁹. After a substantial backlash, the government relented in 2010 and allowed private capitalist farms and the cooperative unions to sell coffee directly to international buyers, but only after having their coffees graded and recorded by the ECX (LCF5, NGO).

In the specialty coffee trade, traceability means that coffees have to be traceable back to the processing station at which they were produced. Plantations mostly possess their own processing stations, while smaller farms deliver their cherries to processing stations owned either by *akrabe* or the local primary cooperative. Without such traceability, specialty roasters find it more difficult to charge premium prices for their coffees (CB2, see also Section 5.2.4). These are worldwide standards that are rooted in the 'symbolic value' attributed to specialty coffees and are very difficult for individual producing countries to influence (Ponte 2002b; Daviron and Ponte 2005). Knowing where a coffee was produced also enables exporters and foreign buyers to establish direct business relations with producers. Through these they can provide the incentives for producers to increase or maintain the quality of their product.

While the ECX trades a wide variety of different coffee contracts, differentiated by region of origin and quality grade (ECX 2010), this is not the same as traceability. The coffee contracts sold at the ECX only are differentiated to the level of the *woreda* of origin, not the processing station (of which there can be many in any one *woreda*), as demanded by specialty roasters. Even worse, the commingling system of warehouse storage at the ECX (which is described in Annex V.2), coupled with blind buying of anonymised lots based on standard contracts means that any purchased lot is likely to contain coffees from all over the *woreda* of origin. This means that coffees from single estates – highly valued amongst specialty roasters – cannot even be identified *ex post* (CE).

¹⁹ This is because the price differences in quality grades at the ECX are much smaller than the premium available for excellent quality coffee in international markets.

Figure 5.4 - Volume of Ethiopia coffee exports 1990-2011, in million kg
(Source: ICO, linear trend fitted).



The consequences of the loss of traceability were immediate. Figure 5.4 shows how the volume of Ethiopian coffee exports dropped significantly, by about 70,000,000kg, in the year after the ECX was introduced. As the figure makes clear, this reduction was not driven by movements in international coffee prices. It stands to reason that it was the direct result of the logistical chaos and newly introduced trade restrictions that accompanied the introduction of the ECX. The only published study to date that tries to estimate the direct monetary impact of the introduction of the ECX lends empirical support to the notion that it was in fact the absence of traceability that was primarily responsible for the financial losses, and puts the impact at some US\$280m between 2008 and 2012 (Leung 2014). An attempt to amend this issue by providing a specialty trading platform on the ECX failed and was abandoned (CB1, CB2). Efforts are now underway to ensure post-purchase traceability through barcode labels on each coffee bag.

Why, then, did the government insist on pushing all the country's coffee through the ECX system? One narrative is provided by the ECX's founding CEO Gebre-Madhin (2012), who recalls how the ECX, which had only been in operation since 2007, immediately ran into trouble in 2008 as a result of the global food price crisis. At the time the exchange was only trading food grains and beans. As a result of

global market movements, prices were extremely volatile and subject to recurrent spikes. Traders withheld their produce from the exchange, bringing trading to a near halt. Coffee (along with sesame) had to be introduced as soon as possible to save the ECX, as both had “more assured market liquidity” (Gebre-Madhin 2012: 13). The introduction of the ECX into the coffee sector is presented here as a technical decision taken in times of economic turbulence to rescue a flagship project of the government.

It is more compelling, however, to view the snap introduction of the ECX as a political move by a government (understandably) obsessed with controlling the financial flows that form a key part of the resource base needed to secure the economic development it has become politically dependent on. The teething troubles of the ECX may have been a convenient cover to allow the government to drastically increase its control of the coffee sector. Several facts support this view. First, despite claims to the contrary by Gebre-Madhin (2012, 2009b), it is clear that the ECX had not been planned as the main, and possibly sole, trading mechanism for coffee in Ethiopia. The 2005 concept note, which outlines the operation of the exchange in great detail, does not mention coffee (Gebre-Madhin and Goggin 2005). A July 2008 report by the Ethiopian Commodity Exchange Authority (ECEA), which regulates the ECX, deals specifically with coffee, obviously in preparation for its introduction to the exchange. But even at that point the exchange was not thought of as the only place where coffee should be traded: “The need to modernize the coffee marketing system in such a way that it becomes efficient, transparent, fair and internationally competent. This could help reduce coffee smuggling and contraband activities. On this line, if ECX is able to *participate* in facilitating coffee trading in Ethiopia *while maintaining the existing inspection and auction centers*, the suppliers or traders as well as exporters will have *additional choice so reducing monopoly of only one center.*” (ECEA 2008: XII, emphasis added). The Ethiopian civil service was assuming the ECX would be introduced alongside the existing auctions to provide additional choice to market participants.

The decision to force all coffee through the ECX system was apparently taken at the highest political level without prior consultation with the ECX management team. In a documentary film about the exchange she founded, Gebre-Madhin relates how she was called to a meeting with senior members of the cabinet, including the deputy prime minister, and recalls her shock and surprise at being asked to trade all of Ethiopia's coffee (Mezlekia 2009). The thesis that coffee was pushed through the ECX primarily to support the political aims of the federal government with regard to a strategically important sector is also supported by the US Embassy in Addis Ababa, as was revealed in a particularly insightful WikiLeaks cable²⁰. The opening line of the cable states that: "The government of Ethiopia (GoE) established a new coffee quality control and marketing law (amended August 25, 2008) *in order to enhance its control of the domestic coffee sector* and carve out a new strategy for increasing coffee exports" (WikiLeaks 2009, emphasis added)²¹. The cable goes on to say that "[t]he GoE has taken the fractured coffee sector supply chain head-on because coffee is the backbone of the GoE's export-led growth strategy".

According to the cable, the government seeks to meet two closely related goals through the enforced use of the ECX: it hopes that increased efficiency will raise incomes along the supply chain, leading to more exports, and at the same time wants to ensure that a greater proportion of Ethiopia's coffee production is exported, which necessitates control of the coffee through mandatory pre-sale warehousing. The new rules are accompanied by a strict enforcement regime: "[t]he GoE also hopes to deter traders and coffee sector participants from skirting the new law and role of the ECX by assessing heavy fines and threats of imprisonment", meaning that traders face "much stricter penalties than in the past, such as up to ten years of imprisonment and USD 10,000 in fines for not abiding with the new regulations" (WikiLeaks 2009). While "[t]he GoE has only recently begun to pay close attention to the mechanics and potential of its coffee crop" it is clear that the

²⁰ In 2010 WikiLeaks, an online whistleblowing platform, published more than a quarter of a million US diplomatic cables from around the world. Diplomatic cables contain correspondence between US embassies and the State Department in Washington, DC and were not intended for publication.

²¹ This cable came to my attention through Mezlekia (2012).

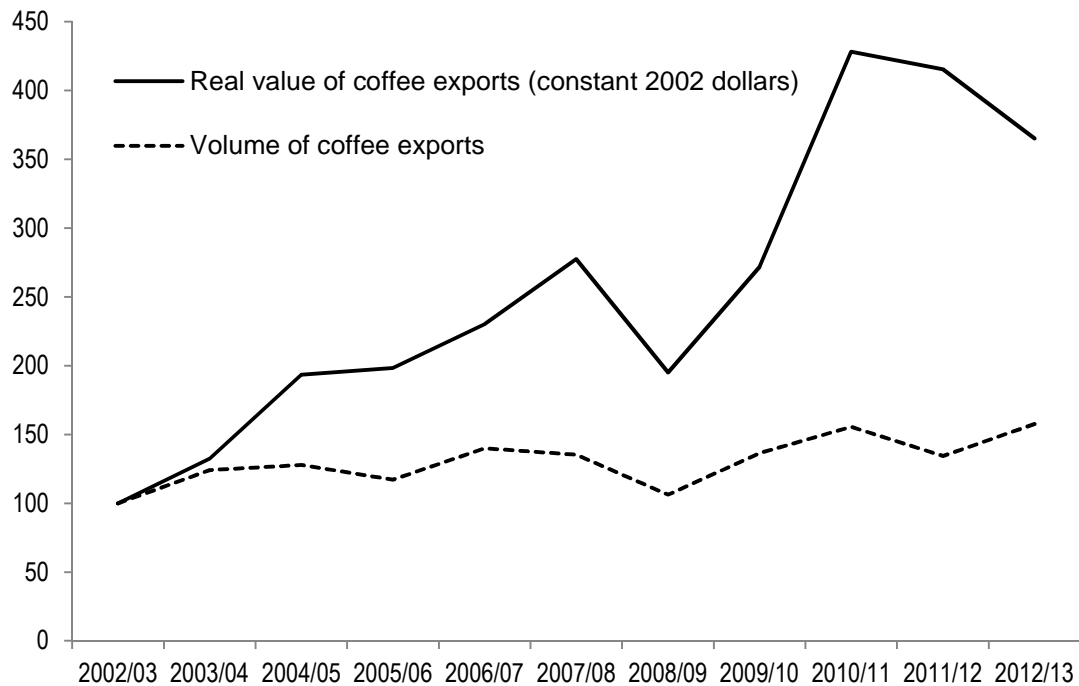
goal is to compel the coffee sector towards greater efficiency by making it use a trading system that makes tracing coffee stocks, coffee quality and revenue flows trivially easy. Correspondingly, the export of coffee is rigorously enforced. In 2011, 57 traders were banned from the ECX for 'hoarding' coffee (Araya 2011)²². The ultimate aim of such control is to maximise the flow of foreign exchange the sector generates. The government also still owns its own trading company, which is among the top ten Ethiopian coffee exporters (Jemaneh and Abdela 2016).

Interestingly, a recent government-commissioned study recommended sweeping changes to the regulation of the coffee sector, including the introduction of a line ministry for coffee and changes to the ECX system to allow international buyers to purchase from farmers directly. The government accepted the findings of the study but rejected any changes to the ECX, citing concerns over quality and coffee prices (Abdu 2015). Given frequent complaints about the effects of the ECX on coffee quality (CB1, CELF5, NGO) and the fact that farmers selling directly into the specialty market can achieve substantially higher prices²³, this claim is highly dubious. The view that the ECX is a poor vehicle for serving the Ethiopian coffee sector is also echoed by a former senior official of the exchange, EG9, who while in office said that it was his goal to get more cooperatives to export more of their coffee ("50 or 70%") directly to foreign buyers, bypassing the ECX system. He made clear that in his opinion the ECX should exit the coffee sector in the medium term: "We have a lot of things to do. We are not a coffee business." (EG9).

²² The traders had cancelled contracts with buyers during a period of rising coffee prices, hoping to benefit from higher prices. The government banned them from the exchange, confiscated their coffee and sold the coffee itself. The aim was to maintain the flow of foreign exchange. Most of the traders, which included some of the largest exporters, were later reinstated, as can be seen by comparing coffee export reports for 2012 and 2013 (Assefa 2012; Assefa 2013).

²³ This is elaborated in the next chapter. Minten et al. (2014) find similar results from an analysis for trade data covering the entire Ethiopian coffee sector.

Figure 5.5 - Indices of real value and volume of Ethiopian coffee exports (2002=100), 2002-2013
 (Source: author's calculation from NBE quarterly and annual reports).



In defence of the ECX, planners in Ethiopia’s policy point to the apparent successes in increasing coffee exports. But this success is largely driven by factors outside of their control. Figure 5.5 presents indices for the growth of Ethiopian coffee exports by both volume and value. While there has been a substantial growth in volume, increases in the value of the exported coffee have driven most of the expansion the sector has recently seen – and the latter is mostly due to rising international prices. Since 2002 the real value of coffee exported from Ethiopia has increased by around 265%, while the volume of coffee grew by 57%. Figure 5.1 shows that the reference price for Arabica coffee rose in real terms from US\$1.79/lb in 2002 to US\$3.82/lb in 2012, an increase of 213%²⁴. Minten et al., using a different dataset and looking at the period between 2002 and 2013, reach the conclusion that: “[t]he change in the real value of exports is largely driven by the increasing international prices offered for Ethiopian coffee” (2014: 21). This reflects the wider rise in Arabica prices over the period so that: “[t]he increases in export values have largely been driven by

²⁴ In addition, increased marketing efforts by leading global roasters (e.g. Starbucks) and the successful trademarking of some Ethiopian coffees (ARB 2011) are likely to have widened the differentials to the quoted Arabica reference price over the same period; see for instance Arslan and Reicher (2011).

increases in international coffee prices between 2003 and 2012” (Minten et al. 2014: 26). Had the ECX not been introduced in a period of high and rising coffee prices, its effects may have been much harder to defend.

The introduction of the ECX has damaged the Ethiopian coffee sector and a more severe fall in performance was only avoided because the government backed down on certain key areas of regulation, such as allowing direct exports. The damage wrought by the ECX was the unintended side effect of the government’s move to increase its control over revenue flows. The decision was seemingly not preceded by any real effort to understand how Ethiopian coffees are valued. Moreover, like most of the other reform efforts undertaken in the coffee sector, the ECX is also aimed solely at the marketing side of the sector, and ignores the problems on the production side, such as the extremely low productivity of smallholder producers (see Minten et al. 2015). The ECX system has, however, quite accidentally opened up new possibilities for private capital accumulation in Ethiopian coffee production.

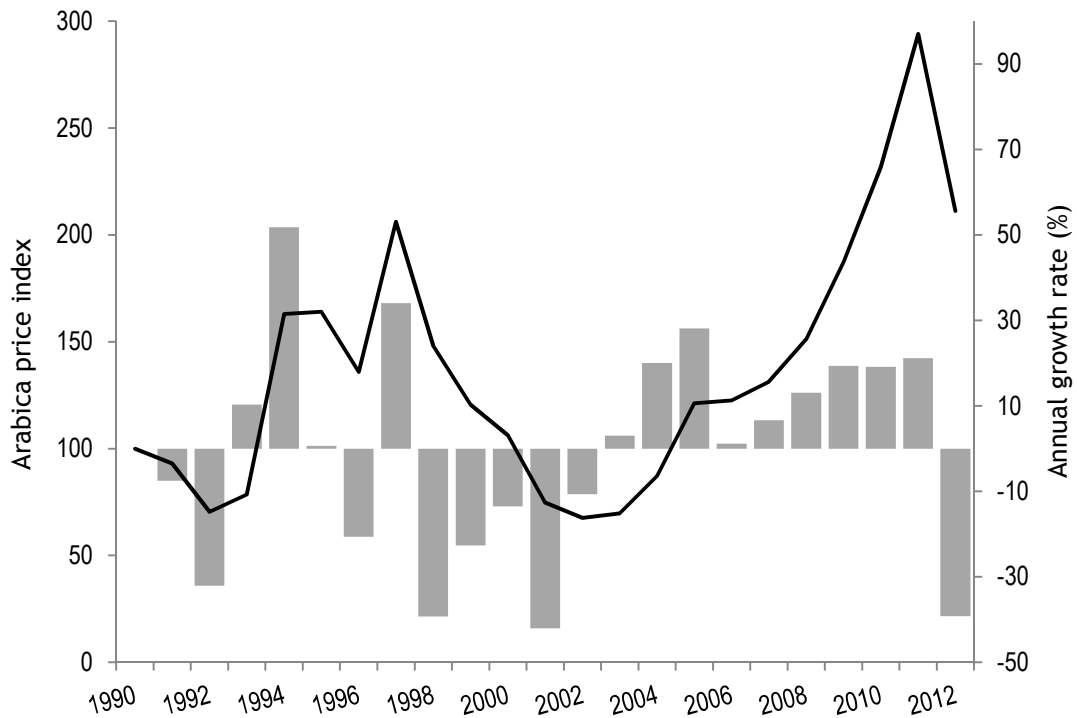
5.5 Current possibilities for private capital accumulation

The regulatory innovations pursued by the Ethiopian state, and the current situation in international coffee markets, that is, the growing demand for high-quality Arabica coffees and traceable specialty coffees, coupled with low domestic prices for land and labour, have produced a unique situation which favours the establishment and profitable operation of large-scale private coffee plantations in Ethiopia.

In international coffee markets, rising Arabica prices have provided a favourable environment for the formation of new plantations. Figure 5.6 shows the development of the main ICO Arabica price index between 1990 and 2012. After the prices reached their lowest point at the end of the last coffee crisis in 2002, they began a steady rise that only ended in 2012. The next chapter will show that the vast majority of plantation investments fall into this period, that is, into a period of high and rising coffee prices. In fact, as shown in Section 5.2.2 the price levels attained in

2012 had last been reached in 1987, with a similar, but smaller, peak occurring in 1997. Rising prices pulled investment into the sector and are a frequently cited motivation.

Figure 5.6 - Colombian milds (Arabica) NY price index (LHS, 1990=100) and annual rate of change (RHS, in %), 1990-2012 (Source: author's calculation from ICO data)



The actions of the Ethiopian government have benefited the coffee capitalists in two particular ways: the opening of land for investment made this accumulation path viable in the first place, and the introduction of the ECX unwittingly narrowed the supply of traceable specialty-grade coffee in Ethiopia. As we saw in the last chapter, the shift in economic strategy that occurred from 2001 onwards meant that the government, seeking to increase foreign exchange earnings through the export of agricultural goods, released more land for private investment. This trend accelerated after the Ethiopian millennium in 2007, which was imbued by the government with symbolic value as the start of the 'Ethiopian renaissance', and thus directly linked to the manufacture of hegemony for the developmental state project (see also Jessop 2016). It was thus politically important that 2007 be followed by accelerated economic development and the push for commercial agriculture was strengthened. As will be discussed in the next chapter, regional governments were

instructed to open land for investments and zonal authorities were given targets for providing land to investors. The result was a land rush for the coffee lands in the south, as capitalists scrambled to establish plantations. This window of opportunity was closed in many areas in 2012, as land outside of the lowlands became increasingly scarce and conflicts over land began to mount. The opening up of land for agricultural investment by private capitalists is thus an integral part of the creation of Ethiopia's developmental state.

At the same time, an unintended and unforeseen side effect of the introduction of the ECX was to strengthen the competitive position of coffee plantations vis-à-vis smallholder farmers in Ethiopia. As documented above, the ECX impaired the traceability of most Ethiopian coffee. In 2010 the government bowed to pressure from the coffee sector, both in Ethiopia and abroad, and lifted the ban on direct coffee exports for cooperative unions and all plantations. Both unions and plantations were now able to apply for an export licence and sell their coffee directly to foreign buyers (subject to prior grading by the ECX). Cooperatives and plantations were suddenly the only entities capable of supplying fully traceable coffee.

Not surprisingly, both cooperatives and private plantations were able to command premiums for their coffee after the introduction of the ECX (Minten et al. 2014). Cooperatives can and do produce excellent coffee, and often win fine coffee competitions, both in Ethiopia and in other countries. Those cooperatives that export have in the last few years on average outperformed private plantations in terms of the prices they were able to command for coffee, even after controlling for certification (Minten et al. 2014). But especially in Ethiopia, where small farmers are often very poor, plantations seeking to produce specialty coffee are in many ways especially well placed to benefit from the new opportunities. As the next chapter will show, plantations have major advantages in terms of access to knowledge, seeds and labour – all of which are important for producing high quality coffee. Plantations, unlike cooperatives, also do not have to purchase the coffee they sell, and so are less subject to the cash constraints that often hobble the latter (NGO).

And where rural poverty is an impediment to cooperatives, one they are desperately seeking to overcome, plantation owners benefit from low wage costs.

One might be tempted to argue that the introduction of the ECX and the problems it caused should have dampened the interest of capitalists to invest in coffee plantations. Instead, investment continued unabated after its introduction. The reason is simple. As I argue in the next chapter, for those capitalists already active in the coffee sector – *akrabe* and exporters – the ECX provided strong incentives to move *into* production in the coffee sector. Those capitalists that came from outside the coffee sector most probably did not understand enough about the intricacies of the coffee export trade to feel that the ECX threatened their interests, or had no wish to produce specialty coffee, in which case the introduction of the ECX does not matter much.

In sum, the current opportunities for investment in coffee plantations, and for further accumulation on the basis of such plantations, came about through the confluence of government action and a favourable external market environment. As part of its drive to establish a development state, a desire rooted in the need for (at least a degree of) legitimacy and ultimately political survival, the government opened up land for investment and therefore made the emergence of coffee plantations in large numbers possible. The long history of both coffee production and of large coffee farms in the country ensured that that there were enough people who had the wish to grow coffee at scale and could access the knowledge necessary to do so. At the same time the regulatory changes in the coffee sector, which were not aimed at strengthening private capital, had the unintended consequence of strengthening the position of these plantations in the market. Or, to put it more precisely, the introduction of the ECX inadvertently offered opportunities for rapid accumulation to the most dynamic of the new capitalists. These same regulatory changes, as we shall see, also encouraged existing capitalists in the coffee sector to invest in plantations.

5.6 Conclusion

This chapter has explained the evolution of the coffee market into its current form both internationally and in Ethiopia. Coffee is not a homogeneous 'commodity', but a highly differentiated product, and Ethiopian coffee in particular has the potential to command substantial price premiums.

With regard to the Ethiopian coffee, I have made two main points. First, I have argued that the revenues associated with coffee production have been of central importance to the Ethiopian state and its political elites since at least the 1920s. Consequently, the Ethiopian state has always sought to regulate and control the sector, although this control has taken very different forms under successive governments. Second, I contended that the current accumulation in the coffee sector, by which I mean the growth of large-scale private coffee plantations, has deep historical roots which help us understand and illuminate current patterns.

Haile Selassie's imperial state, despite attempts at modernisation, lacked the administrative capacity to control the production stage of coffee to any real degree and satisfied itself with taxation. His regime also witnessed the first emergence of agrarian capitalism in the country, and the growth of the first modern coffee plantations after the Second World War. These plantations instituted wage labour on a large scale and used (some) modern agronomic techniques. The support institutions founded still exist today and migrations caused by the capitalists' demand for workers reshaped the population around the largest concentrations of plantations, which are once again at the centre of agrarian capital accumulation.

The Derg regime all but wiped out the capitalists. They built a much more centralised and powerful administrative machinery and greatly extended state control over the sector. For the first time, the state directly controlled and immediately involved itself in the production of coffee. While state ownership in land is surely the Derg's most lasting legacy, some of the control systems instituted by the regime, notably the strict licensing system, remained in place. Moreover, the state farms founded to replace the plantations of imperial era capitalists, while

mismanaged and unproductive under the Derg, preserved knowledge about scientific farming methods and at least some of them went on to become examples of excellence in production. The next wave of coffee capitalists was then able to tap into the knowledge and skills thus preserved.

The EPRDF substantially liberalised the coffee sector and over time dismantled many of the state institutions used to control the sector. Liberalisation was only ever partial though. After 2001 the change in economic strategy had profound effects on the coffee sector. On the one hand, the government, driven by the need to control the flow of revenues and in particular foreign exchange, moved to re-establish control over the sector. Paradoxically, this was achieved through the introduction of a commodity exchange, whose purpose was ostensibly to support the free market. On the other hand, at the same time the government's new economic strategy led to a shift in its agricultural policy. Government at all levels became much more open to and supportive of large-scale private investment in agriculture. When land became available private capital flooded into new plantations. Unwittingly, the introduction of the ECX acted as a catalyst to this process.

In the next chapter we turn to a detailed analysis of the new private coffee plantations and their emergence. I will discuss who was able to benefit from the new opportunities on offer and how they achieved this. In particular, I will show how the possibilities for accumulation emerge from the interaction of capitalist agency with the intended and unintended consequences of state action. By looking in depth at the operation of these new plantations I will also highlight the differences that exist between them.

Annex V.1

Coffee processing and quality differentiation

This annex gives a brief overview of the different possibilities that exist for processing coffee and how they are linked to coffee quality. It also provides some background information on the market for specialty coffee.

After picking, the coffee bean first has to be processed into green coffee, the form the bean takes after it has been stripped out of its surrounding fruit mucilage and several layers of skin and dried to a moisture content of around 11%. To then arrive at a palatable beverage the green beans must be roasted, ground and brewed¹. There are two main ways of processing coffee from the cherry stage onward: the wet, washed or pulped process and the dry process, also referred to as natural or unwashed². Both achieve a separation of the fruity mucilage of the cherry from the two coffee beans at the centre of each cherry. The older and less technically demanding of these is the dry process. After harvest, coffee cherries are simply laid out in the sun to dry, ideally on raised nets or beds to allow air to circulate, although poorer farmers may simply dry their coffee on the ground. In case of rain the coffee has to be covered to prevent it from getting wet. After about ten days, the cherry's outer skin, mucilage and most inner skins have hardened into a dark black

¹ The process for instant coffee includes additional steps, but as Ethiopia produces no instant coffee at present we will leave this aside. Another exception to the process outlined above is a tea – called *kishir* in Amharic – made from the husk of the coffee bean, usually brewed with milk, sugar and infused with spices, and widely drunk in parts of Ethiopia and the Middle East. This is a minor curiosity in the coffee trade though.

² Hybrid forms of the two processes, known as semi-washed, have become fashionable in the specialty coffee sector in recent years. The resulting coffees are often called 'pulped naturals' or 'honey coffee'.

shell. This is removed in a mechanical hulling machine to yield green coffee. These beans are coated in a last fine layer of skin, the 'silver skin', which is polished off before export. Dry processed coffees are often characterised by a natural sweetness, as part of the sugars from the mucilage seep into the coffee beans during drying. However, the process is vulnerable to producing 'off' flavours in the final brewed coffee, mostly due to the growth of mould, and the results are less consistent than with wet processing.

Washed coffees tend to fetch a premium in the market, as the resulting cup profile is generally cleaner. The wet process is more predictable, with less likelihood of producing unwanted flavour, but also requires substantially greater investment, more labour and an ample supply of fresh water. The exact details of the process vary, but generally the cherries are sorted, pulped in water, de-mulcified and, finally, dried. Sorting generally occurs in flotation tanks, where unripe cherries float on the surface of the water, while ripe cherries sink. Such sorting can also be used later in the process to separate heavier, higher-quality cherries from inferior ones. The cherries are then pulped in specialised machines which press the cherries through a screen that lets through the beans but holds back much of the mucilage. In poor countries such as Ethiopia, these machines must be imported and represent the majority of the capital invested in a washing station. The pulped beans are still coated with slimy mucilage, which must be removed. In Ethiopia, this is done through fermenting the beans in water for at least 24 hours to break down the sugars in the mucilage, and subsequently washing them in large quantities of fresh water, with workers using wooden implements to move the beans around. In other countries 'washing machines' may be used. After washing, the beans are dried to the desired moisture content, a process that takes around three days. The green coffee bean is surrounded by a dry white layer of skin, known as 'parchment'. This is kept in place during storage but is removed prior to export.

Coffee quality and speciality coffee

As noted in the main chapter, coffee is a differentiated product, for which substantial niche markets exist. One of the most significant changes in the coffee

trade in recent decades has been the inexorable rise of speciality and certified coffees. What were once niche products, consumed mainly by ‘foodies’ and those concerned for the environment, have now become commonplace in the cafes and supermarket shelves of rich consumer countries. From an Ethiopian perspective the most important of these is the so-called specialty coffee sector³.

Specialty coffee as an idea and as a movement originated in the USA in the late 1970s, an era where price wars between large roasters had led to a degradation of the coffee available to consumers. Dissatisfied with the ‘commercial’ coffee on offer, small roasters began sourcing green beans to roast their own coffee⁴. Finding an eager following, initially mostly amongst the urban bohemians of the West Coast counterculture, they soon began importing coffee directly. The aim was to offer freshly roasted high-quality coffees, as well as to educate their customers about the complexities of their coffee choices. Consumers became increasingly sophisticated in their demands, and were willing to pay premium prices for high-quality coffees. Unlike mass market coffee, where consumers are attracted by low prices, ‘taste’ is the most important attribute in the specialty market, along with detailed information about origin and production processes. Also known as the ‘third wave’

³ Specialty coffee is not the same thing as certified coffee. A specialty coffee may be certified, or not, and many certified coffees do not meet the quality requirements for specialty coffee. Certified coffees, which feature audit-backed standards and labelling systems to certify to the consumer that the coffee has been produced in accordance with certain economic, social or ecological minima, are of growing importance internationally (Panhuysen and Pierrot 2014). Historically, they have played only a limited role in Ethiopia, but have been growing rapidly in recent years. For example, a 2004 estimate puts the share of certified organic coffee in Ethiopia at just 0.1% of total production, despite the fact that much Ethiopian coffee is ‘organic by default’ (Mercuria, Neuhoff, and Köpke 2004). Since then the proportion of all certified coffees (not just organic) has risen to around 16% in 2013 (Minten et al. 2014), and both capitalist plantations and cooperatives have sought various forms of certification. While certification has raised the export prices of certified Ethiopian coffee (Minten et al. 2014), effects on farm incomes are less clear. Methodologically sound studies are scarce, but there appear to have been very limited effects on farm incomes for smallholders (e.g. Jena et al. 2012). The use of certification by private capitalists is discussed in the next chapter.

⁴ In fact the distinction between the ‘commercial’ and the specialty sector is not always clear-cut. Many ‘commercial’ roasters have begun offering specialty coffees alongside their lower quality products (Ponte 2002a; Daviron and Ponte 2005; Pendergrast 2010). And of course all specialty roasters are ‘commercial’ in the sense that they are profit-seeking capitalist enterprises. Conversely some ‘specialty’ roasters sell coffee that is expensive, but not of particularly high quality (CB2).

this growing movement led a renewal of the café culture in the US. Similar trends took place in Europe, although the average quality of coffee had been higher there (Pendergrast 2010; Wild 2005). Specialty roasters in US founded the Specialty Coffee Association of America (SCAA) in 1982, which has since played a leading role in setting standards for the sector (SCAA 2015).

Just as in 'commercial' sector, quality in the specialty trade has undergone a process of codification. While the assessment of coffee quality has a degree of subjectivity to it, the specialty trade has increasingly come to use the 100-point classification system developed by the SCAA for the assessment of coffees. Coffee is assessed for quality both as green coffee and as brewed coffee. Green coffee is sampled in units of 350g. These are assessed for 'defects', which cover a wide variety of imperfections in the bean, which are detrimental to the taste of brewed coffee. The sample is then roasted, ground, brewed and tasted (or 'cupped') using a standard protocol⁵. Coffee cupping has become an important profession, and a global standard for the training of cuppers ('Q-graders') has emerged.

The quality of a given coffee depends on intrinsic both quality of the bean and on processing, including cleaning. Bean quality is in turn dependent on climate, soil attributes and the genetics of variety. Microclimates can have a noticeable impact on quality and it is common for farms producing specialty coffee to sort their coffees into 'lots' of different quality⁶. Whereas in the 'commercial' sector coffee is often bought based solely on the attributes of the contract (origin and grade), specialty coffee is generally purchased 'subject to approval of sample' and specialty buyers

⁵ Brewed coffees are assessed for fragrance/aroma, flavour, aftertaste, acidity, body, balance, sweetness, cleanness of 'cup', uniformity and defects. SCAA protocols for green and brewed grading are available on the SCAA website (see <http://www.scaa.org/?page=resources>).

⁶ The taste of brewed coffee then of course depends on blending and roasting, as well as freshness and the competence of final preparation. The degree of roasting has a major influence on coffee taste. Even a medium roast already eliminates most of the specific 'origin' flavours of the coffee, with darker roasted coffees becoming less distinct, but imparting more of the traditional 'coffee' flavour. Roasting coffee darker can also hide the presence of 'defects' in lower quality coffee. Both allow roasters, and large roasters in particular, to use blends with high quantities of low quality coffee as well as beans from many different origins and still mass-produce a predictable homogeneous product. Contrary to common assumption, coffee is a fresh product, which should be consumed no more than four weeks after roasting to preserve the flavour (Pendergrast 2010; Wild 2005; CB2).

will almost always insist on being able to sample and cup the coffee themselves, prior to purchase (Ponte 2002a; CB1, CB2).

The price premiums available for very high-quality green coffee are substantial, and the highest quality green coffees can fetch multiples of the standard 'C' price (CB2). The 'commercial' sector values predictability and relies on blending to produce uniform coffees all year round, whereas the specialty sector generally looks for coffees that are high in acidity (which is considered a positive attribute). Specialty buyers are also interested in coffees with unusual taste profiles, such as natural (i.e. unwashed) coffees. An analysis of buying behaviour and prices at a leading specialty coffee auction, the Cup of Excellence, found that returns to increasing quality are very high, and that specialty buyers are willing to pay more for coffees offered in small lots and which are highly traceable (Wilson and Wilson 2014)⁷. From the seller's perspective, marketing to the specialty sector is not easy and requires significant investment in gaining knowledge of how such buyers evaluate and reward quality, not to mention the ability to produce high quality coffees in the first place.

⁷ See Ponte (2002a) for a detailed description of the Cup of Excellence.

Annex V.2

The Ethiopian Commodity Exchange (ECX)

The conceptual basis of the ECX

The ECX is the brainchild of a remarkable woman, Dr Eleni Gebre-Madhin, a US-educated economist and expert in sub-Saharan African grain markets, who gave up her post at the World Bank to return to her native Ethiopia and lobby the government to open the country's first commodity exchange. She managed to convince both the Ethiopian government and a critical mass of international donors of the merits of her idea and went on to become the first executive director of the newly-founded exchange in 2008. The intellectual origins of the exchange, as well the story of its birth, are recounted by the founder in her own words in Gebre-Madhin (2012). The underlying notions are taken from new institutional economics (NIE), which has been explored in detail in Chapter Two, so that a brief restatement will suffice here. As elaborated in Chapter Two, NIE is – in part – a branch of economic theory that seeks to understand markets and the institutions that govern them through an analysis of transaction and contracting costs. The basic notions hark back to the original ideas of Coase (1937), who tried to understand why firms exist in capitalist market economies. His answer laid out, in plain English, the concept of transaction costs, viewed through the lens of marginal analysis¹. The study of economic institutions was revived decades later as an extension of the neo-classical theoretical apparatus and found perhaps its most influential guise in the seminal work of North (1990). In Chapter Two it was already noted that for North, institutions (the oft-cited 'rules of the game', encompassing formal and informal

¹ While Coase's work was discursively rich and made reference to Dobb, Kaldor, Keynes, Knight and Robinson, it is only really the concept of transaction costs that survived the translation into the more technical apparatus of mathematical modelling.

rules, as well as enforcement mechanisms) evolve to reduce transaction costs to allow for increasingly complex market exchange to take place. In the absence of such efficiency-enhancing institutions markets are likely to be restricted to fewer and more simple transactions, limiting overall economic development. A central aspect of North's argument is that efficiency-enhancing institutions do not evolve automatically, and that, due to path dependency caused by a complex array of factors, highly inefficient institutions can persist for long periods of time.

An implication of these ideas is that institutions can be created to solve informational asymmetries and reduce transaction and contracting costs². In other words: "At its core, then, the problem of economic order can be conceived as essentially a coordination problem, depending integrally on both information and on the nature of contracts" (Gebre-Madhin and Goggin 2005: 4). This is an almost canonical statement of new institutionalist dogma. The irony is that a reading of Douglas North's more recent work may have imparted a more critical, and, as is argued below, somewhat more relevant perspective on the functioning of economic institutions. In *Violence and social order*³ North and his co-authors argue that power is central to social and economic order and that the prosperity of a society is in large part determined by how mechanisms for the creation and distribution of rents – they refer to these as 'access orders' - function (North, Wallis, and Weingast 2009). Moreover, for them power is not a diffuse concept, but rather is understood as the ability to coerce others. The nature of many economic institutions is thus determined by the outcomes of elite bargains (see also Chapter Two). It seems these insights were lost on the founders of the ECX. As Gebre-Madhin (2009) puts it: "A market is above all a connection between humans, an exchange of goods and money that links two sides. The market is neutral as to who is on either side, it is the connection that counts".

In her work on grain markets in Ethiopia, Gebre-Madhin had observed that such markets were often extremely inefficient and failed in their basic function of

² A very useful overview of the theory and implications of asymmetric information can be found in Stiglitz (2000).

³ Rather heroically subtitled *A conceptual framework for interpreting recorded human history*.

distributing food to where it was needed (Gebre-Madhin 2001; Gabre-Madhin et al. 1999)⁴. Not only did a lack of infrastructure raise transport costs, but asymmetries of information between participants in the value chains, farmers and traders, allowed for unfair pricing practices (from the point of view of direct producers and smaller traders). The absence of uniform standards and measures meant that goods had to be weighed and repackaged at every step of every transaction, which cost both time and money, and, as contracts were either non-existent or not easily enforceable, trade was either limited to short-distances (Gebre-Madhin 2012) or occurred mostly in trust-based social networks, implying substantial screening costs and forgone trading opportunities (Fafchamps 2004). In short, what was missing was the institutional underpinnings that would allow markets to function as intended.

Gebre-Madhin not only diagnosed the weaknesses of the Ethiopian grain marketing system, but also began proposing solutions. In 2002 she had the opportunity to present her ideas to leading Ethiopian government officials, including the prime minister. She argued that it was necessary to “[go] beyond infrastructure such as roads, [and] put in place the market institutions needed for quality grades and standards, warehouse receipts, market information, coordinated trading, payment systems, and contract enforcement. All of these [...] should be established in a holistic and integrated fashion, rather than in the piecemeal approach observed all over Africa in different donor interventions” (Gebre-Madhin 2012: 5). She concluded by proposing the creation of a commodity exchange in Ethiopia as “[...] precisely the holistic platform that would integrate all of these elements” (Gebre-Madhin 2012: 5).

⁴ But while rural markets in poor countries in general, and in Ethiopia in particular, of course have problems, not least related to transport, they can in fact operate quite effectively. For instance, in a major study on teff markets in Ethiopia Minton et al. (2013) found that not only is the share of final retail prices received by direct producers above 80% (much higher than in coffee), but it has also been growing over the past ten years. The share taken by traders is relatively modest. Given that these traders perform vital services, they actually operate very efficiently and are in many cases quite innocent of the charges compiled against them in public discourse, where they are stereotypically depicted as parasitical market manipulators.

As a future CEO of the ECX, Anteneh Assefa, was to state later, Ethiopia's agricultural commodity markets suffered from a lack of both structure and order. Market structure referred to poor infrastructure and high transaction costs which led to fragmented markets. The lack of order manifested itself in loose overall market regulation, leaving many individual market actors only weakly regulated (Assefa 2013). A 2005 concept note for the exchange laid out how the future ECX, backed by state-of-the-art IT systems, could provide a trustworthy trading infrastructure, generate and distribute market information, screen and regulate participants, define standardised grades and contracts and enforce payments against such contracts. Such a 'holistic' system would allow for price discovery in a single integrated and efficient market (Gebre-Madhin and Goggin 2005).

The ECX has been 'sold' as a mechanism of empowerment for small farmers, with Gebre-Madhin in particular waxing lyrical about the power of the (free, unfettered) market to deliver 'happiness' by offering 'choice' (Gebre-Madhin 2007b). This language all but disappeared after the ECX became mandatory for the coffee trade. A former senior official of the exchange claims that small farmers "are now getting better prices via bargaining power achieved through better information". He cites the increase in the share of FOB price received by direct producers to 60% as evidence (EG9). This claim does not stand up to even superficial scrutiny⁵. As discussed in Chapter Five, the increase in the average producers' share of FOB prices was the result of a market liberalisation drive that preceded the foundation of the ECX. Unsurprisingly, the ECX has, without giving reasons, refused formal

⁵ Apart from offering a rather naïve view on the political economy of local coffee markets in rural areas, where the bargaining power of small farmers may be constrained by credit arrangements with coffee buyers (CC1, CC2, CC4), this opinion also neglects the fact that it is almost impossible for farmers to know the quality (grade) of the cherries they are selling – a key determinant of their market value. The grade depends partially on the intrinsic quality of the cherries, partly on the degree of purity and ripeness and partly on the way they are processed. The grade will not become clear until the processed coffee is brought to the ECX by the *akrabe*, long after the farmer has sold his cherries. It also appears that *akrabe* (or the *sebsabe* working for them) do not tend to engage in price negotiations at all, but rather set fixed prices with reference to the prices paid by local cooperatives and competing *akrabe* (AK2).

impact assessments of its work⁶, and researchers analysing the available evidence have found that the formation of the ECX has had no statistically significant impact on the producers' price share (Jayne et al. 2014).

Given that smallholders were supposed to be the main beneficiaries, the extremely low levels of participation by smallholder cooperatives in the exchange have been a source of embarrassment for both government and exchange officials. Cooperatives have been very difficult to attract to the exchange. Even when membership was offered to them at highly subsidised rates, uptake was very low⁷. Reasons for this include the "lack of awareness" at the level of the cooperatives (EG9).

The legal and functional structure of the ECX

In 2005 the Ethiopian government accepted the findings of the concept note cited above and agreed to push ahead with the formation of the ECX. The project was able to attract US\$29m in donor funding, with the US and Canada as well as the World Bank, IFAD and UNDP donating substantial sums. The money allowed the project team to hire an international group of experts to lead the development of the exchange (Gebre-Madhin 2012). The ECX was finally established in 2007, with Proclamation No. 550:2007 providing the legal foundation⁸. It was founded as a public-private 'demutualised entity', meaning that ownership, management and membership are separate by law. Its mission is "to transform the Ethiopian economy by becoming a global commodity market of choice" (ECX 2015). Proclamation No. 551/2007, issued the same year, established the Ethiopian Commodity Exchange Authority (ECXA), which is part of the Ethiopian public administration and under the direct control of the Ministry of Agriculture, to provide oversight over the ECX. Direct control of the exchange is given over to an

⁶ Even though these were apparently offered free of charge by both IFPRI and Oxford University.

⁷ The ECX opened 30 subsidised membership seats just for cooperatives and only 19 were taken up (EG9).

⁸ As Ethiopia uses the calendar of the Ethiopian Tewahedo Orthodox Church, this was the millennium in the local calendar. The date is significant because the government of Ethiopia had chosen the new millennium to proclaim the Ethiopian renaissance, which heralded a large push in investment and a new focus on economic growth.

11-member board of directors, of whom six (including the chairperson) are appointed by the Ministry of Agriculture and the remainder are selected by members (ECX 2015). All are currently male. In the past some of these member appointments have been employees of state-owned enterprises of party-affiliated endowment companies, and hence of questionable independence from the government (Mezlekia 2009). The board of directors oversees the management team of the exchange, which in turn is led by the CEO. Eleni Gebre-Madhin was duly appointed as the first CEO, a position she held until late 2012 (Horn Affairs 2012).

To be able to trade directly at the exchange, a membership is necessary and this must be acquired through a sealed bidding process. Memberships were initially sold to founding members for only around US\$5,000, but prices for seats quickly reached several hundred thousand US\$ (Gebre-Madhin 2012). There are different types of membership – members can either chose to trade only on their own account, or choose the more sought after, and therefore more expensive option of having a full trading account that allows them to trade also on behalf of others⁹. Membership is subject to strict rules: members must *inter alia* show that they have a net worth of at least ETB500,000 and up to ETB1m, depending on membership class. They must also, for the duration of their membership, deposit either ETB200,000 or ETB300,000 with the ECX to be used as a guarantee for the daily settlements made by the exchange (ECX 2010: 18). Non-members have the option of trading through an ECX member with a full trading membership against payment of a fee. Many *akrabe* who do not sell enough coffee to warrant paying for a membership, or simply lack the funds to do so, use this latter method. The ECX member through whom trade is conducted is then generally referred to as an ‘agent’.

⁹ Own-account-only members are called ‘trading members’, while members who can trade on own-account and on behalf of others are called ‘intermediate members’. In addition there are also so-called ‘limited’ memberships, which are either buy-only or sell-only and limited to a single commodity. To add to the confusion buy-only members may also sell on the exchange, but only if their membership is for coffee only, i.e. if they are coffee exporters (ECX 2010: 15).

Functionally, the setup of the ECX is both simple and reasonably efficient. Suppliers¹⁰ deposit their wares in special ECX warehouses. These used to belong to an older warehousing initiative run by MoARD, but were taken over by the ECX (Coulter Consulting 2012). Warehouses are distributed across the areas where production of ECX-traded commodities takes place. Arriving goods are sampled, weighed and graded and the depositor is issued with a warehouse receipt, which is electronically logged. This decentralised system of safe storage relieves traders of much of the cost and risk of bringing goods to market. Prior to the ECX, *akrabe* had to bring their coffee all the way to Addis Ababa or Dire Dawa and faced the full risk of loss or damage, as well the transportation costs themselves. Payments are now guaranteed through the ECX settlement mechanism and are processed within 24 hours. Previously *akrabe* faced a high risk of payment default. In this sense the ECX has been a boon to the *akrabe*. Exporters, on the other hand, now have to transport any coffee they purchase from the local ECX warehouse in the producing area to their own warehouses and export processing stations in Addis Ababa, meaning they now face the risks previously borne by the *akrabe* (CELF).

Once goods are deposited in the warehouse and logged on the ECX's system, they can be traded. ECX trading proceeds on the basis of standardised contracts, which in the case of coffee, state the geographic area of origin, the volume (which is fixed), the quality grade and the price. Trading itself is blind in that the buyer does not know whose coffee he or she is buying. Pricing proceeds entirely on the bases of origin and grade (EG9, CE). One reason for this is the ECX's warehousing system in which deposited goods are 'commingled'. The warehouses operate a first-in-first-out system, which treats all coffees of the same grade and from the same area as completely equivalent (Coulter Consulting 2012). This means that coffees from different processing stations are mixed together in a single lot for sale and coffees cannot be traced back to their exact point of origin. In effect, the link between the processing station and the final product is severed. In practice this means that a direct trading relationship between *akrabe* and exporters is no longer possible¹¹. The

¹⁰ The exchange currently trades coffee, sesame, haricot beans, maize and wheat.

¹¹ Enterprising processors and exporters have of course found ways around this.

blind trading is also supposed to make collusion between buyers and sellers difficult, or even impossible, and so allow for market prices to reflect supply and demand accurately.

Trading takes place exclusively on the ECX's physical trading floor in Addis Ababa, and operates through open out-cry auction. Prices are recorded electronically immediately after a deal is struck and are distributed in real-time via the ECX website, as texts to mobile phones and on a series of electronic display boards across the country (Alemu and Meijerink 2010). The ECX has an in-house settlement and clearing system that works directly with the banks of its members. All claims are settled within 24 hours and the ECX is understandably proud of never having had a default (ECX 2010c). The exchange wants to introduce a decentralised online-trading system in addition to its physical trading floor, but as of the time writing this system had not yet been put in place (AllAfrica 2014).

Given that the exchange was supposedly founded to increase the efficiency of Ethiopia's coffee markets, it is striking that the ECX allows only spot trading. Future trading and options on futures are – for better or for worse – important parts of international coffee markets, allowing market participants to hedge their positions (ITC 2011; Talbot 2004). In fact, Gebre-Madhin herself believed futures trading to be of vital importance. As she states in a concept note written prior to the introduction of the ECX: “Can the Ethiopia Commodity Exchange (ECEX) be successful in the sense that it attracts and retains significant market players, improves market performance, and expands the size and scope of the market without offering contracts for future delivery to its clients? The simple answer is No.” (Gebre-Madhin 2007a: 1). The fact that such a simple instrument as a future contract was not introduced into the ECX is a further indication that the imperative of control (in this case over ‘speculators’) trumped any considerations of market efficiency in the eyes of the government.

Chapter six

The new coffee capitalists

6.1 Introduction

The rapid emergence of large-scale agriculture financed and run by private capital is one of the most striking changes to have occurred in Ethiopia's coffee sector since the end of the civil war in 1991. Huge areas are given over to private investors, who promise new capital, modern agronomic techniques and jobs. As the previous two chapters have demonstrated, the growth of agrarian capital was made possible by a silent and often hidden, but decisive, shift in government strategy, which seeks to increase agricultural exports to provide (part of) the funds needed to finance national development plans.

In this chapter it will be shown how the relatively sudden introduction of large-scale capitalist agriculture has entailed the creation of a whole new class of *agrarian* capitalists, or rather it has enticed large numbers of capitalists to invest into agrarian production and offered those with sufficient funds the first opportunity to become capitalists. This resulted in land use changes on a massive scale, and has necessitated the mobilisation of a large – though mostly seasonal – labour force, both within Ethiopia's coffee regions, and beyond, generating great migratory movements that travel with the harvest. As was argued in the last chapter, these patterns of capital accumulation have important historical antecedents and lineages. This chapter takes up the arguments made in the last chapter and connects contemporary accumulation processes to their historical roots, while investigating their implications for the present.

The discussion presented here orients itself along the central themes identified in Chapter Three – that is, the origins of accumulators, the processes of accumulation, the role of labour and the actions of the state – and provides answers with respect to Ethiopia’s new coffee capitalists. The sample of coffee capitalists examined in the quantitative survey is presented in Section 6.2. Thereafter, the analysis will proceed along the following questions: First, who is able to accumulate enough to enter the sector and what are their motivations for doing so (Section 6.3)? Second, how do prospective capitalists avail themselves of the most basic prerequisites for production – namely suitable land in sufficient quantities (Section 6.4)? Third, how do these farms, once established, fare in terms of production (Section 6.5) and labour mobilisation (Section 6.6)? Fourth, to what extent can the Ethiopian state be said to be nurturing private capitalist enterprise in the coffee sector? The previous chapter has already laid out the strategic orientation of the Ethiopian state with regard to the coffee sector, and I will here make reference to the intended and unintended consequences of state action throughout this chapter. Lastly, in Section 6.7, the differences between the coffee capitalists will be explored with the aim of demonstrating how one subgroup of them has become especially successful accumulators. This has important policy implications for the whole coffee sector.

In relation to state action it is important to investigate notions of state power and control. While the organisational capabilities of the Ethiopian government, and the level of control it is able to exert over the political process, seem either impressive or overbearing – depending on one’s vantage point – the reality on the ground is rather more complicated¹. Here we encounter a state whose organs vie for control of basic resources, such as arable land, with a burgeoning and ever more self-confident class of new capitalists. The state administration is far from monolithic. Lower levels of administration are shown to be vulnerable to the lure of money, and in

¹ This kind of nuance is difficult to capture for institutional theories of the kind Acemoglu et al. employ, in part due to their methodological commitment to regression analysis using cross-country data.

some areas government orders are openly defied and flaunted². The previous chapter showed how the Ethiopian state has taken strategic action to maintain its control over coffee revenues at national level; this chapter shows how, at local level, that control is much more patchy and contingent.

The analysis here will focus – for the most part – only on those farms actually sampled rather than the entire sector, but it is to be recalled from Chapter Three that the sample has been carefully constructed as an analytically relevant representation of the sector. It is the first, and to date only, study of Ethiopia’s coffee plantation capitalists. Up to now we have had only the most perfunctory information about this diverse group of people, almost all of it from nationally representative farm surveys, which are designed to collect only very basic data on farm sizes and production, as well as a smattering of references to the activities of this group from studies dealing with other subjects (El Ouaamari and Cochet 2014)³.

6.2 Sample characteristics

Before heading into a discussion of accumulation pathways and an analysis of how the new coffee capitalists acquire and use the other main factors – land and labour – I will briefly lay out the main characteristics of the quantitative sample⁴. After discussing their basic demographic characteristics, including gender, age and educational attainment, I present their family background and land holdings.

Plantation capitalists are, not surprisingly given Ethiopia’s overwhelmingly patriarchal society, mostly male, and older than the average. In fact, all but two of the respondents were male. Respondents were on average 48 years old, the youngest being 30 and the oldest 74 years of age at the time of research. They are

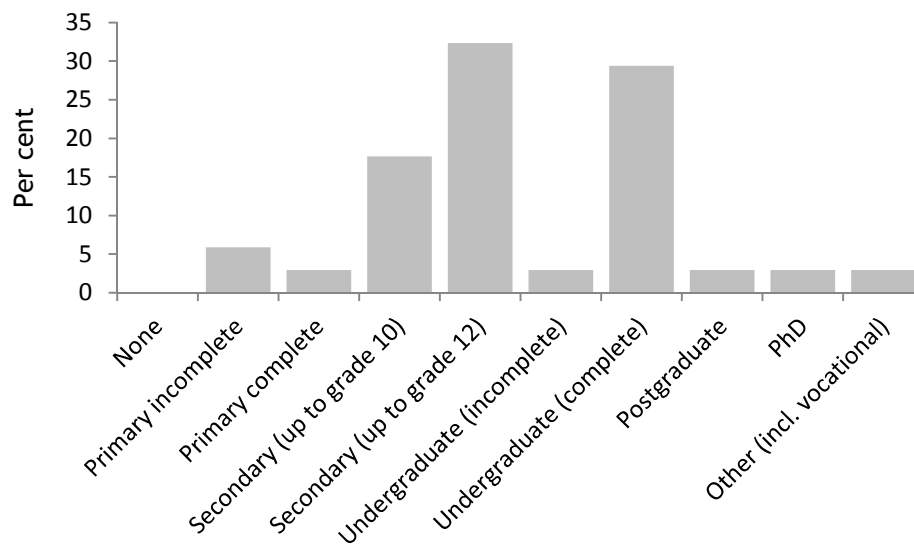
² Jessop’s (2016) strategic-relational approach to the state specifically points to this kind of contestation. See also Khan (2010)’s insistence on the importance of informal rules in defining the maintenance cost of an institutional structure.

³ These surveys are also likely to miss out many key emerging capitalist farmers, due to their relatively limited number.

⁴ As explained in Chapter Two, not all respondents were willing to submit to a full quantitative questionnaire as well as in-depth qualitative questions, nor was the quantitative questionnaire an appropriate tool for capturing the activities of all types of respondents. Therefore the summary of quantitative data presented here covers only that part of the sample that was interviewed using a structured questionnaire, i.e. 36 farmers.

much better educated than the norm, having on average completed secondary school, i.e. enjoyed 12 years of schooling. In comparison, according to the latest available Ethiopian census in 2007, over half of the population had never attended school and of those who had over 70% had never gone beyond primary school (CSA 2010). Figure 6.1 shows the educational attainment across the sample. Clearly, the new capitalists are part of the educational elite. Forty percent attended university, mostly in Ethiopia, and all but one of those that went to university completed at least an undergraduate degree. One had a Master's degree and one had a PhD. Most did not, however, have degrees related to agriculture or plant science, preferring business degrees instead. Only around 28% did not complete secondary school, and of these only two did not complete primary school⁵.

Figure 6.1 - Distribution of educational attainment (in %) (Source: own survey)



Almost all, regardless of gender, were married, with only a few of the younger men as yet unmarried. Children were common, though almost all had fewer children than their parents, reflecting a generational difference in child preference. Across all

⁵ This is strikingly different to early research on capitalist farmers in India in the 1960s, where the first systematic study of the Punjab area found that almost 70% of large farmers were illiterate and less than 3% were educated up to college level (Rudra, Majid, and Talib 1990: 20). While this of course also reflects lower levels of formal education generally compared to contemporary times, it also point clearly to the origins of many of Ethiopia's coffee capitalists differ from non-agricultural elites, where higher education is more common.

educational backgrounds respondents invested in the education of their own children, and around half who had school age children were paying to have them privately educated⁶. Many took noticeable pride in detailing the educational and professional achievements of their offspring, with completed university degrees and entry into a recognised profession seemingly held in particularly high regard⁷.

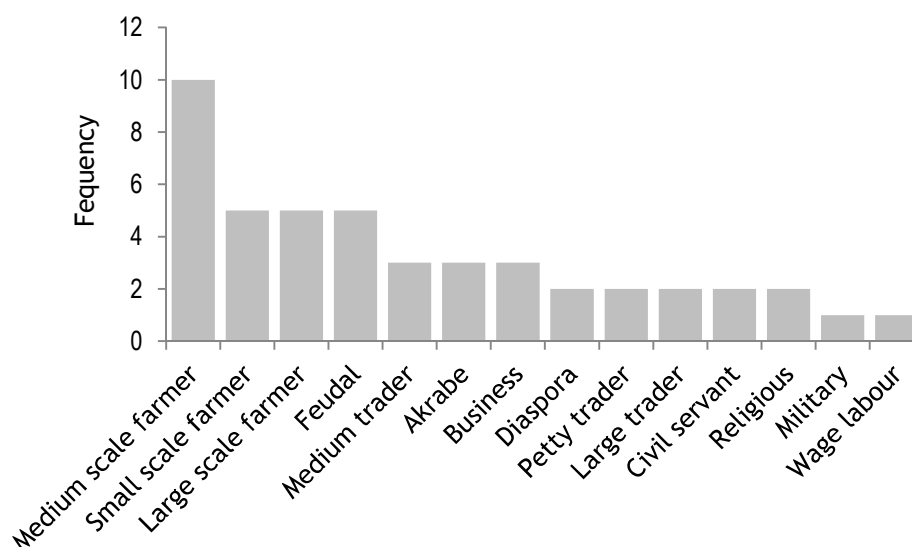
The capitalists come from a wide variety of family backgrounds, as shown in Figure 6.2⁸. About half of them come from farming families, albeit of dramatically different scales. While many come from small or medium farms (generally no larger than 10ha), some of their fathers, those in the large scale farmer category below, had themselves been large-scale agrarian capitalists during the imperial period, and they had often grown coffee. Also, five of the capitalists are the descendants of old 'feudal' landlords. Both of these findings indicate the importance of historical precedents to current accumulation patterns, as these capitalists frequently cite their family's former glories as an inspiration to accumulate wealth themselves, and in particular to move into coffee. All in all, less than half of the coffee capitalists had any family history in coffee, but many come from families whose parents were involved in the production and/or sale of commodities.

⁶ Many state schools, especially secondary schools, are regarded as weak, and the situation is worse outside of big cities.

⁷ Parents of medical doctors and engineers seemed especially proud.

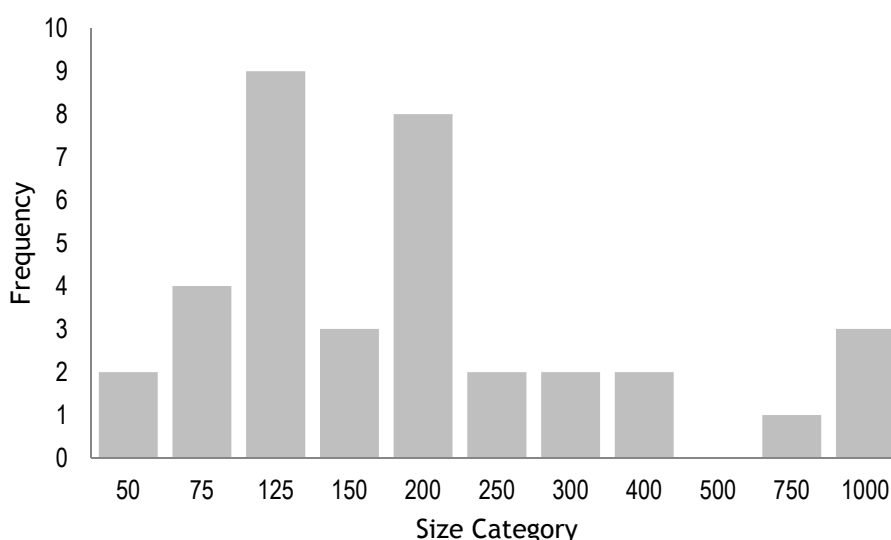
⁸ Similar findings are presented by Cheater in her study of agrarian change in the Msengezi region of Zimbabwe. She reports that the pioneer capitalist farmers in the region "tended to be men of some education, retired teachers, policemen and church workers" (Cheater 1984: 85).

Figure 6.2 - Main parental occupation of all sampled farmers (Source: own survey).



In terms of geographic distribution, 21 of the capitalists had plantations in Oromia, of which 18 were in Jimma zone, two in Kelem Wellega and one in West Wellega. Of the 18 capitalists in Jimma zone, all but one were sited in Limu Kossa *woreda*. Another 15 capitalists have farms in SNNPR, of whom 12 were in Kafa and three in the Bench Maji zone. In addition to these plantations, six of the aforementioned capitalists also held second plantations.

Figure 6.3 - Size distribution of coffee land holdings (in ha) in the sample (Source: own survey)



Collectively, the capitalists interviewed by quantitative questionnaire claimed to hold 8,308ha of land, with an average size of 230ha, with a median holding of

152ha. Figure 6.3 presents the distribution of land holdings for those that completed the quantitative questionnaire. Another 3,632ha were held by the 13 capitalists interviewed through semi-structured qualitative interviews. The average land holding for this group is 279ha owing to the presence of large and very wealthy exporters in this group, while the vast majority of farms are smaller than 200ha.

To arrive at an aggregate we must add the 11,000ha controlled by a particularly large capitalist who had just purchased one of the former state farms. In total the coffee capitalists interviewed claimed to control some 22,940ha. The figures for the sample are presented here, because Section 6.4, which deals with land acquisition, uses administrative data to try and present the situation beyond the confines of the sample chosen for interviews. First though it is important to analyse how capitalists came to be able to command the capital necessary to start plantations of this magnitude.

6.3 Capital accumulation

This section will begin with a discussion of how much capital is necessary to establish a coffee plantation. As we shall see, the amounts involved are relatively modest on a per hectare basis. Farms can be developed initially using a very 'bare bones' approach and more land equipment can be added when revenue from sales is available. I then concentrate on how the process of accumulation actually works and offer a heuristic typology of the accumulation pathways taken by the capitalists I examined.

6.3.1 *Capital requirements*

Ethiopia's new coffee capitalists are a highly diverse group and there are substantive differences in how they achieved the accumulation of capital. The pathways developed below refer to the last step of accumulation; providing information on how some people were able to command sufficient capital to start a coffee plantation. Entry into large-scale plantation farming is more often than not the latest step in a long process of capital accumulation, where new businesses are opened or acquired, existing businesses are expanded, and older businesses, or the capital bound up in them, are sold to release funds for new investments. A second

question is therefore: how did the future coffee capitalists become capitalists, regardless of sector, in the first place? These first instances of capital investment and accumulation are often made possible by recourse to loans from family or friends, or by savings from (relatively) well-paid salaried work. Ethiopia's development bank will only lend to large-scale endeavours and its commercial banks require high levels of 'hard' collateral, such as buildings or cars, making them unsuitable for prospective capitalists seeking to finance their own business. Only once they are already established do Ethiopia's capitalists gain access to Ethiopia's banking system. Thus becoming even a small capitalist generally requires either a well-off family or social network, capable of providing seed funds and loans, or a high level of education to be able to access well-remunerated jobs. In Ethiopia, a high level of education in turn almost always implies a financially secure upbringing.

To establish coffee plantations requires only modest sums per hectare, but establishing large farms requires correspondingly large capital outlays. Land has to be cleared and coffee trees planted, all of which require large amounts of – hard, physical – labour. This labour is provided almost exclusively by wage workers, who must of course be paid⁹. Planting also requires seedlings, meaning that seeds must be purchased and raised in a nursery. Farms in forest areas generally lack even the most basic of infrastructure, all of which has to be built and installed, including buildings, access ways, water, and electrical connections or generators. While, as is shown in greater detail below, planting can be undertaken in a sequential manner, the four-year lag between planting and the first harvest, during which regular weeding must be undertaken, means that prospective coffee capitalists need access to large amounts of cash in advance.

A comprehensive breakdown of the costs of establishing a modern coffee plantation in Ethiopia has been produced by the main lobbying group for the coffee capitalists,

⁹⁹ Some of the less cash-rich capitalists do employ family members, typically as supervisors or clerical workers, but the contribution of family labour to the overall labour input is marginal. This is very different, for instance, to the cocoa capitalists studied by Hill (1970), many of whom relied on family labour to establish their initial capital (i.e. cocoa trees). Austin (2005) notes how the first generation of cocoa farmers in Ghana had to rely on prior accumulation to be able to assemble workforce sufficient to establishing a cocoa farm.

ECGPEA. The document is exceptionally comprehensive. It details the labour requirements per hectare for even the most minute of tasks and provides lists of materials required. According to the document, a total of ETB44,791 per hectare were required in 2008 to bring in a first harvest (ECGPEA 2008). Adding inflation gives ETB95.571 per hectare in 2012, which is close to the estimate of ETB105,000 per hectare provided by the head of the association during an interview (CL)¹⁰.

Comparing these estimates to the actual investments undertaken by the coffee capitalists is not straightforward. The data on actual investment costs was difficult to acquire, as many of the capitalists were unwilling to discuss investment volumes¹¹. The findings presented here were carefully triangulated from interviews with the most consistent respondents¹². Capitalists typically invest between ETB20,000 and ETB47,000 per hectare to bring a newly established land to its first harvest. Estimates are biased towards the upper limit and the median value is around ETB39,000 (approximately US\$2,160) per hectare. The difference to ECGPEA's figures is notable, but not large and readily explained. First, the figures on real investment do not include expenditure on transport vehicles or on processing equipment. Both of these are desirable but not essential to running a coffee plantation, and can be hired as needed. Second, the discrepancy shows that most Ethiopian coffee capitalists are capital constrained and cannot make the levels of investment that would be considered optimal for both productivity and quality. Lastly, the ECGPEA figures are possibly inflated for political reasons. The association produced this document in the hope that it would act as a baseline for banks looking to lend to coffee capitalists (CL), and the association therefore has every incentive to exaggerate cost estimates.

My figures contrast sharply with official data. For instance, Deininger, Harris, and Ali (2015), using data from the CSA's commercial farms surveys, report a mean per hectare investment of just ETB7,920 (Deininger, Harris, and Ali 2015: 17). I found

¹⁰ At the time of research 1US\$ equalled approximately ETB18.

¹¹ This is normally something business people are proud of.

¹² Consistency was assessed through the use of cross-checking questions distributed across the quantitative questionnaire.

only two farms with comparably low levels of investment, one which had invested only ETB5,000 per hectare and another which claimed to have invested ETB8,500 per hectare (LCF33, LCF14). Both are notable outliers compared to the rest of the sample. The main reason for the very low levels of investment in both cases was a severely limited access to capital, which meant that both capitalists relied on small workforces and neither farmer had any form of mechanisation. Donkeys were the exclusive form of transport in both instances, and both farms lacked basic infrastructure. As is shown in Section 6.5.1 this is quite atypical and far from representative for the sector as a whole. Deininger et al. report their figures without any attempt at explanation, so the reasons for the divergence of their findings can only be speculated upon. Underreporting of capital and other measures of business size appears to have long dogged the CSA's commercial farm surveys, although the CSA considers the problem solved as a result of new data collection techniques (Beyene 2015). Given the data presented above, this conclusion appears somewhat premature.

Access to credit appears to be an important, though not by itself a decisive element in allowing new coffee capitalists to access enough capital for investment. About 53% of plantation capitalists have taken out loans to invest in their farms. However, in many instances the loans were used not to establish the plantation, but rather to expand the business once in operation, by spending money on developing new land, or by purchasing processing and transport equipment. On average, capitalists financed about 78% of the required initial capital for setting up plantations from their existing investments, i.e. through retained profits. Half of the capitalists claim to have financed all of their initial investments in this way, and over 72% say they generated at least half of the initial capital from existing businesses. The reasons for this 'bootstrapping' approach are clear: especially in the early days of the sector's development, banks were simply unwilling to lend to coffee plantations. A majority of capitalists report applying for a loan but being turned down, while a significant minority did not even try applying for one, since, as they say, they knew the

application would be turned down¹³. While the DBE, as the main provider of subsidised finance, had initially lent to coffee plantations as far back as 2002, it appears only few loans were actually made. Beginning in 2008 the DBE underwent a reform process (see also Chapter Seven), which refocused its lending towards ‘commercial’ operations, unhelpfully defined as plantations larger than 150ha. Predictably, by 2013 the DBE had extended not one loan to plantations in the Jimma area, the largest concentration of coffee capitalists, since 2008 (DBE1, see also Section 6.4.2). With no leadership from the DBE, private commercial banks, rightly sceptical of their ability to correctly appraise the risks involved in the plantation business, would lend only against very high collateral, which had to be provided in physical assets. Faced with a lack of credit, many capitalists were forced to use a piecemeal approach to developing their plantations, with further investment made after each harvest cycle, often starting from surprisingly small planted areas¹⁴.

6.3.2 *A heuristic typology of coffee capitalists*

A typology can be a useful heuristic device in mapping the diversity of accumulation paths, showing who gets to accumulate, how they accumulate, and how they interact with state power in their endeavours. Such a typology of accumulation pathways is, however, no more than a tool of representation. Differences between categories are often a question of degree, and there are numerous cases of overlap, as will be discussed below. A typology should not be understood as a collection of ideal types, drawn up according to some theoretical premise, but rather as an aid in ordering a complicated empirical reality.

The typology of coffee capitalists engaged in plantation agriculture offered here is the result of extensive and careful mixed methods fieldwork (see Chapter Three). In addition to the quantitative survey, which recorded a contemporaneous snapshot of the various variables of interest, in-depth semi-structured interviews were used to unearth the life and business histories of respondents. Beginning with their

¹³ A small minority pride themselves on not having used any credit. This sentiment is especially common in more remote areas.

¹⁴ The credit that was obtained by farmers was built on collateral from previous accumulation, most frequently houses and cars.

geographic and family origins, respondents were invited to trace the development of their accumulation across all of the various activities they were engaged in. Great care was taken to understand the motivations behind business decisions, the nature, causes and consequences of shocks or windfalls, and the capitalists' own evaluation of the changing external environment. In the case of older respondents this latter included three very different governments and ways of ordering and organising production at the level of society as a whole. These life-business histories were then cross-referenced with data from the quantitative survey, with information from other respondents and with the published literature on historical developments in Ethiopia, both local and national. The outcome is a set of very detailed profiles that allow us to understand who these accumulators are and how they came to accumulate.

The typology offered here maps and differentiates capitalists according to the *main* activity which allowed them to enter the coffee plantation business and is the basis for the detailed analyses of their command over capital, land and labour. That is, it is generally the last and most important area in which the capitalist was able to accumulate prior to entering the plantation business. The broad categorisation also allows some insight into likely command over local connections and knowledge, both of business in general and of coffee in particular. Table 6.1 presents the main categories of capitalists active in the Ethiopian coffee sector, along with some summary statistics that allow us to gauge the relative importance to the sector overall¹⁵. There are five main accumulation pathways, namely: merchant capital, employment (the capitalist used savings from a high paying job either in the public sector or the private sector, including NGOs), diaspora (meaning the money was accumulated abroad), family (the capital was injected by the capitalist's own family), and farming. By far the largest group is merchant capital. Within this group we can identify *akrabe* (i.e. coffee processors), coffee exporters who moved into the plantation business, other traders, and business owners not involved in trade.

¹⁵ As has been mentioned several times, the sample was selected to be analytically relevant and is not statistically representative.

Table 6.1 - Categorisation of all sampled coffee capitalists (Source: own survey).

Accumulation category	Number of capitalists	Percent of sample (%)	Total land held (ha)	Percent of total land held (%)	Average land held per capitalist (ha)	Average share of initial farm capital from own sources (%)*	Share who have taken out loans for the farm (%)*
Merchant capital	24	48	5,136	43	214	89	63
<i>of whom exporters</i>	5	9.8	1,463	12.3	292	-	-
Employment	8	16	2,607	21.8	326	75	67
Diaspora	7	14	1,801	15.1	258	73	25
Family	7	14	1,414	11.8	202	63	25
Farming	4	8	982	8.2	246	53	100
Total	50	100	11,940	100	243	78	58

NB: An asterisk (*) indicates that data were taken from the quantitative sample only. Exporters were not included in this sample.

The most important of these pathways – merchant capital – is discussed in detail in the following subsection. In classical Marxist parlance, merchant capital is often taken to denote ‘unproductive’ capital engaged solely in the sphere of circulation, rather than in production where value can be added. However, as Harriss-White (1979) points out, this is a fundamental misunderstanding. Many of the activities in which merchant capital is engaged –transport, sorting, processing, packaging – do directly add value to commodities. While other activities, such as storage for instance, may be inherently unproductive, but necessary for the functioning of markets. Harriss-White (2013) explores the dynamic aspects of merchant capital in the case of West Bengal, where traders have integrated activities up and down the value chain and are engaged in agro-processing, but not in direct production. The situation in the Ethiopian coffee sector is different. Here we have merchant capital, in the sense in which Harriss-White uses the term, moving into direct production. Within the merchant capital group we can distinguish those who came from within the coffee sector, namely *akrabe* and exporters, and those who came from outside the sector, mostly traders, but also owners of other businesses such as hotels.

Across all types of accumulation pathways the stories of individual capitalists are often highly idiosyncratic and contingent upon specific local conditions at particular times. Certain generalisations can nonetheless be made about both push and pull factors that bring investors into the plantation business. What is immediately clear from the table is that not all of the coffee capitalists were capitalists prior to entering the sector. Some were able to accumulate sufficient funds through salaried employment for instance. It is also common to find examples of straddling, where salaried employment is maintained alongside business investments (see Kitching 1982 for a detailed treatment of this phenomenon among Kenyan agrarian capitalists). Straddling amongst different types of business endeavours is also common, as has been found in many cases of rural accumulation. In the context of Senegal for instance, Baglioni (2015) finds that accumulators in farming straddle different ways of organising production in order to survive in a value chain increasingly subject to the demands of large buyers. Also in Senegal, Oya (2007) demonstrates that substantial ‘accumulation from below’ has occurred among

groundnut farmers, whereby dynamic medium-scale farmers take advantage of new opportunities in changing market conditions and are able to accumulate. At the same time the possibilities for accumulation in agriculture attracted investors from outside the sector, some of whom finance their farms with savings from salaried employment or trade.

The question is, then, what attracted capitalists from other business areas to large-scale coffee farming? Two of the main strands that came out of the accumulation histories in terms of the hopes and motivations of Ethiopian coffee capitalists were, of course, the wish to make larger profits and the need for security of income in conjunction with the protection of already accumulated capital. While the particular political economy of Ethiopia can account for some of these motivations, such as the relative security from expropriation of investment lands over other types of assets, other reasons for the move into coffee farming specifically must be sought in the highly localised experiences of many capitalists on the one hand, as well as in developments in global coffee markets discussed in the last chapter on the other.

6.3.3 *Accumulation pathways*

Looking at the pathways documented in Table 6.1 it is immediately striking how few of the coffee capitalists accumulated in agriculture, and agricultural production in particular¹⁶. Most capitalists slowly accumulated wealth outside of agriculture and then took the opportunity to take a large amount of land in a single sweep, once they had sufficient capital and the route to investment land was opened by the government. Even amongst those that did accumulate in agriculture (mostly coffee farming), we rarely see a continuous process of slow expansion to the current farm size, but rather a qualitative 'jump' once they have sufficient funds to secure themselves land for investment. A key research finding is that the development of Ethiopia's coffee plantations is not due to a process of differentiation and

¹⁶ This parallels findings from South Asia. In a study on specifically rural capitalists in the region Rutten (2003: 208) notes that many are engaged in agricultural production, but generally entered into agriculture only after having achieved some success in transport, agro-processing or industry.

accumulation amongst initially small-scale farmers¹⁷. Most new capitalists also financed the lion's share of their initial plantation investments themselves, which, as explained above, reflects the constrained nature of Ethiopia's credit market. The only real exceptions to this are capitalists who finance their investments through savings from employment, who often founded plantations together with a wealthy partner, and those that accumulate in farming, who often take out loans against their existing land holdings.

Within the merchant capital route, the two most important pathways to becoming a plantation capitalist in Ethiopia, namely starting as an *akrabe* or as a trader, are examined in detail below. Exporters are treated as a subgroup of *akrabe*, as they too have their roots in the coffee business and as we shall see have similar motivations for entering the plantation business. The constraints of space do not allow for a detailed exposition of the other accumulation paths or a foray into the highly varied accumulation experiences of more individual capitalists, as this would come at the cost of unduly limiting the discussion of how the new capitalists establish control over land and labour, as well as how they differ both from other coffee farmers and from one another.

6.3.3.1 *Akrabe* and exporters

Akrabe are coffee processors and wholesalers who possess their own processing stations. The owners are capitalists who rely exclusively on wage labour. An *akrabe* may own a wet mill, a dry mill or both, but large *akrabe* are these days more likely to own a wet mill. Under the Derg, Ethiopia produced hardly any washed coffee (Griffin 1992), but this began to change under the EPRDF regime. In the Jimma area for instance, the government began offering loans to existing and prospective *akrabe* to import and install wet mills (LCF4). A wet mill, with all necessary buildings and equipment, represents an investment volume of at least ETB1,000,000 and can reach

¹⁷ That is, the observed pattern is very different to Byres' (1996) 'accumulation from below'. Nor is it compatible to his 'accumulation' from above, at least as expressed in the 'Prussian path' (see also Chapter Two). While the Ethiopian coffee capitalists entered into the sector with money, they were hardly part of any landholding elite. In the less precise formulation of the dichotomy by Mamdani (1987) 'accumulation from below' refers to any process mediated by market forces rather than extra-economic coercion. But, as this example shows, such a categorisation is too wide to provide much analytical insight in this context.

ETB2,000,000 and more¹⁸. Dry mills are generally cheaper. Another major difference is that a dry mill can operate for much of the calendar year, as farmers dry coffee on their own farms and sell it as and when they need cash, while a wet mill can only operate around the harvest period, when fresh cherries are available (LCF5).

Most of the *akrabe* interviewed began their accumulation pathways outside of the coffee business, often in dry goods trading, local stores, or alcohol distribution. Entering the local coffee business as a dry-processing *akrabe* is relatively easy for a small capitalist. An aspiring *akrabe* seeking a government licence does not need his or her own huller, but only to be in possession of a warehouse of adequate quality and sufficient capital to purchase coffee. Coffee can be processed by renting time on other people's hullers (LCF5). The first step of accumulation in the coffee business is usually in the form of purchasing a coffee huller. For further accumulation an *akrabe* has two options: either stay with dry processed coffee and invest in expanding the scale of operations and increasing the quality of the equipment, or move into wet processed coffee, which requires greater capital outlays and is more technically demanding. Washed coffee processing is also more labour intensive (AK2). As washed coffees tend to trade at a premium vis-à-vis naturals, this is nonetheless a worthwhile step.

The business model of the *akrabe* is central to understanding why they would seek accumulation elsewhere. The *akrabe* buy coffee cherries in large quantities from farms within their licensed area. They can either purchase cherries directly from farmers, or rely on the services of *sebsabe*, who collect coffee on their behalf. Once the coffee is processed, the *akrabe* delivers it to the nearest ECX station for grading and warehousing. The *akrabe* must be cash rich enough to not only purchase large amounts of coffee for processing, but also to pay the sizeable workforces necessary to run large washing stations. A medium-sized processing station, capable of an annual output of over 600t of green coffee, will employ upwards of 200 seasonal workers for three to four months during the wet processing season, as well as at least a dozen permanent security and administrative staff (AK2). But processing

¹⁸ Smaller mills are available and are sometimes installed on plantations.

coffee takes some time and coffee prices may change. The *akrabe* therefore takes a calculated risk that the revenue achieved from selling the processed coffee is higher than the cost of the cherries, plus the cost of processing the coffee. The *akrabe* has a predicament if coffee prices decline before the processed coffee can be sold or if the price paid for the cherries was too high. The business is risky - all *akrabe* interviewed agree that it is possible to lose substantial amounts of money in a single season.

For many *akrabe* the option of investing in coffee plantations arose just as increasing competitive pressures were emerging, endangering the viability of their business model. The profits *akrabe* are able to extract have historically relied on a steady supply of cheap cherries, provided by small-scale farmers with no outside options. Competition comes not only from the increasing number of *akrabe* in the business (LCF4, LCF5), but also from rising numbers of newly founded (or reformed) cooperatives, who often own their own processing equipment. The results have been higher cherry prices and lower profit margins¹⁹. “Up until 2010 the *akrabe* business [around Jimma] was very profitable, especially due to high international prices and low cherry prices. Now the *akrabe* business is loss-making” (CELF4). The danger of narrowing margins is exacerbated by the volatile nature of coffee prices. The same is not true for coffee farming, where the main cost is labour (see Section 0). In periods of low prices farmers can control costs by scaling back labour input into the farm²⁰. “The *akrabe* business is not a secure business, having a farm secures income. This is due to price fluctuations which producers [farmers] can accommodate but *akrabe* cannot.” (LCF4). While lower labour inputs reduce the quality of the coffee, plantations will generally at least break even. Farming is regarded as a much less risky business, as cheap labour and practically free land have eliminated the downside risks: “In a plantation there is no risk as you have time and costs are adjustable. It is impossible to lose money on a farm [...] farms

¹⁹ While cooperatives are not always able to match the cherry prices paid by cash-rich *akrabe*, the available anecdotal evidence suggests they have had a strong influence on cherry prices simply by providing farmers with options.

²⁰ This is an important point, a key differentiating factor to the flower business. The implications are explored in Chapter Eight.

start returns after six years. If you get to production earlier you will be more profitable” (CELF3).

Apart from these push factors *akrabe* also enjoy a number of advantages, making coffee plantations as investment objects particularly interesting to them. First, *akrabe* are already familiar with the complexities of the coffee trade. They are often in close contact with local markets and aware of the differences in coffee type and quality (AK2, CELF). Before the ECX large *akrabe* often had direct contact with exporters and foreign buyers, giving them insight into the requirements of international markets, including the specialty coffee trade. *Akrabe* are already familiar with the production of high-quality coffee, and are much less likely to have to buy expensive expertise. Second, it is relatively easy for large *akrabe* to mobilise start-up capital necessary for coffee farming, given that they have already accumulated substantial amounts in the past, and frequently have capital assets from other businesses, houses, cars and, not least, their processing stations to offer as collateral. Some *akrabe* are very wealthy. The largest *akrabe* interviewed, who also worked as an exporter and had recently established a coffee plantation, owned 11 processing stations in as many *woreda*, with a combined annual processing capacity of 1,600t of washed coffee (CELF5).

A similar move into direct production of coffee is evident amongst Ethiopia’s large coffee exporters. Some of these exporters run gigantic business operations. The largest exporter interviewed claimed annual coffee exports of up to 17,000t, making him the country’s third largest exporter (CELF5). As Ethiopia’s total coffee exports in 2011 were about 160,000t, this exporter alone accounted for almost 11% of exports that year. But even exporters who describe themselves as “medium-sized” will still export hundreds of tons of coffee each year, generating revenues in the range of millions of US dollars (CELF4). The exporters are presented in the same category as *akrabe* because many of them only became exporters on the back of their accumulation in the *akrabe* business (CELF6, CELF2, CELF5, CELF4). Prior to the introduction of the ECX, many exporters had also worked as *akrabe*, buying their own coffee from the Addis Ababa auction to secure themselves consistent supplies

of high-quality traceable coffee (CELF1): “Before the ECX you used to wash and clean the coffee [at your own processing stations], bring it to auction and then buy your own coffee. Now this system is blocked” (CELF5). When, as discussed in the previous chapter, the ECX system severed the possibility of tracing coffee to the precise place it had been processed, these exporters were no longer able to serve the international specialty markets they depend on for part of their profits.

Some of the exporters, in particular those selling high-quality coffees, reacted by moving into large-scale production themselves, where the possibility of direct export restores their access to traceable specialty coffee. As a leading exporter, who was a founding member of the ECX and runs a very sophisticated sales operation, responded when asked about specialty coffee: “We are now moving into farming. We used to have our own washing stations to serve the specialty market. When the ECX came we sold the stations and went into farming. We now have six farms totalling 1,000ha.” (CELF6). Another large exporter who had recently invested in a plantation commented: “Our farm is all about quality assurance. But mostly to secure a supply chain of traceable coffee”, adding that “some customers need good quality and traceability.” (CELF5). Even though specialty coffee may only represent part of the total sales for large exporters, it is an important part that allows them to present a full range of both traceable and non-traceable coffees of various qualities to large buyers, for whom variety is an important consideration in choosing suppliers. While this is a direct result of state action, it appears to have been an unexpected side-effect of the move to foist the ECX onto the coffee sector at break-neck speed²¹.

Moreover, the ECX drove exporters up the value chain into direct production in another unexpected way. Many participants in the Ethiopian coffee sector, including exporters and foreign buyers, complain that ECX prices are not sufficiently integrated with global market prices (CELF3, CB1). Prices at the ECX

²¹ Oya (2007) shows how state action can inadvertently open up spaces of accumulation in the sphere of circulation. Capitalist farmers in his study were able to accumulate in part by exploiting weak regulation of grain markets. Here the situation is the reverse. Strong state regulation is, quite by accident, forcing productive forms of merchant capital into the sphere of production.

around the time of research were too high compared to international prices, driven, it would appear, by domestic retail coffee prices that were actually higher than international coffee prices (Minton et al. 2013). Such artificially high prices are paid by people who either want to export coffee simply to gain foreign exchange or who plan to smuggle coffee into the domestic market (see also Section 6.5.4). Another reason for artificially high prices may be exporters who ‘play the system’ by buying their own coffee at the ECX, thereby restoring traceability, albeit illegally. This requires bribing ECX employees, which is apparently common (AK1). To ensure they actually get the lots they want they would then be willing to pay very high prices, as they are effectively paying themselves anyway (CE). But high prices erode the margins of exporters, who buy their coffee at the ECX, making exports much less profitable (CELF3).

Of course, there are instances where the accumulation path is reversed, that is, runs from plantation to export business. One plantation capitalist from the Jimma area for instance related how he began working as an *akrabe* when he inherited a hulling machine and warehouse from his father during the Derg period. By the late 1990s he had accumulated sufficient capital to add a wet processing station to his business. Despite still making large profits as an *akrabe*, he decided also to invest in a coffee plantation in 2000, saying: “I could see the competition [i.e. other *akrabe*] coming.” (CELF3). The farm was built up around the processing equipment, and he stopped working as an *akrabe*. He then opened a coffee export office in Addis Ababa, both to market the specialty coffee from his own farm, but also to buy and sell coffee as an exporter. Getting into the export business required investing in additional warehouse space in Addis Ababa, purchasing export processing equipment and an ECX trading licence, which alone cost ETB700,000.

6.3.3.2 Traders

Traders are the second most numerous group in the merchant capital group, and have on average the largest farms. Unlike *akrabe*, traders came to coffee plantations from a wide variety of backgrounds. Of the nine capitalists who accumulated through trade, all but one accumulated entirely outside of agriculture. Trade can be undertaken profitably on a wide variety of business scales, from small corner shops

to large wholesale trading enterprises, meaning that it is often used as a first step in capitalist accumulation. In Ethiopia a majority of the owners of leading businesses, regardless of their current specialisation, had originally accumulated in trading (Sutton and Kellow 2010). While the authors of the mapping exercise interpret this as being the result of the accumulation of generic business skills by traders, which allowed them to branch out into other sectors, including manufacturing, the low barriers to entry seem to be equally important.

Two of the coffee capitalists who began as traders started out as agricultural wage workers. One, the disinherited son of a small farmer, initially worked on the first capitalist coffee plantation under the imperial regime discussed in the last chapter in order to provide a living for himself. The time on the early capitalist coffee plantation left a deep impression on him, and awakened the desire to own a coffee farm. He saved enough of his wages to move back to his home area in Kaffa and join a relative in his tailoring business. After a few years he had saved up enough to start his own tailoring business. He was soon able to branch out into private textile trading, which was illegal under the Derg and had to be done clandestinely. Despite the prohibited nature of his business he was able to accumulate a large stockpile of textiles and livestock. Once his business was legalised, he managed to expand to the point where he had substantial amounts of textiles and owned nearly 80 head of livestock. He had run a side-line in coffee trading, though this was insignificant compared to his other operations. Once he saw other capitalists move into the plantation business, he grasped the opportunity to finally own a coffee farm and he invested in a coffee plantation in 2008 (LCF33). Here he could finally make use of the practical knowledge of coffee farming acquired during his years as a plantation worker. However, the remoteness of his farm and his relatively limited supply of capital meant that he was only able to develop 25ha in the first two years. To cover the period until his coffee makes any money, he has also planted 15ha of his land with spices.

Another, also the son of a small farmer, who left home to work as an agricultural wage worker during the Derg, also started out by saving up enough to begin small-

scale trading. He lived extremely frugally and saved up around ETB1,200 to open a small shop. The success of the shop allowed to him to take some land and farm coffee. He gradually expanded his holdings to around 10ha, hiring supervisors and labourers to work it. In this he was aided by the fact that he had attended school until year 10. He accumulated enough money to not only build himself a house, but also to invest in a small grain mill, which he later sold in favour of a much larger mill for which he constructed a warehouse. He soon had to bring his brother into the business to manage a second mill for spices. While the trading was his main route of accumulation, his 10ha of coffee land had furnished him with vital knowledge about agronomy and markets. When the zonal governments began soliciting local business people to invest in the coffee sector, he sold the first mill and used the proceeds, as well as income from the spice trade of around ETB80,000 a year to set up his brother as an *akrabe*, while he himself invested in a coffee farm. His initial investment in the farm was just ETB115,000, for which he was granted 60ha. These were, however, later measured at 115ha. (LCF36).

Both of these examples of ‘rags-to-riches’ stories demonstrate the returns to even quite petty amounts of capital that can be had in rural Ethiopia²². High returns to even small amounts of selectively invested capital, a result of a generalised shortage of goods and services, combined with a lack of infrastructure and credit which stifle competition, allow for a cycle of saving, reinvestment and scale increase. While these capitalists were able to slowly build up capital from relatively low wages, another trader accumulated through well-paid salaried work for an international NGO. He is the scion of a major aristocratic family in the province of Jimma. His father and grandfather owned huge estates, worked by sharecroppers, in addition to a large number of houses. As the son of an extremely wealthy man, he enjoyed a privileged education by the standards of the time. This was, however, cut short by the revolution, which began when he still a child. His father was killed and his family were stripped of titles and possessions. He was young enough to be deemed

²² At the same time it is of course important not to forget the selection bias inherent in interviewing capitalists who accumulated enough to enter large-scale coffee farming. For each of these successful accumulators there is an unknown – but probably very large – number of people who failed to accumulate.

innocent and allowed to complete his education. This allowed him to become well enough educated to get the aforementioned well-paid NGO job. After studying agronomy on a scholarship abroad, he returned to Ethiopia just after the fall of the Derg. He used savings from his comfortable salary and scholarship, as well as his retirement fund, to set himself up as a wholesaler of car parts in Addis Ababa. To this he soon added a car repair workshop. A few years later he was approached by an old friend, a successful *akrabe*, who had become interested in coffee farming and had relevant knowledge of coffee, but lacked agronomic expertise. Having worked for years in the country's largest coffee development programme and having a relevant degree made our trader the perfect partner. The trading and repair businesses were sold to finance his share in the planned plantation (LCF37).

Some of the traders have also engaged in illegal practices to accumulate²³. One capitalist relates how he spent many years as a smuggler traversing the porous borders of the Horn with ever greater quantities of goods of every kind, from livestock to machine parts. Having originally borrowed money for a pickup truck from his extended family – also traders – he began by distributing car and machine parts from the central market in Addis Ababa to regional centres, but soon realised that smuggling was much more profitable. Within a few years he was travelling as far as the Arab world and Italy in the search for importable goods. Tightening border controls and increasing police attention made him fear for the sustainability of his business and the security of the small fortune he had amassed. He decided to make his wealth unassailable by investing in a fixed asset, in this case a coffee farm, which he started in 2003. He had toyed with the idea of becoming an *akrabe* back in 1998, attracted by the returns he could see others were making, but found coffee prices too volatile for his liking. In the first four years, he invested around ETB7.8m of his own money in the farm. Together with his farm manager, who spent 32 years working at JARI, he has produced specialty coffee good enough to win a prestigious SCAA (LCF35). Another capitalist used money from his father, who ran a medium-

²³ Oya (2007) describes how some of the large farmers he interviewed made a leap in their accumulation trajectories by engaging in illegal grain sales. Compare also Streeck's (2009) insistence on studying the rule-breaking behaviour of capitalist elites.

scale farm cultivating some 10ha with the use of wage labour, to enter textile trading. As he operated in the Kaffa region, where roads to the capital were bad at the time, profits were very high, and after a few years he had paid off his family and expanded the scale of his operations enough to be able to purchase whole petrol stations. He invested in the construction of a large hotel and shortly after began developing a coffee plantation of several hundred hectares. The speed of his accumulation raised questions with local authorities and a subsequent tax audit found that he had failed to pay more than ETB3m in income and various business taxes. He was forced to sell all of his belongings apart from the hotel and the one third of his land allocation he had already developed²⁴ (LCF34).

Two of the capitalists who accumulated in trading had been directly involved with the coffee business prior to becoming traders. One was a younger son of a trading family, who did not stand to inherit the family business, but whose family had enough local standing to allow him to become a *sebsabe* for a local *akrabe*. As explained before, the *sebsabe* is forwarded substantial sums of money to purchase coffee from farmers, and many *akrabe* prefer to work with *sebsabe* who are 'anchored' in the area through fixed possessions, in this case a family business. The income from work as a *sebsabe* soon allowed him to invest in a small retail shop for dry goods, which he expanded into a sizable operation. When operating as a *sebsabe*, there are two options. The more common one is to use funds forwarded by an *akrabe*. However, the much more profitable option is for them to use their own capital. *Akrabe* are then prepared to pay much more, as their money is less at risk. Of course, only cash-rich people can operate as a *sebsabe* with their own capital. Retained profits allowed him to amass ETB700,000 to invest in a 75ha coffee farm (LCF31). Another trader had been one of the early coffee capitalists of the imperial era. He and his brothers had made money in the Addis Ababa textile trade during the 1950s. The coffee boom of the time attracted them to Jimma, where they purchased 150ha of suitable land from an absentee feudal lord. Here they grew

²⁴ He is convinced the tax inspection was the result of jealousy among less successful rivals. Perhaps fittingly his office was adorned only with a desk, a large safe and a Kalashnikov assault rifle.

coffee for export. The farm was nationalised by the Derg and he was imprisoned and tortured. After his release he was allowed to return to Addis Ababa, where he made a modest living as a small textile trader. After the fall of the Derg he took all the savings he could muster and returned to the Jimma area to re-enter into the once again burgeoning coffee trade around Jimma, this time as a processor. Driven by the vision of once again owning a coffee farm, he imposed a rigid savings regime on what was by now a family business, shared with his sons. As soon as investment became available he implored his sons to invest in a plantation (LCF44).

Almost all of the trader capitalists engage in 'straddling', as an accumulation strategy. 'Straddling' here refers to being involved in many different business types at once²⁵. The most striking example is an individual who used a loan from his father, a supervisor on a large tea plantation, to begin a small trade in spices. He soon also began to buy and sell hides and skins, initially using working capital provided by a larger trader, later on his own account. Skin and hides trading is especially strong after public holidays and festivals, due to the amount of animals traditionally slaughtered for such occasions, providing a boost of capital, while spice trading has a smoother income structure. He saved his money and by the mid-2000s had expanded his operations to the point where he was able to purchase a second-hand truck, which he rented out. Given extremely high taxes on vehicles purchases and the often dismal state of rural roads in Ethiopia, the transport business is very profitable. Renting out a medium sized truck can make ETB100,000 and more per year. Only four years later, he was able to purchase a second truck. Soon afterwards he was able to acquire over 300ha of coffee land, originally in partnership with others, but they were soon bought out after he sold his vehicles.

Being able to straddle multiple business lines as a trader is a sign of economic success and wealth. Poorer business people frequently have to sell one business in

²⁵ Rather than the stricter sense in which Kitching (1982) originally defined it, i.e. as the use of income from salaried work to fund investments and accumulation. For Oya (2007) straddling among different business activities is the main way in which emergent agrarian capitalists acts as entrepreneurs, as they generally do not engage in Schumpeterian innovation. Reinert (2009) concurs that 'entrepreneurship' in poor countries more often than not means 'emulation' rather than 'innovation'.

order to start another, potentially more promising one. However, for the newly started coffee capitalists, straddling is much more important. Farms have to be planted, weeded and maintained for four years until they make any money. Capitalists must therefore have access to some source of funds during this period. Of the capitalists who started as traders, five are still active in various forms of trading, often involving family members to run these branches of their businesses. Income streams from these businesses allow them to develop their farms until their first harvest, which can then be sold and the proceeds reinvested. Of course, having other businesses is also useful once plantations are in production. It can take a number of years before the whole farm is planted, with rising labour costs every year as the farm grows in size. Other income streams also insulate to a degree against the volatility of coffee prices, and allow farms to be developed more rapidly. Two of the capitalists, LCF35 and CELF7 were so wealthy that they were able to found plantations without straddling other businesses. While LCF35 used the savings accumulated in half a lifetime of smuggling, CELF7 achieved this by dint of coming from a family of very wealthy sesame traders. This has allowed him to acquire two of the largest plantations in SNNPR, totalling 2,500ha, and recently the Tepi plantation, which stretches over 11,000ha. The latter was purchased for around USD38m.

The prime motivation for trader capitalists to move into coffee production, appears to have been the perceived security of holding land over other forms of business ventures. The idea of having a completely safe depository for capital seems very important. For instance, one of the traders never took out a loan until his coffee plants had begun bearing fruit, as he feared foreclosure, should he be unable to repay, underlining how concerned this group of capitalists tended to be about the loss of their capital stock, which is a constant threat to traders.

6.4 Land acquisition

While accumulating sufficient initial capital is of course a necessary condition for entering the plantation sector, acquiring sufficient land is vital to actually being able to set up a farm. As discussed in Chapter Four, in Ethiopia the land reform laws

passed under the Derg in 1975 mean that all land constitutionally belongs to the state. The EPRDF decided in 1991 to keep state ownership of all land in place, granting only usufruct rights to smallholder farmers. The federal constitution of 1995 cemented this decision (Crewett and Korf 2008). Private individuals may gain access to land only through long-term lease agreements. All such leases have to be granted by government authority and agricultural land is only leased to officially registered investors. While the federal government very effectively sets broad policy parameters on land use issues and has shown itself capable of releasing a veritable land rush in parts of the country, the ability of the EPRDF state to control the allocation of such land is rather more curtailed. Instead local elites collude with capitalists to subvert legal processes. Ethiopia's local capitalists are 'unruly' indeed.

6.4.1 Leasing coffee land

Chapter Four showed how the federal government began to encourage commercial agriculture more directly as part of its move towards a developmental state strategy after 2001. Growth in large-scale capitalist agriculture, which had become a tool for the government to help generate foreign exchange, was now an important policy goal. To increase investment in agriculture, large amounts of land had then to be leased to capitalist investors. Following a review of the land lease system in 2008, the federal government took control of large leases (above 5,000ha) and all leases in so-called 'emerging regions' (Afar, Benishangul-Gumuz, Gambella & Somali). However, the power to grant land leases under 5,000ha in both Oromia and SNNP remained with the respective regional governments (EG1). Given that all coffee farms, apart from the privatised state farms, are much smaller than 5000ha, the land acquisition process for coffee involves only the regional investment bureaus, as well as the relevant authorities at zonal and *woreda* level.

Pressure was put on regional and zonal governments by federal level officials to allocate land to investors. As laid out in Chapter Four, the development of large-scale agriculture was prioritised even more after the debacle of 2005. Using the Ethiopian millennium in 2007 as a symbolic date to hail the beginning of the 'Ethiopian renaissance', the government instigated a growth push across the

economy and land leases were greatly accelerated. The government used state media to announce that agricultural land would be made available to interested investors, and regions were expected to provide targets for land leases, which were then handed down to zonal administrations (EG8).

Figure 6.4 - Year of farm formation in the quantitative sample (Source: own survey)

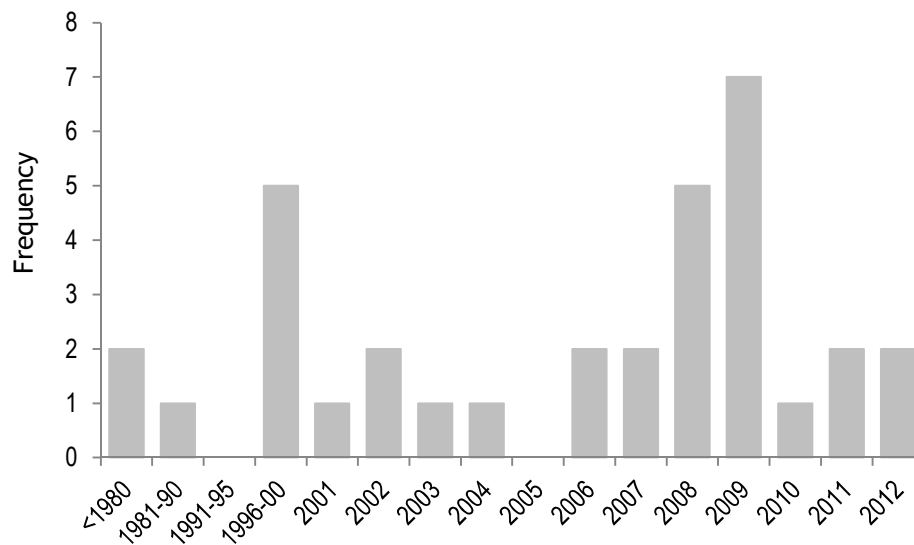


Figure 6.4 shows how successful the government push to get land to investors has been at the local level. Only 24% of the farms in my sample were established before 2001, and around 55% were established after 2007. The peak just after the announcement of the new investment possibilities in land is clearly visible²⁶. Many coffee capitalists who came from outside the sector remembered how they had been looking for investment opportunities at the time and were only attracted into coffee due to government media announcements and enthusiastic local officials. However, in many areas authorities either greatly reduced the amount of land they granted to investors or stopped giving out land entirely after a few years, possibly due to the scale of localised corruption and discontent.

The official process for leasing land is structured to ensure government oversight and contains safeguards to protect people from eviction without compensation. In practice though, the process is often subverted. To obtain a lease, an investor must

²⁶ This peak is before the steep rise in very large land deals in Ethiopia's peripheral regions though, see Cotula et al. (2014) for a critical discussion.

first secure an investment licence from the regional investment office²⁷. To then lease coffee land, initial application must be made to the *woreda* land office, which then has to be checked and approved at the level of the zone, before being passed to the region for final endorsement²⁸. Only land that has been officially specified as investment land can be leased. The zonal land administration offices are supposed to map investment areas (using GPS) and perform soil tests to clarify what agricultural activities the land is suitable for. In addition the *woreda* has to certify that the land is free from 'prior ownership', meaning people with a legal claim to the land, and not in a protected forest area. The zone investment office is supposed to ensure the investor fulfils a host of criteria, including ownership of a minimum amount of capital (EG8).

The reality I encountered was very different (see also the experience of Aba Jiffar 2009). The zone land administration offices are quite weak. The only exception encountered to this was Kaffa zone (SNNPR), where the creation of a UNESCO biosphere reserve in the local Afromontane forests has meant a much greater emphasis on mapping and has channelled both money and personnel to the local authorities. Elsewhere the offices have not been able to map investment lands. The result is that "in practice the investors themselves scout out investment land, and then ask the investment office to allocate exactly that land" (EG5). This is confirmed by numerous investors in different areas.

Investment offices generally do ask that investors be able to show that they own a minimum amount of capital. These minima vary by regions, from only ETB10,000 per hectare in Gambella (LCF29) to ETB33,000 per hectare in Kaffa zone (EG8)²⁹. In

²⁷ Unless otherwise indicated, information on the land lease process comes from (EG5).

²⁸ Ethiopia's history makes the land situation quite different to other countries. As shown in Chapter Four, all land became state property in 1975. While there are private and informal markets for land, obtaining land in quantities desired by the coffee capitalists requires leasing (or illegal grabbing, see below). Emerging capitalists therefore do not have to spend time and money investing in formal and informal social networks to secure their access to land, as for instance in Berry (1993). On the other hand land cannot be bought, so land purchases cannot be used as an indication of entrepreneurial spirit, as Hill (1963) does.

²⁹ Interestingly, in both cases the minimum an investor has to show is ETB5m, only that in Gambella this minimum applies to 500ha, while it is considered the minimum investment for 150ha in Kaffa.

addition potential investors also have to show a detailed project proposal and specify the amount of employment that will be created. This is done to try and eliminate land speculators. There are contrasting opinions as to how successful this has been, demonstrating significant regional variation. A capitalist from Jimma claims that: “The Oromia investment bureau is not well run. They do not take land back from people who do not invest. There are many people in the area who have been given 120ha or 140ha but are not serious [about investing]”. On the other hand a capitalist from Kaffa (in SNNP) claimed that this was a problem of the past: “In the old days people came from outside and took investment land, but did not invest. Now this does not happen anymore” (LCF34). Another investor in SNNP told of a friend who had his lease revoked, after failing to meet a six month deadline to start developing the 1,100ha he had been granted.

Regardless of how effective the investment bureaus are at separating speculative and productive applications, the land allocation and leasing process is generally regarded as being marred by corruption, and especially so in Oromia and Gambella. “They [the Oromia investment bureau] do not even respect their own rules” is a fairly common sentiment (LCF1). One respondent who is looking to invest in Gambella described the land leasing process there like this: “The process is fast, but highly corrupted at regional level. Lots of people are taking land illegally, and you can buy the land from them. As the land is empty you just go and fence off 50ha. Some [capitalists] then go to the investment office [for a legal lease], some don’t.” (LCF29).

Making land available for long leases must be regarded as the single biggest support the government provides to the new coffee capitalists³⁰. Land is leased for periods of between 20 and 45 years, depending on the area, giving capitalists the security that they will be able to recoup their sunk costs. More importantly, land is extremely cheap. Lease rates and conditions are set by regional land use regulations and differ by region and locality (EIC 2014). Plantation owners report paying leases

³⁰ The differences between the support given to the coffee and flower sectors are discussed in Chapter Eight.

as low as ETB41 per hectare per year in parts of Bench Maji, and as high as ETB120 per hectare per year in some areas around Jimma. The median lease rates were ETB114 per hectare per year in Oromia and ETB63 per hectare per year in SNNPR. Hence a 100ha farm in Oromia can be leased for just ETB11,400 per year, approximately the value of around 190kg of specialty coffee at the time of research – the annual output of less than one quarter of a hectare. As a percentage of total running costs, land lease costs are negligible. In addition, new farmers are also granted a 50% reduction in lease rates for the first four years to account for the fact that newly-planted coffee trees are not productive during this time. Lease rates are the same for land transferred from existing farms as they are for forest land, which needs expensive clearing and preparation. The extremely low cost of land greatly increases the profitability of the plantations and reduces the risk of establishing them³¹. The low lease rates of course mean forgone income for the state, and thus constitute subsidy to agrarian capitalists.

6.4.2 Land holdings by large farms

The difficulties involved in finding and compiling data on land leases in Ethiopia, as well as the efforts that were undertaken to ensure the data presented here is of the highest possible quality, are detailed in Chapter Three and do not need to be repeated here in detail. It should be noted though that both authorities and investors often simply do not know the exact size of land leases, because these are in many cases estimated rather than measured. When the land is later measured with GPS devices, most investors find their holdings are substantially different to what is stated in the lease agreement. Land sizes in official databases are frequently inaccurate by 50% and more. In the most extreme example encountered, an investor in Kaffa zone had been granted 1,000ha by the zone investment office, but when the land was measured it turned out to be only 161ha.

Table 6.2 presents the best available data on land leases for large-scale coffee farms in Ethiopia. It gives the total amount of land leased for coffee plantations for the main coffee producing zones, as well as the number of plantations in each zone and

³¹ On the other hand, it removes a key element of competitive pressure from the coffee sector, as explained in Chapter Eight.

their mean size. Rather than relying on CSA data, the information presented in Table 6.2 is based on my own compilation of data from investment offices at regional, zonal and, in one case, *woreda* levels.

Table 6.2 - Overview of coffee plantations in Ethiopia's main coffee areas (Source: author's compilation from investment lists at regional, zone and woreda level).

NB: Excludes former state farms and illegal plantations.

Zone	Region	Total coffee land leased (ha)	Number of coffee plantations	Mean plantation size (ha)
Kaffa	SNNPR	14,574	82	178
Bench Maji	SNNPR	12,020	20	601
Jimma	Oromia	10,252	69	149
West Wellega	Oromia	2,656	16	166
Kellem Wellega	Oromia	750	4	187.5
Sheka*	SNNPR	2915	18	161
Illubabor*	Oromia	1875	10	187
South Omo*	SNNPR	783	2	261
Borena*	Oromia	734	0	122
Konta*	SNNPR	280	1	280
Sidama	SNNPR	250	1	250
West Arsi*	Oromia	120	2	60
Amaro*	SNNPR	122	2	61
Gurage*	SNNPR	42.5	1	42.5
Gedeo*	SNNPR	-	-	-
Awassa*	SNNPR	-	-	-
Konta*	SNNPR	-	-	-
West Haraghe*	Oromia	-	-	-
Arsi*	Oromia	-	-	-
Total Oromia		16,387	101	162.2
Total SNNPR		30,965	127	243.8
Grand total		47,102	227	207.5

* indicates that the information is based on regional investment lists alone

As shown in Table 6.2, around 47,100ha had been leased to active private coffee plantations in Oromia and SNNPR at the time of data collection in 2012/13. Excluded from this estimate are the recently privatised state farms, who collectively control another 30,000ha, as are the lands held by Ethio Agri-CEFT, part of Al-Ahmoudi's business interests, who control over 2,200ha in Gemadro, SNNPR. Also excluded are illegal coffee plantations, which are discussed below. My best estimate for the total size of active capitalist coffee plantations in Oromia and SNNPR in 2013

is then around 79,300ha. The capitalists in my sample collectively controlled 22,940ha or about 29% of the total (see Sections 6.2 and 6.3.2). The CSA estimated the total coffee area on 'peasant' holding in Ethiopia at around 561,000ha in 2014, meaning that large-scale private plantations account for around 8% of the total coffee production area (CSA 2015a).

As the table illustrates, large-scale plantations are concentrated in only a few of Ethiopia's coffee producing regions, mainly Kaffa, Bench Maji and Jimma zones, while sizeable portions of land have also been transferred in West Wellega, Sheka and Illubabor. What is notable is the near-complete absence of large plantations in some of Ethiopia's main coffee growing areas. A good example is in Sidama zone, historically Ethiopia's leading coffee producing area and a global coffee trademark, where there only appears to be a single plantation of 250ha³². Similarly, in Gedeo zone, easily the most famous of Ethiopia's coffee regions – though the coffee is better known by the name of its capital Jirga Cheffe – there are no large capitalist coffee plantations at all; a fact that was verified by a visit to the zone, interviews with other accumulators there, and a visit to the zone investment bureau. Both zones have high population densities and there is simply no land available for capitalists to set up large-scale plantations³³. Where there are concentrations of plantations, their size differs greatly. The average plantation size ranges from just 149ha in Jimma zone to a 601ha in Bench Maji.

A close analysis of the different areas reveals very different patterns of land acquisition. In Jimma, long historical trajectories of capital accumulation, mostly but not exclusively in coffee, as well as locally-grounded personal networks help explain current accumulation patterns, which include systematic illegal land grabbing. In Kaffa, the expansion of coffee plantations has been accompanied by conflicts over the use of forest lands. In Bench Maji, the relative absence of capital accumulation historically and the need by the local government to show investment

³² This information is taken from ECGPEA. The Sidama zone office refused to provide any data on investments, citing the need for data protection.

³³ There is however evidence of accumulation occurring 'from below' (MCF). See also Chapter Eight.

success has meant that coffee capitalists were able to establish plantations that are much larger than in other parts of the country. In West Wellega, from the limited information available, farms appear to be of a younger vintage than in the other areas under study, and officials indicate that there is still a lot of land available for investment, marking the area out as a frontier zone for future investment. The area is also quite remote, and a modern road connecting the zone to the rest of Ethiopia's road network was still under construction at the time of fieldwork. Kellem Wellega is even more remote – an asphalt road connecting it to West Wellega had only just been begun in 2012/13 – and land acquisition patterns there have been quite idiosyncratic, in ways that would not have been possible in areas with more developed state control. To illustrate processes of land acquisition by way of an example, the developments in Jimma are discussed in detail below. The illegal land grabbing documented below is by no means the only incidence of this though. Capitalists in many areas have availed themselves of land illegally, some even managing to do so under the Derg, as the civil war caused government control to slide. The collapse of the Derg regime was another opportunity to take land. However, most of the illegal land grabbing happens during the 'normal' operations of the Ethiopian polity.

6.4.3 Jimma - local land grabbing

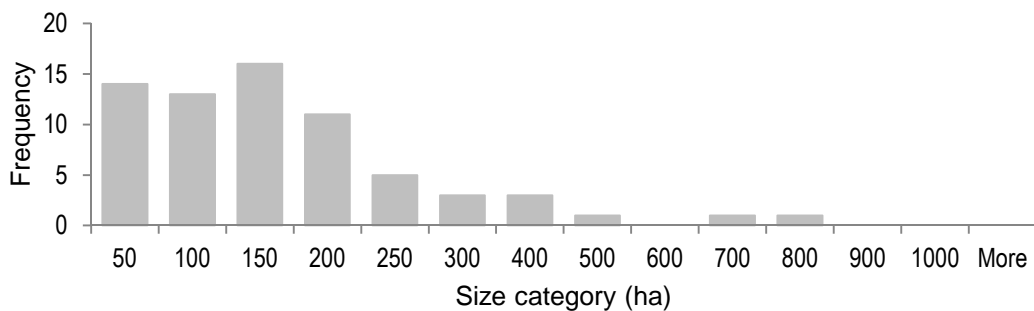
As detailed in the last chapter, Jimma has long been a centre of capitalist coffee production in Ethiopia. The legacy of the plantations of the imperial era lived on in those who experienced them first hand, as well as in the knowledge of large-scale coffee agronomy preserved and developed in the Limu Kossa state farm and the Jimma Agricultural Research Institute (JARI). The plantations in Jimma zone are, on average, Ethiopia's smallest. As shown in Table 6.3 the mean plantation size is 149ha. The largest plantation is given as 728ha, though this information could not be verified, and it is quite possible that the largest plantation is in fact only around 350ha.

Table 6.3 - Descriptive statistics for coffee plantations in Jimma zone (Source: compiled from zone investment office data).

Number of plantations	Mean size (ha)	Total land leased (ha)	Share of plantations ≥ 100 ha	Maximum size (ha)	Minimum size (ha)
69	149	10,252	59%	728	11

The relatively small mean plantation size is the result not just of the relative absence of very large plantations, but also of the high incidence of small plantations. Some 41% of Jimma’s plantations are smaller than 100ha. Figure 6.5 shows the frequency distribution of coffee plantations in Jimma by size categories. Plantations are heavily concentrated in the smaller categories with most farms being smaller than 150ha.

Figure 6.5 - Frequency distribution of plantations by size category - Jimma zone (Source: compiled from zone investment data).



Two distinct practices for acquiring land are at play in the area. Investors may essentially adhere to the official process but take a more proactive role in land selection due to the lack of capacity of authorities at zone and *woreda* level. In this instance investors simply suggest the land they want to the authorities. The other method of acquiring land is simply by taking it completely illegally. In this case land is taken, as one capitalist, describing his own experience, put it “by conquest!” (LCF3). In such an instance, the investor finds and chooses a piece of land he or she desires, and immediately starts clearing part of the land and planting coffee. Once planting has begun the investor waits for at least two months. At this point an application for a land lease is made to the zone investment office. When the zonal investment office seeks the opinion of the *woreda*, authorities there are forced to

certify the land as empty and ready for leasing. The reason being that a decision not to do so would entail a legal battle between investor and *woreda*. However, if the investor is not challenged within two months, he or she is entitled to compensation for the investments already made – a sum that is unaffordable for the cash-poor *woreda* administrations (EG5). Some zonal officials would like to take investors to court over infringements into protected forest lands and similar practices, but the threat of compensation is an effective deterrent even when court cases do go ahead (EG5). The investor in many cases ends up with a legal lease for the land of his or her choice.

This practice is especially notable in Jimma zone, where these local land grabs are exclusively in forest land. Capitalists in this instance choose the land they want, hire workers, move them into the forest, have the land fenced off and begin clearing and planting. The authorities in this instance are not officially informed at all, although zonal officials are certain that corrupt *woreda*-level staff play along by covering up the practice. A former head of the Jimma zone investment office estimates that up to 50% of all land taken by coffee capitalists in the zone was taken completely illegally. This means that the capitalists do not have a rental agreement or legal lease agreement and so of course do not pay lease fees or any other form of direct taxes. “They are only collecting income” (EG5).

A peculiar concentration of these local land grabs has occurred in Limu Kossa *woreda* of Jimma zone. This *woreda*, centred on the small town of Limu Genet, contains the largest number of coffee plantations in the zone. Out of 68 officially registered plantations in Jimma zone, 43 are in Limu Kossa *woreda*. Excluding the state farm, which controls some 5,000ha in the *woreda*, the Limu Kossa capitalists have leased 5,787ha, or 56%, of the 10,263ha which have been officially allocated to coffee plantations in the zone. But these statistics only tell half the story.

The *woreda* is home to a network of young aspiring coffee capitalists, many of whom have taken land illegally. They were inspired to take this action in part by a gate-keeper who is a former government official. In addition to having been a civil servant, he used to work for an NGO, which put him in touch with local

entrepreneurs, many of whom were engaged in local coffee smuggling. He claims that: “most of the current young investors were sent to the forest by me.”(LCF11).

Land in the forests of the *woreda* was taken “with no legal process”, beginning in 2008 (LCF11). Once farms were established, however, many of the investors applied for official lease agreements to secure their control over their investments. According to this individual, there were “about 36 young investors, of whom only 16 are now legalised”. The other 20 are still holding their land completely illegally (LCF11). These assertions are backed up by data from the *woreda*'s administration, which provided me with documentation showing that 16 illegal investors had identified themselves to the *woreda* administration and were now awaiting the legalisation of their holdings. Of these three had been arrested and the other 13 were on process to have their land grabs retrospectively legalised³⁴. All were from the local area. They collectively claimed to control up to 998ha or around 17% of all land dedicated to coffee plantations in the *woreda*. The *woreda* official claimed the local authorities had little choice but to legalise the majority of these, due to the fear of having to pay compensation (EG6). However, the head of the Jimma zone investment office stressed that these land grabs had occurred against the express wishes of zonal authorities and accused the *woreda* administration of collusion and corruption (EG5).

This local land grab is the result of organisation and agency among a group of local capitalists³⁵. Structurally, it was made possible by the presence of large stretches of forest, which are used by the local population, but officially belong to the government. The land grabbers claim to have come to agreements with surrounding small farmers and to have paid compensation to them, which is a common practice even in legal leases (LCF43, LCF18). Claiming to be fearful of not being allocated any land in what descended into a veritable land rush in the area between about

³⁴ It was not possible to establish why these arrests had been made, or how those arrested were selected.

³⁵ While there is voluminous literature on land grabs in Africa (see Oya 2013 for a critical review), land grabbing by locals rarely features in these discussion. An exception are Ali, Deininger, and Harris (2015) who make clear that in Ethiopia most land has gone to domestic investors.

2008 and 2012, these young capitalists openly defied the Ethiopian state. Using their relative wealth they bribed local officials and mobilised substantial workforces to create facts on the ground. And yet, despite all of the coercive power at the disposal of the state, the zonal government chose compromise and negotiation. The legalistic explanations offered by zonal officials are not entirely convincing. It seems more likely that higher officials realised that killing off the most dynamic element in a key strategic sector, moreover a group that was developing with very limited government assistance, makes little sense, and that an arrangement should be found to ensure that developments are legalised, controlled and taxed.

6.5 Production, knowledge and technology

Apart from land, large-scale plantations require a mixture of productive capital and knowledge in order to be able to operate. Coffee farming, while not as technically challenging as modern floriculture, nonetheless requires much agronomic expertise. Tree varieties have to be selected, a planting plan has to be developed, and routines for weeding, mulching and fertilisation must be designed and implemented. Before this the first harvest workers, or at least the supervisors, have to be trained, and the harvested coffee has to be expertly sorted and processed. Moreover, farmers must have access to knowledge of the prices and quality requirements in a variety of possible final markets, including, at minimum, the ECX and ideally various national markets in consuming countries. Direct exports, especially into specialty markets, raise the knowledge-intensity in all aspects of production, marketing and sales, and the best results in terms of prices and contracts are achieved by those enterprises whose expertise can match that of their customers³⁶.

6.5.1 Farm mechanisation and processing equipment

On all plantations in Ethiopia, the production process is *essentially* not mechanised at all, in that the labourers move on foot between the trees and perform their work using only unpowered hand tools, mostly machetes and secateurs. Similarly, harvesting is done entirely by hand. Mechanisation of directly production-related processes, part of the reason for very low production costs in Brazil for instance

³⁶ This is a key aspect of differentiation among coffee capitalists, which is explored further in Section 6.7.

(Thompson 2015; Topik 2003), is neither feasible for Ethiopian shade-grown coffee, where trees hinder access by mechanical harvesters, nor economically sensible given the low cost of labour. Mechanisation is therefore limited to coffee processing and transport³⁷. Transport equipment, mostly trucks, are used to move coffee workers, and organic material used for mulching and fertilisation around the farm.

In addition to mechanisation proper farms also require other capital assets. Buildings have to be constructed to house the farm administration and for storage. As is explained below, many farms also offer accommodation to workers. Many farms also invest in generators to ensure the lighting of core farm buildings. Most farms are not close to roads and have to construct their own access ways. In most cases these consist of dirt tracks just wide enough to permit a truck to pass. These frequently become unpassable during the wet season.

Detailed data on farm mechanisation was collected on all plantations that were covered in the quantitative survey. The figures presented here exclude processing equipment, which is reported separately below. Neither transport nor processing equipment are strictly necessary to operate a farm. Processing equipment can be rented from local *akrabe*, and farms can either hire trucks as necessary or rely on animal power for transportation. Most capitalists prioritise land development, which yields additional income, over equipment purchases. Even very large farms sometimes operate with a surprising lack of equipment. The largest farm encountered that had no transport equipment, save the private vehicle of the capitalist, had a planted area of 240ha. All transport was undertaken using donkeys and horses (LCF32). A further nine farms, ranging in size of planted area from 20ha to 90ha had only one or two small motorbikes as their sole mechanical equipment.

³⁷ In this particular context, mechanisation is therefore not a particularly helpful indicator of how dynamic a producer is. It has been widely used in other contexts though. Oya (2002), for instance, uses a 'means of production index' as one differentiating criterion to identify farmers with 'capitalistic tendencies'. There has also been widespread debate in India on how to identify capitalist farmers, in which measures of mechanisation played a role, see the debates in Patnaik (1990) and the summary by Thorner (1982a).

Figure 6.6 - Farm mechanisation and planted area (Source: own survey).
NB: Processing equipment is excluded.

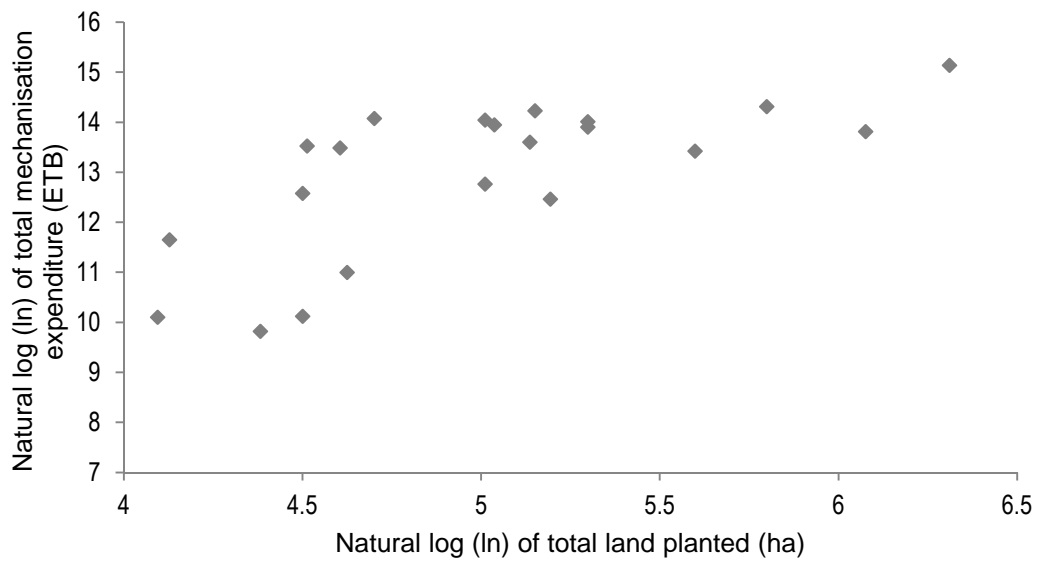


Figure 6.6 plots total value of farm machines against the size of planted land. There is seemingly a positive relationship between the area planted and farm mechanisation, and a clear decline in the variance of findings as the planted area increases. This is because coffee plantations are developed sequentially. Initially, a portion of the total area of the leased land is cleared, planted and maintained – all of which requires labour which must be paid for. The area developed depends on how much money the capitalist can mobilise. As additional capital becomes available, either through coffee sales or from other sources, more land is developed. Greater expanses of planted land necessitate greater mechanisation, as transporting coffee and workers without vehicles becomes more and more of a drag on productivity. At the same time, a greater planted area gradually means greater sales, raising the probability that capital can be invested in transport equipment. The observed differences in capitalisation *for a given farm size* are driven by the heterogeneity of the capitalists. They begin to develop their plantations from very different starting points in terms of the amount of initial capital they are willing or able to invest. But even the richest capitalists develop their farms sequentially, albeit in much bigger steps, contributing to the funnel pattern observed in Figure 6.6.

At the same time, the substantial heterogeneity in mechanisation expenditure per hectare demonstrates that Ethiopian coffee plantations are capable of surviving with

varying levels of equipment. Plantations of very different sizes, ranging from just 20ha to over 430ha, operate with the same – relatively low – levels of mechanisation expenditure per hectare. This is an indication of the limited competition amongst Ethiopian plantations. Plantation capitalists, unlike exporters, do not see themselves as competing with one another, so much as competing with producers in other countries (LCF1, CELF6). As production costs on plantations are kept comparatively low due to cheap land and labour, there is – as yet – perhaps little pressure for less productive capitalists to match the most competitive producers in the country³⁸.

The other major area of capital investment for farms is processing equipment. This can take the form of either a hulling machine, for the production of naturals, or a washing station for wet processed coffee (see Annex V.1 for details on the different processing types). As mentioned above, while all farms must process their coffee in order to be able to sell it, it is not necessary for farms to possess their own processing equipment. Dry processed coffee can be dried on the farm and can then be hulled, against a fee, by an *akrabe*. This is, however, not possible for wet processed coffee. Any farm wanting to sell washed coffee must invest in its own equipment. At the time of research, a machine for wet processing coffee cost at least US\$37,500. Moreover, additional investments are necessary for constructing all of the necessary tanks, waterways and storage facilities. Wet processing coffee is also more technically demanding than dry processing and requires expert knowledge.

Of the farms surveyed 22, or around 60%, did not own any processing equipment, while 14, i.e. almost 40%, did. Out of the 14 farms that had invested in processing equipment, 12 had bought wet mills. As explained above, owning dry processing equipment is not essential for producing dry processed coffee, while a farm must purchase a wet mill to make washed coffees. Most capitalists who choose to invest in processing equipment therefore invest in a wet mill. Five of the capitalists who owned wet mills also possessed dry mills and were thus capable of producing and

³⁸ For Brenner (1977) a central plank of the market discipline experienced by early English capitalist farmers was the need to pay rent in a competitive market for land. This pressure does not really exist in Ethiopia where land is very cheap and the land 'market' extremely restricted. See also Chapter Eight.

fully processing both naturals and washed coffees on their own premises. In all cases this represents a pathway of accumulation from cheaper dry processing equipment to the larger capital outlays necessary for a wet mill. In most coffee markets, wet processed coffee sells at a premium and so ownership of a washing station is something many – but not all – farm owners tend to aspire to (I return to this point below). As processing equipment represents a substantial investment, and most capitalists have to accumulate sufficient funds through sales, it was generally farms with more developed land that were capable of investing in processing equipment. Farms that have made the investment have on average developed 220ha, while farms without processing equipment have developed only 109ha. Farms that have both forms of processing equipment, representing the largest capital outlays, on average had developed 386ha.

6.5.2 Production and agronomy

Looking at levels of agronomic sophistication, the sample initially appears to display little variance. While there are huge differences in agronomic practice between the large farms sampled here and smallholder coffee farms, the differences are much less pronounced amongst the large farms (NGO). Almost all the sampled plantation capitalists had, in one way or another, acquired the necessary knowledge to ensure good quality coffee production. Close to two thirds have hired experienced full-time farm managers, and most of those who have not, did hire specialists as part-time consultants, at least during the set-up phase. The gold-standard in terms of scientific management is set by the former state farms, and by the Limu Kossa farm complex in particular³⁹.

As Table 6.4 shows, the sample as a whole is very close to agronomic best practices, as recommended for coffee cultivation. On all farms, coffee is planted under managed shade trees and tree densities per hectare are in line with recommendation for intensive coffee farming with high yields. The farms are in many cases so young that they have not yet exhausted the virgin forest soil on which they were established, obviating for now the need for fertiliser. The farmers are thus enjoying

³⁹ Though some of the new mega-plantations such as Tepi or Gameda apparently have similar yields

a pure ‘forest rent’ (Austin 2005)⁴⁰. It is to be expected that declining soil fertility in coming years will force more of the newly established farms to choose between certified organic production and the application of fertiliser.

Table 6.4 - Agronomic best practice and actual practice in the sample (Source: expert interviews and own data).

Activity	Agronomic advice	Practice in the sample
Improved varieties	Yes	Yes, all
Trees per hectare	3,200	At least 3,000
Shade management	Yes, location specific	Mostly yes
Soil analysis & inorganic fertiliser application	Yes	Former state farms only
Weeding	6x per year	Average 4.2x per year, range from 2x to 6x
Pruning	After each harvest	After each harvest
Stumping	After 25 years	Farms are too young
Selective hand picking of red, ripe cherries	Yes	Yes, all
Drying on raised beds	Yes	Mostly yes ⁴¹
Dry, sun protected warehousing	Yes	Yes, all

The biggest differences amongst the new capitalist farms are related to the intensity of the maintenance regime practiced between harvests. After the harvest, trees have

⁴⁰ Part of which is also the very low lease prices paid. See section 6.4.1. For Austin a broad forest rent is the benefit derived from the use of non-renewable forest resources, which came from Asante’s rich ecological endowment and accrued (albeit highly unevenly) to society at large. Soil fertility is a prime example.

⁴¹ There are some outliers though. One farm in particular produces award-winning naturals by drying the cherries on plastic sheeting on the ground, generally considered a taboo amongst coffee buyers, but practiced very successfully in this instance.

to be pruned to concentrate the coming fruit on just a few branches, mulching should be applied to tree bases to prevent run-off, and several rounds of weeding have to be undertaken to minimise the competition for valuable nutrients by other plants. Weeding improves coffee yields, but is labour intensive and hence comparatively expensive. Agronomists recommend at least six cycles of weeding per year, depending on location and precipitation. In general, farms which have completed their planting, and therefore are freed from having to reinvest profits to the same degrees as farms that are still planting their holdings, do tend to undertake weeding more often. On average the plantations in the sample are weeded around 4.2 times per year. All but two farms rely entirely on manual labour for weeding. There are big differences between farms though, with some farms only weeding twice a year while one farm weeded eight times per year, and around 15% weeded six times per year. The difference is directly related to command over capital, as all farmers who weed less than five times per year expressed dissatisfaction with the situation.

6.5.3 State support

The agronomic advantage enjoyed by plantations is largely the result of state resources, even though the state may often not be aware of this vital connection, let alone have planned for it. The state has played both a direct and an indirect role in facilitating good agronomic practice. Directly, it has done so by providing improved varieties via the Jimma Agricultural Research Institute and through seed sales from the former state farms, which are also supplied by JARI. The institute has released 36 different varieties, of which 11 were released as late as 2011. New varieties have superior yields and are resistant to the feared coffee berry disease (CBD). Each variety is adapted only to certain highly localised climates, and the process of finding, selecting and breeding varieties has taken years (EG4).

Despite its successes, the centre is woefully underfunded and struggles to maintain its equipment or recruit enough specialised staff. The institute can only provide around 17% to 20% of the seeds requested from it in any given year. By now some of the larger plantations have developed enough nursery capacity to also sell to

other capitalists, but the overall supply is still wanting, meaning that the use of improved varieties is limited almost exclusively to the former state farms, the new capitalist plantations and a few selected 'model' smallholder farmers. JARI collaborates closely with the new capitalists. Capitalists are able to buy directly from the institute and are informed whenever new varieties are ready for release (EG4). A few selected capitalists are even used as testers for as yet unreleased varieties (LCF5, LCF16). Plantation owners are invited to an annual field day at JARI, where appropriate agronomic practices are demonstrated. As a result "only the state farms and the private investors copy the centre's practice" (EG4).

But the new coffee capitalists also draw on state resources in rather more clandestine ways, in particular to avail themselves of agronomic expertise. Given the lack of agricultural extension services, capitalists hire government agronomic experts from both JARI and (former) state farms to moonlight on their plantations. Another popular practise is to hire retired senior JARI or – more commonly – state farm employees as farm managers. These people in many cases have decades of experience in coffee agronomy and know how to run a plantation. Indirectly and unwittingly, the state has thus supplied many of the capitalist plantations with experienced and well-trained agronomists. Yet this is a poor compensation for the absence of any serious training programmes to parallel those created to support the floriculture sector (see Chapter Seven).

6.5.4 Yields

Despite strenuous efforts to cross-check and triangulate information, the yield data for many farms quite simply make no sense, in that reported yields are implausibly low. Some farms reported yields far below the output levels of a badly managed smallholder plot (around 400kg/ha)⁴². This information is belied by data taken from more reliable respondents who reported yields of at least 800kg/ha⁴³. The latter figures are corroborated by coffee experts and traders who confirmed that yields of this magnitude and above are the norm in the Ethiopian plantation sector.

⁴² All yields are expressed in kilogrammes of green coffee per hectare.

⁴³ Reliability is judged by looking at the consistency of data from cross-checking questions.

The motivation for underreporting yields is most likely related to the illicit trade in coffee, which appears to be rife in the sector (Dercon and Ayalew 1995). As explained in Chapter Five, Ethiopian law requires that all export-grade coffee must be exported. But domestic prices as high as, or above, international prices provide an incentive to smuggle the coffee into the domestic sector. Many capitalists were remarkably open about the fact that they engage in illicit coffee sales, but were loath to discuss volumes or other specifics. The very low yields and sales volumes reported by some of the capitalists are therefore best understood as an indication of just how wide-spread illicit trading in coffee is, even though it is not possible to quantify the phenomenon.

Taking the yield data reported by those capitalists who have had harvests at face value gives an average yield of just 344kg/ha. This is patently absurd. The CSA estimates yields on smallholder farms at around 700kg/ha (CSA 2015b). This is almost certainly a very optimistic measure, but it shows clearly by just how much many of the capitalists underreport their harvests and sales. The head of Ethiopia's coffee research estimates yields in the smallholder sector at around 400kg/ha to 600kg/ha, while a well-run plantation should be able to produce at least 800kg to 1,200kg per ha (EG4). For comparison, JARI is able to attain shade-grown yields of 1,500kg/ha to 2,000kg/ha, rising to 2,400 to 2,600kg/ha for the highest yielding varieties. Looking only at yields from respondents deemed to be giving more reliable figures gives an average yield of around 1,100kg/ha. However, one particularly well-run farm manages yields of up to 2,100kg/ha (LCF5).

Ethiopian coffee plantations thus achieve far higher yields than small-scale coffee farmers. This is primarily due to their superior agronomic knowledge and their ability to hire large amounts of human labour to put this knowledge into practice. The productivity effects of regular weeding and correct pruning and mulching practices (Dubale 1997), together with higher yielding varieties and tighter tree spacing combine to produce high yields. Regular weeding is very labour intense, but for cash rich capitalists this is a worthwhile investment. As one said with palpable pride: "Between our trees you can walk with slippers" (LCF37). Closer tree

spacing again raises the necessary labour input, as a much more intense pruning regime is required to stop trees from forming interlocking branches, which would lower productivity. Moreover, trees on smaller farms are often old. Coffee trees can live for decades but are fully productive for a maximum of about 20 years. After this time, they should be 'stumped', that is cut back to a short base, allowing them to grow new branches. The problem is that while stumping increases yields once trees are re-grown, farmers will have no income from stumped trees for about two years – a loss that very poor farmers often cannot afford (EG3). The plantation system is thus very different to a smallholder farm in terms of the way in which production is organised, even though both rely almost exclusively on manual labour.

6.5.5 Sales

The goal of all capitalists engaged in the coffee sector is, of course, to sell coffee, and sales are the most important drivers of further accumulation of capital, as sales proceeds are used to develop more land and buy equipment. There are major differences between farms, depending on whether they have begun sales and the sales channel they use. Of the farms surveyed, 28 had already brought in harvests and made sales, while seven had not. Farms that had already made sales were much larger, with mean land holdings of 246ha for those with sales against 148ha for those without. Farms with sales on average had developed over 70% of their land (175ha), while those without sales had developed only around 36% of their total holdings (53ha).

For a coffee capitalist, the ECX system is easy to use. All coffee is simply delivered to the ECX and the capitalists then wait until it is sold. Sales are generally made by hired agents who work on a commission basis, though some farmers have formed groups to purchase ECX seats. There are no minimum quality requirements at the ECX and even under-grade (i.e. the lowest quality) coffee may be sold there⁴⁴.

⁴⁴ The existence of this market segment and its lack of quality requirements is an important difference to the market for cut flowers, see Chapter Eight.

The direct export market functions very differently. As discussed in the last chapter, the market for direct exports is primarily used to sell to buyers in the specialty market, and is therefore a useful proxy for the production of high quality coffee⁴⁵. Not only must the capitalist be able to achieve a level of quality that is attractive to foreign buyers looking for specialty coffee, but capitalists must also find their own buyers. Enterprising farm owners must therefore enter into international competitions for fine quality coffee, send samples to buyers and invite buyers to come to the farm. This requires a very different level of knowledge about international coffee markets and much more sophisticated marketing⁴⁶. It is here that we see clear lines of differentiation among capitalists, with more dynamic producers using the more demanding direct export channel. The increased need for expertise is made worthwhile by the substantial premium paid in the specialty market. For instance, specialty coffee from Jimma normally trades at a premium of at least \$1/lb compared to Jimma washed grade 5 coffee, the most commonly exported coffee from the area (CELF3).

Of the 28 farms that had made sales, 21 farms (75%) had only sold to the ECX system, while seven farms (25%) had made sales directly to foreign buyers. Of these, one was a pure exporter that made no domestic sales⁴⁷. Farms that had exported coffee directly are a lot larger than farms that had not. On average, direct exporters have developed 343ha, while farms using only the ECX system have planted 131ha (out of average holding of 476ha and 185ha, respectively). However, a majority of those selling only into the ECX system reported wanting to apply for a direct export licence in the future. I will return to the relationship between direct exports and accumulation in Section 6.7. But first it is time to look at the last major factor of production used by the coffee capitalists – wage labour.

⁴⁵ By contrast, ECX grades are a poor predictor of coffee quality, and thus of the prices buyers are willing to pay. Specialty buyers tend to ignore the ECX grading system and make their own assessments of coffee (CB1).

⁴⁶ Including the ability to use the internet and to speak English.

⁴⁷ Generally exporters sell any coffee that finds no buyers in the direct export market to the ECX.

6.6 Labour mobilisation and labour control

Wages are the largest single cost item for coffee capitalists. Given very low land lease costs and a production process that relies mostly on manual labour and hand tools, this is not surprising. On average, capitalists estimate that wages account for almost 70% of their annual costs. This can reach over 90% for capitalists who are in the process of land clearing and who own little capital equipment, and the lowest estimate encountered was still 30%. Wage costs also give capitalists an important element of flexibility. As we shall see, most of the employment by coffee plantations is temporary, making wage costs highly variable. With wages forming the most important element in overall costs, this means that plantations have highly adaptive variable costs and can react quickly to changes in the market. The coffee market, as discussed in the last chapter, is very volatile and subject to price collapses. All capitalists stated that they react to adverse business conditions by trying to control costs, and scaling back labour inputs was the most important way they could do this.

6.6.1 *The use of wage labour*

The most consistent result across all interviews was the use of wage labour. All of the interviewed capitalists rely exclusively on wage labour, and, in this sense, are modern capitalists⁴⁸. However, as discussed in Chapter Two, the presence of wage labour in and of itself is a poor indicator of capitalist relations of production, and as I will show in Section 6.7 not all of the plantation owners display 'capitalistic tendencies' to the same extent (see Oya 2002). All farmers are unambiguously capitalist though in that they use wage labour for intensive and large-scale planting regimes, which are expanded through reinvested profits, with the clear aim of

⁴⁸ I found no instances of the use of family, network or kinship labour mobilisation systems, such as those reported by Berry (1993) or Cheater (1984). Of course, these studies were conducted a generation ago, and Cheater already reported back then that large capitalists using a 'modern idiom of accumulation' (i.e. one that does not rely on polygamy) were the only farmers in her sample to rely exclusively on wage labour (1984: 76). Similarly, Hill (1963: 189) reports that only the most progressive farmers are able to hire full time wage labourers. Also the farms examined by Berry and Cheater were much smaller (in terms of land planted) than the plantations under consideration here. It is hard to imagine how anyone in contemporary Ethiopia could mobilise hundreds of workers for a three month harvest season through social prestige or family connections. However, the situation may be very different at smaller production scales.

making larger profits in the future (see also the debates in Thorner 1982a; Thorner 1982b; and Patnaik 1990). Wage labour is almost always paid in cash, although non-cash benefits such as subsidised food or housing are common.

The labour input required by a coffee plantation differs seasonally and in terms of the functions required of different workers⁴⁹. The majority of jobs are thus temporary⁵⁰. Table 6.5 summarises the fluctuation in labour demand. Land clearing in preparation for planting and the main harvest periods are very labour intense, and farms will typically employ large numbers of temporary workers during these times. An average size plantation of around 142ha (the sample mean), requires around 300 workers in total during harvest time, which is the peak of labour demand. As explained in Section 6.5.2 timely harvesting is crucial to maintaining coffee quality. Plantations require much fewer staff during the rest of the year. However, all farms also operate with a backbone of permanent workers, who work on the farm the year round.

Table 6.5 - Seasonality of labour inputs (Source: compiled from interview responses)

Period	Activity	Labour demand
June - July	Land clearing, planting, pruning	High for clearing land, modest for pruning
October/November - December/Jan	Main harvest and processing period	Very high
January/February	Post-harvest pick-up	Low
Several times a year	Weeding	Moderate

⁴⁹ It also differs with farms age, or more precisely, with the extent of land development. A capitalist who is still clearing land and planting requires many more workers outside of the harvest season.

⁵⁰ Which means the labour force is largely casualised. See Rutten (2003) for similar results in South Asia, where rural capitalists rely heavily on sub-contracting and agency labour to maintain a flexible labour force.

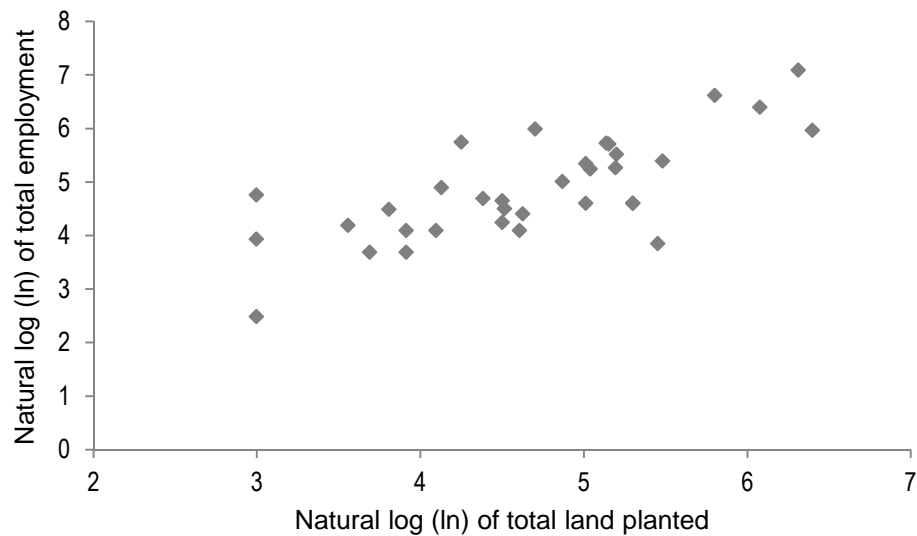
6.6.2 *Employment creation*

Ethiopia's coffee capitalists have created significant numbers of new jobs in a very short period of time. As Section 6.5.1 demonstrated, the production process is not mechanised and most steps are performed by workers with simple hand tools. The number of workers employed on a farm is therefore primarily a function of the amount of land that has been planted. The quantitative sample as a whole employed 7,010 workers, of whom 5,709, or 81%, were temporary. The plantations are very labour intensive. The whole sample has a mean peak employment density of 1.5 workers per ha. The mean for temporary workers is 1.3 workers per ha, while the mean for permanent workers is 0.2 workers per ha.

Figure 6.7 plots the maximum number of employees at the height of the harvest on each farm in the quantitative survey against the amount of land that has been planted on each farm. There is a clear positive relationship between employment and land in production, albeit one that is characterised by substantial variation in employment levels at all farm sizes. Farms with 200ha and more land planted can function with levels of employment that the mean farm in the sample reaches at about 90ha. On the one hand, there are farms which employ numbers of workers more commonly associated with farms twice their size. In part, these are deliberate business strategies. Farms which either have less working capital available or aim for lower coffee qualities employ only skeleton crews of permanent workers outside of the harvest season, along with a few guards and administrators. On the other hand, farms with more intense quality management regimes require more workers across the year to maintain a tight schedule of weeding and other maintenance work. Similar results have also been found in Colombian coffee labour markets (Ortiz 1999). All farms of course hire large numbers of temporary workers for the harvest, but the proportions can be quite different. At the same time, it is clear from interviews that a majority of plantation owners feel they cannot attract sufficient amounts of workers⁵¹.

⁵¹ Similar findings have been reported for a long time. For instance, Berry (1993: 135) shows how labour supply is a binding constraint on expansion. In the case of the Ethiopian

Figure 6.7 - Employment and land planted (Source: own survey)



6.6.3 Labour mobilisation, migration and labour control

From the point of view of the capitalists the mobilisation of a sufficiently large labour force and the subsequent control of that labour force are the most difficult challenges they face. Many have thus developed integrated solutions to this problem. Plantations do not exist in isolation and have to compete for workers. Large plantations compete with one another, with 'smallholders', who may farm 10ha or more and hire wage workers, and with alternative employment options, such as coffee processing stations. In many coffee-growing areas local inhabitants are themselves small coffee farmers, who are busy working on their own farms during the harvest period. Over 60% of plantations surveyed therefore employ migrant workers and in many cases undertake substantial efforts to hire them.

As discussed in Chapter Five, such migration patterns are not at all new. Contemporary migrant workers arrive in the coffee growing areas of Ethiopia around the beginning of the harvest season, looking for work. The most sought after work is coffee picking as this is the best remunerated. Migrants are attracted by the possibility of making, by the standards of rural Ethiopia, quite a lot of money in a relatively short period of time. As interviews with migrant workers showed, the wages available in coffee picking can be higher than those paid by poor Tigrayan

capitalists there do seem to be supply constraints *at the prevailing wage levels*. It is far from clear that farmers could not attract more workers with higher wages, see also Section 6.6.4.

or Amhara smallholders by several orders of magnitude. Many of the workers migrate for coffee work regularly, and capitalists often prefer to hire migrants, as they are considered more hardworking than 'locals' (LCF26).

Plantations employ a variety of methods to attract and retain migrants. These range from well organised operations to source migrant workers, going so far as to organise their recruitment in, and transport from, their home areas, to simply waiting for migrants to arrive at the farm gate. While there is a tendency for larger farms to use more sophisticated patterns of labour sourcing, this is not uniform and micro-regional labour dynamics related to the ease of reaching the farm play a large role, as these determine how constrained the supply of migrants is. The larger and more remote a plantation is, the more intense generally are the efforts to attract migrants.

Many plantations pay labour agents, so called *delala*, to bring them migrant workers. The term *delala* is interchangeably applied to very different institutional arrangements. At its simplest, the use of agents can refer to sending some "kids" to the local town to gather up "loitering" migrants and bring them to the farm. Plantation owners who own transport vehicles will instead send their trucks into town to advertise work and pick up migrant workers looking for jobs, who have been gathered by a local *delala* (LCF42). Larger *delala* run registered companies and travel to find migrant workers and bring them to the plantations (LCF16).

Some plantations draw on their own migrant workforce to supply them with more workers by offering incentives to existing migrant workers to bring additional labourers from their home areas. The sophistication of these arrangements differs greatly. On one farm of over 100ha in the Limu Genet area for instance, migrant workers are encouraged to bring additional workers from their home areas when they return for the next harvest season. Any returning worker who brings additional migrant labourers receives free food and has his transport costs paid for (LCF43). This model appears to be open to any returning migrant, and the incentives on offer are quite meagre.

Another, substantially larger, farm in the Limu Kossa *woreda* offers much more significant benefits and has incorporated the recruitment of migrant workers directly into its labour control strategy. The farm uses very carefully selected migrant workers to recruit more migrants. These workers are sent out to their own home areas to recruit and bring back large groups of workers to the farm. The plantation covers all transport costs. When the recruiters return with labour migrants, who might number 150 to 200 each, the recruiters become the supervisors of these migrants for the duration of their stay. They are paid as supervisors and receive an additional bonus of ETB4,000 to ETB5,000 at the end of the harvest season. These arrangements appear to be mutually beneficial to both the plantation owners and the recruiters and are maintained over several years. Under this system labour mobilisation and labour control are seamlessly integrated. The higher salary and performance-related bonus paid to the recruiters ensure their incentives are aligned with those of the farm management, and the supervisors' power over the workers under their control is strengthened – as the recruiters controls their access to future work (LCF5).

Plantations also use a variety of other mechanisms to control workers, aiming to both keep them on the farm and to control their level of effort. The first priority of plantations is to retain workers throughout the entire harvest period, but hard working conditions even on the best-run farms make this a difficult task. Temporary workers are thus paid monthly, and in some cases only at the end of the harvest season. Providing accommodation is a popular way of keeping workers on the farms, and plantations in remote areas have few other options (LCF44). Two thirds of farms offer accommodation to permanent workers and over 40% offer accommodation to both permanent and temporary workers. Almost 90% of farms that employ migrants house them on the farm. Many also operate a company shop. Nearly two thirds of farms offer subsidised food to permanent workers, and around half subsidise the food of migrant workers. Generally, subsidised food means that workers are issued with staples, typically lentils and maize flour, for which only part of the cost (usually 50%) is deducted from the workers' wages. On most farms

workers cook their own food. To prevent workers from visiting local towns, some farms even sell alcohol, cigarettes and *chat*.

Plantations attempt to ensure hard work and quality through a combination of incentive-based payment systems, strict quality control and close supervision. Payment modalities on plantations differ for temporary and permanent employees. For temporary employees, all farms employ incentive-based payment systems, where pay is directly related to the amount of work performed, using a combination of piece-rates and task-rates (Annex VI details the different tasks undertaken on a plantation and how they are remunerated). Both rate systems incentivise labourers to work quickly, as this is the only way to make more money, and quality of output is often a condition of payment. During the harvest, for instance, coffee pickers commonly return to a central weighing station up to twice a day to have their coffee weighed. The quality of the coffee is easy to check. Some farms will only pay for red ripe cherries; others even deduct a day's wages from any worker who delivers unripe cherries (LCF43).

Permanent workers are generally paid a monthly salary. Elevation to permanent status entails an assured income the year round, and often access to additional benefits such as on-farm housing or better housing. Managerial and administrative workers as well as any drivers and the security guards tend to be permanent employees. There are substantial salary differences between permanent employees. A security guard may earn around ETB600 a month, while an experienced agronomist will make thousands of birr. Many farms also have a core crew of permanent field workers. However, for vital and time-sensitive operations, such as harvesting, even permanent workers are paid piece-rates in addition to their salary.

All field-based workers are overseen directly in their work by supervisors, known as *kapo*. Even the smaller plantations consist of dozens of hectares of sprawling coffee forest, making the supervision of workers difficult. To overcome this problem workers are separated into work gangs, each of which is assigned a *kapo*. As the incentive-based payment systems reward speed, the control exercised by the *kapo* is

vital to ensuring the quality of output. Typically, a single *kapo* will control between 20 or 30 workers, depending on the farm (LCF43, LCF16).

The sophistication of the control hierarchy depends on the size of the farm and the management skills of farm owners. Large, well-organised farms may be divided into functional 'divisions', each with its own area of activity, such as pruning, weeding or planting (LCF43). Each of these divisions may consist of one or more labour groups, each under its own *kapo*. Farms with several hundred hectare of planted area may even be divided into different geographical areas, each with its own farm manager, who in turn oversees several *kapo*. A farm of over 300ha in Jimma zone for instance is sub-divided into three roughly equally-sided areas, each of which has its own farm manager, and each of these managers oversees the work of a dozen or so *kapo* during peak harvest season.

6.6.4 Wages and working conditions

The levels of wages paid on Ethiopian coffee plantations are subject to substantial variation between farms. Capitalists set wages relatively unencumbered by workers' power, but must ensure they attract enough labourers at times of critical demand. Labour mobilisation is cited as a major problem by most plantation owners and farm managers, and many farms suffer from perennial labour shortages (CL, LCF16). The main determinant of wages seems to be the relative tightness of labour markets in different locations. Differences in wage rates are mostly between areas, while wage rates tend to be similar on neighbouring farms. Generally, where labour supply is limited relative to demand, farms have to offer higher wages. For instance, wages are low in areas with relatively little alternative employment available, such as those in parts of Illubabor and Kelem Wellaga (e.g. LCF25), whereas they tend to be high in Jimma, where plantations are concentrated. However, conditions can differ greatly even within one *woreda*. While most of the capitalists from Limu Kossa *woreda* complain about labour shortages, two capitalists state that not only do they find it easy to recruit enough harvest workers, but, even more surprisingly, that all of their workers come from the local area (LCF23, LCF18).

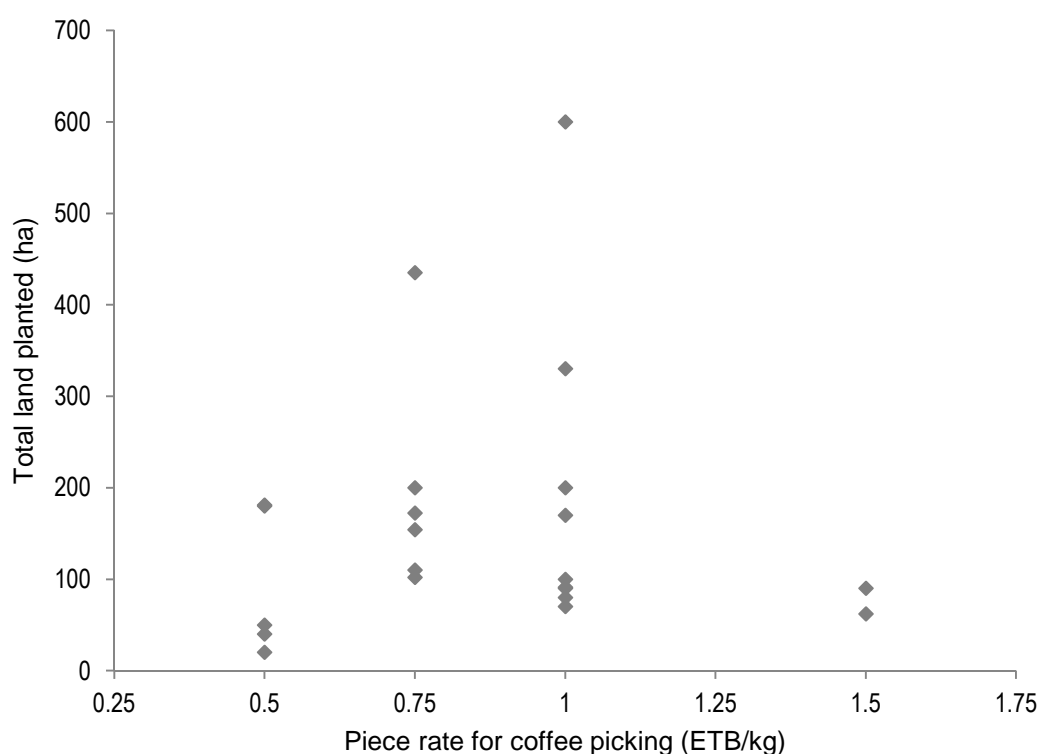
The coffee lands of Ethiopia are in effect a series of neighbouring, but geographically segmented, labour markets⁵². This segmentation occurs because workers have little access to transport. Within a given local area workers communicate amongst themselves with mobile phones to compare wage and non-wage working conditions. Proximity means they can and do 'vote with their feet', and this is a factor in equalising wages across farms. But this mobility does not raise wages as farm owners try to avoid competing with one another on wage levels, and better wages are generally not on offer. Large farms do, however, differ in terms of the non-wage benefits they provide to their workers, perhaps as these are less directly costly to capitalists.

Theoretically, workers have marketplace power due to tight labour markets, and enjoy substantial structural power, that is the power to disrupt the production process at times critical to the capitalist's profit making, during harvest times (on marketplace and structural power see Silver 2003; for empirical examples see Selwyn 2012 and Wells 1996). But the work force is segmented into permanent and temporary employees. Migrants travel far to earn as much money as possible and are motivated to work rather than struggle. Capitalists also consciously hire migrants from different parts of the country, and consequently workers often belong to different ethnic groups, follow different religions, and speak different languages. These differences make it more difficult for workers to organise and act collectively. As mentioned above, individual exit and mobility are the only options open to most workers. Outside of the former state farms there are no official unions and on most farms there are no other collective workers' bodies either. No capitalist mentioned labour unrest as a challenge to their business and none engaged in collective bargaining with their workers⁵³.

⁵² Geographically segmented labour markets are common in many poor countries. Oya (2015) speaks of 'village' labour markets in Mauretania and to lesser extent in Senegal.

⁵³ An exception to this are the former state farms where there have been wildcat strikes by unionised workers, who then had to contend with the hostility of both union leadership and management, as well as threats of violence from security forces.

Figure 6.8 - Wage rates and farm size (Source: own survey)



Other explanations for wage differences are not convincing. Wages on neighbouring plantations are similar even if these produce quite different qualities of coffee. They do not vary systematically with the volume or value of the output produced (as reflected in yields and sales prices) and are thus not reflective of the 'marginal productivity' of workers – a result also found in Colombia (Ortiz 1999). Nor are they related to the size of the farm. Figure 6.8 shows the daily piece rates (in ETB) paid for one kilogram of coffee cherries at the beginning of the harvest⁵⁴. Larger farms do not pay the lowest wages, but beyond this there is no clear relationship. The highest wages are actually paid by farms with less than 100ha of land planted and there is substantial variation in farm size in each of the wage categories.

⁵⁴ This is of course a relatively crude measure, which does not reflect differences in the provision of non-wage benefits. See (Cramer et al. 2014) for detailed wage calculations including all non-wage benefits.

Working conditions on coffee plantations are harsh and dangerous, with long working days and limited rest time. Workers are generally not provided with work clothes and on the farms visited many are dressed in ragged clothing. Plantations in Ethiopia are akin to forests and workers face dangers from snakes and insects. Workers also lack basic safety equipment or work shoes and injuries are common, especially during land clearing and weeding which are done using machetes. Despite the dangerous working environment, only 28% of farms offer health care support to their permanent workforce, a figure which drops to 14% for temporary workers. Child labour seems to be common in the sector, but has not been studied for the new capitalists. A 2005 report for the ILO found child labour on all of the three state farms examined (Kifle, Belay, and Beyene 2005). I encountered child labourers on one of the farms I visited, but was not able to investigate the phenomenon on any other farm.

While, as mentioned above, wages are the main costs on coffee farms in Ethiopia, successful farms generate substantial profits from sales to overseas markets, suggesting that overall labour costs are low compared to revenues. Interviews with farmers have also shown that wages have been roughly stagnant in recent years, meaning that rises in coffee prices have not been passed on to workers (see also Cramer et al. 2014 for longitudinal evidence on Ethiopian coffee wages between 2010 and 2012). This is especially problematic as the vast majority of Ethiopian coffee plantation workers are poor; much poorer in fact than most people in rural Ethiopia. A survey in the Jimma area found that wage workers employed on coffee farms are much more likely to be poor than those who do not work for wages (Cramer et al. 2014). And (Rizzo 2011) shows that in SNNPR it is the poorest 5% to 15% of the population, who "often migrate to coffee producing areas for coffee picking" (2011: 6).

Coffee workers have not benefited from the expansion of capitalist coffee plantations to the degree they could have. It would be politically naïve in the extreme to expect capitalists to unilaterally raise wages – even though they could afford to – without pressure from the outside. Legislation to protect workers is in

place in Ethiopia, but has not lifted conditions beyond what has been reported. Organisation and unionisation could help workers bargain for better wages, but few efforts seem to be underway. It also seems unlikely that truly independent labour unions would be allowed to operate in Ethiopia at all. Without such a unionisation drive it is unlikely that conditions can be significantly and permanently improved⁵⁵. A push by workers for higher wages and better working conditions would be aided if the coffee produced were more valuable, as this would allow wages to rise with a less-than-proportionate increase in unit labour costs, and if there were pressure from buyers to adhere to minimum standards in production. Both of these conditions could be most easily met in the market for specialty coffee, where prices are high and buyers *may* display a level of interest in the conditions that surpasses certification. As I will show now, it is precisely in this market that we encounter the most dynamic and successful groups of coffee capitalists.

6.7 Dynamic accumulators

Many analyses of agrarian change are concerned with identifying capitalist accumulators in an environment where most producers are not able to accumulate. The accumulation of productive assets, market orientation and the sophistication of agronomic techniques employed is often used to distinguish between different types of farms. For instance, such approaches have featured in discussions on agrarian change in India (see, among many others, Patnaik 1990). In the Ethiopian coffee sector such an approach is of little use, as the capitalist nature of production on Ethiopia's coffee plantations is not in dispute. Moreover, while levels of farm capitalisation do differ, capital equipment is in most cases only indirectly related to production. A more relevant method is used by (Oya 2002; Oya 2007) who employs a means of production index, in conjunction with other quantitative and qualitative measures, to differentiate between farmers with more pronounced *capitalist tendencies* and those with less such tendencies. In a similar vein, we could try to use measures of capital accumulation, cross-referenced with information from

⁵⁵ Other options, such as certification seem to have limited effect on working conditions. See (Cramer et al. 2014) for a detailed impact assessment of certification in the Ethiopian coffee sector.

qualitative interviews to try to see whether accumulators differ in the amount of dynamism they display.

Looking at Ethiopian coffee plantations this is not a straightforward task though. The strength of Ethiopia as a coffee origin lies in its status as a producer of shade-grown and hand-picked fine Arabica coffees. As seen in Chapter Five, Brazil and Vietnam have very successfully expanded the production of very cheap low-quality Robusta coffee, in Brazil's case through very high levels of mechanisation, and Ethiopia would almost certainly find it difficult to compete in that market. But for high-quality Arabicas the mechanisation of production makes little sense. Moreover, the market for specialty coffee is somewhat unpredictable. The best coffees in the world are quite often produced, almost by accident, by smallholder cooperatives with little or no technology, nor access to specialised agronomic advice (NGO). To give a simple example, one of the capitalists in my sample produced award-winning naturals by drying his cherries on plastic tarpaulins on the ground – against all standard agronomic practice which recommends using raised beds, and in contradiction to Ethiopian government policy which insists that wet processing is the royal road to adding value.

A more fruitful approach is to ask who has been the most dynamic producer in the sense of serving the highest value markets. And here we see a clear pattern emerge, with the use of direct export markets *also* signalling a more successful accumulation regime. Direct export markets in Ethiopia are, as explained above, almost exclusively used for specialty coffee, as non-specialty buyers do not require traceability and can purchase through exporters who buy coffees from the ECX. Farms that sell via the direct export channel have thus been able to attract foreign buyers, produce the required quality and have shown themselves capable of organising the packaging and transport of their coffees. This is not to claim that only farms that export directly have been successful in accumulating – far from it – but as I will demonstrate, they have been the most successful. Just to clarify this point, the coffee produced by farms that sell to the ECX, rather than export directly, is in most cases also sold. By law all coffee above a certain quality grade must be

exported and export grade coffee fetches much better prices at the ECX. The difference is simply that this coffee is then sold by coffee export companies, who buy the coffee from the ECX, rather than by the farms themselves.

To ensure a more meaningful comparison, in the following I compare as direct exporters only those farms that have had sales, i.e. I eliminate farms that have had no sales yet from the analysis. Farms without sales have generally accumulated less and so their inclusion would overstate the importance of direct exports. The direct exporters in the sample distinguish themselves by their interest in producing high-quality coffee and by their eagerness to learn about and understand the international coffee trade. They do not map clearly on any particular type of family background or accumulation path.

As noted in Section 6.5.5, farms that serve the direct export market are much larger than farms which do not. They had developed 309ha, as opposed to 131ha on farms that do not export directly⁵⁶. As they also have larger land holdings, this larger absolute number represents a higher share of their land. On average, farms that export directly have developed 78% of their land, while farms that do not export have developed 69% of their land. Direct exporters have also accumulated much more capital. Excluding processing equipment, direct exporters had on average invested over ETB1.34m in farm transport equipment and other fixed capital, while farms not exporting directly had invested only around ETB600,000. Direct exporters are also more likely to own processing equipment and are the most likely to own both a dry and a wet mill. Given higher levels of capitalisation it is not surprising that direct exporters have a lower wage share.

However, this accumulation is not just due to having spent more time accumulating capital. Rather than having spent more time on the same accumulation route as all the other farms, the exporters chose a different accumulation path once their farms were established. Farms that export directly started their farms at around the same time that non-exporters did, so their superior accumulation performance is not simply a question of having been in the market longer. It is due to these capitalists

⁵⁶ The numbers are slightly different to earlier as farms without sales have been excluded.

having had the business acumen to move into an especially lucrative market. There are almost no differences between direct exporters and others in terms of the share of own capital they brought into the plantation and their use of loan finance, meaning that their accumulation is driven by sales, rather than credit.

As would be expected, plantations that export directly invest more in the quality of their coffee. They weed on average one more time over the course of the year. To enable them to perform a more intense quality management and maintenance regime, they also employ a higher share of permanent workers compared to non-exporters: 19.5% compared to 13%. Direct exporters also seem to treat their workers better. They tend to pay better salaries (though not by much) and around a third of them offer health care services of some sort to temporary workers, while only around 12% of non-exporters do. There is no such difference in the provision of health care to permanent workers. One of the causes might be the higher than average levels of education that exporting capitalists have enjoyed. While the average non-exporting farmer has completed 12 years of schooling and attended higher education for some time, the average exporting farmer has completed an undergraduate degree – in many cases in either business or agricultural science.

The quantitative data presented here is of course based on a relatively limited sample and the results on a small group within that sample, such as the direct exporters, should be read with some caution. The results are backed up by the information gathered in qualitative interviews though. Some of the most sophisticated actors in Ethiopia's coffee business are its large exporters, who are not only in daily contact with international coffee buyers, but also often run complex operations to manage their stocks of coffee⁵⁷. As noted in Section 6.3.3 several of them invested in plantations in the wake of the ECX and their only reason for doing so was to produce specialty coffee, so as to be able to offer their customers traceability at least for part of their product range. They are also cash rich and find it easy to mobilise capital and hence have invested heavily in their plantations.

⁵⁷ They were not included in my quantitative sample and therefore are not included in the figures presented above.

Another group that is notable for their export success are farms started by returned diaspora Ethiopians. They are often from the US or Germany, where they have been exposed to the urban café culture and they also often enter the plantation sector with the express wish of becoming specialty exporters.

As indicated above, these findings have important policy implications. First, an increase in the number of specialty producers would make it easier for workers to push for better wages and working conditions. Rather than seeking an incessant expansion of production, policy should instead focus on providing the agronomic expertise, marketing support and capital necessary to produce and sell specialty coffees. Specialty roasters, with their carefully crafted brand images, are also potentially more susceptible to consumer pressure with regard to the conditions of production. Second, as already mentioned, it shows that the government strategy of pushing for washed coffee production should be finessed. While it is true that washed coffees *on average* trade at a premium compared to naturals, this is because most sundried coffee is of very low quality. High-quality sundried coffees are fashionable among Western consumers in particular and can fetch premium prices in specialty markets. They are also much cheaper to produce and cause much less pollution⁵⁸. Almost half of the direct exporters do not produce washed coffee, and this is well-considered and successful business strategy. Support programmes should not be premised on a switch to wet processed coffee.

One aspect of dynamism that is remarkable for its relative absence in the coffee sector is collective action by the new capitalists at sector-wide level, which presents a hindrance to any serious strategy for value addition. While the capitalists have founded a trade body, the ECGPEA, this is a fairly feeble organisation. ECGPEA is supposed to represent the views of plantation owners vis-à-vis the government, conduct trainings on a variety of topics (but mostly around marketing), and help put its members in touch with its foreign buyers. As mentioned before, at the time of research ECGPEA was trying valiantly to fulfil this remit, but was working out of a borrowed office with almost no staff and very limited financial resources.

⁵⁸ The water used in wet processing coffee becomes a pollutant.

Training, judging from the annual three day event I witnessed, appears to rely more on the exchange of knowledge among members, rather than on bringing in outside expertise (the exception to this being experts from JARI). While ECGPEA does manage to put some of its members in touch with buyers, it does not begin to have anything like the resources necessary to mount an effective international marketing campaign. To this day ECGPEA has no website. As we shall see in the next chapter, the contrast to the situation in the cut flower sector is stark. Here we find a well-resourced and staffed trade body that has played a leading role in the expansion of the sector.

6.8 Conclusion

This chapter has documented – for the first time – the rise of Ethiopia’s new coffee capitalists in great empirical detail. We have seen how they were able to become plantation owners through the accumulation of capital in other sectors and for the most part outside of agriculture. I have shown how they were able to secure the land and labour necessary to found and expand their operations. Until they were able to command the capital necessary to start a plantation the capitalists followed varied and complex pathways of accumulation. I have mapped out some of these paths to demonstrate the high levels of contingency and idiosyncrasy involved. However, these accumulation patterns must also be understood in the light of the historical context laid out in Chapter Five. The remarkable dynamism witnessed recently was only possible because the private plantation system had been so long ‘in the making’.

The discussion has placed a particular emphasis on the contradictory effects of state action on the accumulation patterns in the sector. It was the Ethiopian state, in pursuit of its own strategic agenda, that created the possibilities for the private coffee plantations to expand to the degree they have done, by opening up land for investment. The accumulation processes witnessed in the coffee plantation sector are the direct results of Ethiopia’s turn towards a developmental state strategy. On the other hand, the state has then often had only partial control over the process of land acquisition at ground level. The new capitalists in the sector have

demonstrated resilience and inventiveness in seeking to overcome or circumvent state regulation and were not averse to undertaking illegal activities to further their own interest, including grabbing land illegally⁵⁹. To again draw on Streeck's words, they have been "unruly Schumpeterian entrepreneurs" (2009: 4).

A similarly contradictory effect results from the rushed introduction of the ECX, and the subsequent re-opening of the direct export route. The fact that large farmers can now sell their coffee directly to overseas buyers has opened up new routes of accumulation for the most capable and dynamic capitalists, who now have access to a premium market segment. This is not the result of cleverly conceived industrial policy, but as shown in the previous chapter, is directly related to the government's need to control coffee revenues.

Beyond opening up land for investment and making it available at low prices, the state has actually done little to directly support the production of coffee by these enterprises. The plantations therefore have comparatively little technological equipment, and what they do possess they have accumulated in a piecemeal fashion. Nonetheless they have established production systems that set them apart from the norm in Ethiopia's coffee sector. The plantations have survived by pursuing a largely non-mechanised method of production that allows them to scale back the major costs factor – wages.

In this the new capitalists have been aided by the fact that there *appears* to be relatively little open class conflict between workers and capitalists on the plantations⁶⁰. Workers are not effectively organised, and strategies for labour control seem to have generally achieved their aims. Farm owners have been able to preside over stagnant nominal wages for years. Combined with cheap land, the low cost labour provided overwhelmingly by Ethiopia's rural poor has allowed the coffee capitalists to build often highly profitable operations, in many cases on the

⁵⁹ This is a good illustration why, as Jessop (2016) insists, the state must not be seen as unitary identity or actor, endowed with a singular will or goal. The developmental goals of the federal political elite are not necessarily shared, or interpreted the same way, by local government officials – for whom collaborating with local capitalists may be far more lucrative.

⁶⁰ Though future research should investigate this in much greater depth.

back of comparatively small initial investments. However, growing plantation workforces and increased labour migration are likely to further class conflict and even dispersed labour forces with a high proportion of migrants can sometimes be organised with surprising speed and effectiveness, see for instance Wells (1996). A failure to correct the harsh and frequently dangerous labour practices prevalent in the sector plants the seeds of future discontent, and prevents the up-skilling necessary to maintain international competitiveness.

At the same time, increasing consumer demands for ‘sustainable’ production systems and the growing sophistication of coffee production in many competitor countries will make a competitive edge built primarily on low wages less and less viable⁶¹. As I have documented, the most successful accumulators have been those who have been capable of tapping into the high-value markets for specialty coffee. Capitalists who engage in direct exports have been able to develop more land and also offer (marginally) better working conditions. And they have been able to do this despite the weaknesses of Ethiopia’s coffee research system. In fact, as Chapter Five has shown, this particular route for accumulation was – somewhat paradoxically – opened up through the government’s attempt to establish more advanced systems for controlling the foreign exchange flows generated by the sector.

We turn now to the comparator case, the floriculture sector. Even more than coffee, flowers are produced for export – there is only a very small domestic market in Ethiopia. And just like the private coffee plantations that were the topic of this chapter, the flower farms we are about to examine are a new phenomenon in Ethiopia. But as we shall see, there are big differences between the two cases in terms of the role played by the state and in the involvement of foreign capital. While the state had only a limited role in nurturing Ethiopia’s coffee capitalists, floriculture was declared a ‘priority sector’ soon after its emergence and has been at the centre of Ethiopia’s industrial policy since (Schaefer and Abebe 2015). In part

⁶¹ On this increasing ‘symbolic’ aspect in coffee consumption and hence demand, see Daviron and Ponte (2005).

this is due to the presence of foreign investors and the formation of an effective lobby for the capitalists engaged in flower production. The next chapter will analyse accumulation processes in the cut flower sector, before we turn to a direct comparison between the coffee and floriculture cases in Chapter Eight.

Annex VI

Production activities and remuneration methods

Activity	Explanation	Payment method
Land clearing	Before coffee can be planted in a forest the land must be cleared of much of the undergrowth. The amount of light that penetrates through the canopy is carefully managed by leaving most of the larger shade trees in place. Land clearing is undertaken almost exclusively with machetes and is very hard work. Injuries from machete blows are common.	Task rate – ETB per area cleared, area measures differ
Nursery work	Coffee is planted as a seedling. Prior to planting the young seedlings have to be nurtured in an irrigated nursery with additional sun protection until they are large enough to survive in the plantation proper. Sun protection is usually constructed from wooden frames and netting or woven twigs, covered with leaves. Seedlings are most commonly planted at a height of around 30cm.	Day rate
Digging	Holes have to be dug both for planting new seedlings, and for the construction of temporary structures such as raised beds of netting for drying coffee.	Piece rate – ETB per hole
Planting	New seedlings are planted for two different reasons. On the one hand old, sick or damaged trees have to be replaced to maintain yields in the medium-term (a). On the other hand, farms tend to manage investment costs by expanding the planted area gradually each year, meaning that substantial planting efforts can persist for many years after a farm was first founded (b). Plantations have planting densities of at least 2,000 trees per ha, but 3,000-3,200 trees per ha and above are more common.	Piece rate (a) – ETB per seedling and task rate (b) ETB area planted.

Weeding	Weeds compete with coffee trees for resources (water and nutrients) and must be regularly removed to raise yields. Most farms weed exclusively with machetes. A few however, use chemical herbicides. Agronomists recommend six rounds of weeding in the highly fertile Ethiopian highland periphery. Most farms weed less often though.	Task rate – ETB per area
Pruning	After the harvest coffee trees must be pruned, i.e. cut back. Pruning not only strengthens the growth of the tree for the next season and helps maintain healthy trees, it also keeps the size of the trees manageable. In the wild coffee trees can grow several metres tall. On plantations tree growth is generally constrained to about 2m or 2.5m to allow for easier harvesting. Trees on plantations are also only allowed to have two main branches. This concentrates the berries on the plant and means the trees can devote more resources to growing berries, rather than additional branches.	Task rate – ETB per area
Stumping	Coffee trees are perennial and live for decades, but their fruit bearing capacity declines over their lifetime. In most Ethiopian climates they become fully productive after about four years and remain at a relative high level of productivity for about twenty years thereafter. When trees reach an age of about 25 years, they must be cut back to a stump to allow the tree to grow back, which restores productivity. Some farms insist on stumping after periods of 10 or 15 years. While a stumped tree will not produce any coffee for some years, stumping of old trees is vital to maintaining yields. However, none of the plantations are old enough yet to have had to stump trees.	N/A as no farm has had to stump trees yet.
Fungus removal	Highland coffee forests are moist for much of the year and provide ideal growing conditions for fungi, the world's most successful life form. Certain forms of fungi grow on coffee trees and divert resources from the berries. They must therefore be rubbed off to allow for ideal growth. No respondent could name the responsible fungus or fungi, but they should not be confused with coffee berry disease (CBD) or coffee leaf rust, which are also caused by fungi, but can spark serious epidemics.	Task rate – ETB per area
Coffee picking	Coffee has to be selectively picked by groups of workers moving systematically and repeatedly across the plantation to find only the ripe red berries which will produce the highest quality coffee. Unripe or overripe berries must be avoided. Once the harvest is over, groups of workers also scour the farm for fallen berries, which produce very low quality coffee for sale in the domestic market	Piece rate – ETB per kg. The rate varies across the harvest

(Source: compiled from interview responses)

Chapter seven

Capital and the state in floriculture

7.1 Introduction

The Ethiopian floriculture sector was chosen as a second case for analysis of the origins and dynamics of capital accumulation, as well as its interaction with state policy and actions. Floriculture was selected as the comparator case to coffee production because the combination of communalities and contrasts between these two cases allows us both to explore different patterns of capital accumulation and to examine how these are nurtured – or not – by the Ethiopian state. As a systematic comparison between accumulation and state action in coffee and floriculture is the subject of the next chapter, I will focus here primarily on floriculture.

Unlike coffee cultivation, the growth of floriculture in Ethiopia is a very recent development. While there had been some attempts at establishing open field flower farms under the Derg regime, the contemporary flower sector, characterised by production in greenhouses, did not begin in earnest until 1998. In this chapter I trace the emergence of the sector through private capitalist initiative and its subsequent rapid growth due to the Ethiopian government's coordinated industrial policy. The Ethiopian state not only provided land for investment, but also put in place a subsidy and support regime that saw the government provide capital, organise air transport and construct the necessary infrastructure, as well as invest in education and training at vocational and degree levels. The success of this policy regime in expanding the Ethiopian flower sector is considered a case study for the success of selective industrial policy in Africa (Altenburg 2010; Altenburg 2011; Gebreyesus 2014; UNCTAD and UNIDO 2011).

I pursue four main aims in this chapter. First, I analyse the structure and growth of the floriculture sector and its connections to international markets. Second, I demonstrate that the success of the sector was in many ways – but by no means exclusively – due to the dedicated support for the sector’s capitalists provided by the Ethiopian state. Unlike in the coffee sector, the Ethiopian state actively nurtured floriculture capitalists. While the relationship between capital and the state in the sector is not free from conflicts, in particular over the control of revenues, government officials went to great lengths to support floriculture farms. Support for the sector was driven by the highest levels of Ethiopia’s policy elite. The sector is seen by the Ethiopian government as a blueprint for the expansion of high-value export agriculture (Oqubay 2015), and – as I shall argue in the next chapter – for industrial policy more generally. Third, I show how the growth of the sector has largely been driven by foreign capital. While there are successful domestic capitalists operating in the sector, domestic accumulation has played a relatively minor role – and one that has diminished over time. As we shall see, foreign farms in many ways operate a different business model. Fourth, I argue that while it was an unintended consequence of government policy that much of the support offered to the sector has thus gone to support the accumulation of foreign capital, the growth of the sector has nonetheless fulfilled a strategic role for the Ethiopian state, which – as in coffee – has succeeded in controlling much of the foreign exchange generated, and is free to use the proceeds to build the EPRDF’s developmental state.

The remainder of the chapter is structured as follows. Section 7.2 gives an overview of the global market for cut flowers and explains the value chain and its implications of the sector in Ethiopia, before Section 7.3 lays out the growth performance of the Ethiopian floriculture sector. As in the case of coffee, the contemporary flower sector, despite its much briefer existence, must be understood as the product of a historical process of evolution, and Section 7.4 introduces that history with a particular focus on the actions of the Ethiopian state. Section 7.5 analyses the patterns of capital accumulation that characterise the sector, while Sections 7.6 and 7.7 deal with the control over land and labour respectively. In Section 7.8 I discuss the qualitative differences between foreign and domestic

capitalists and how these differences gave rise to different business models in the sector. Finally, Section 7.9 analyses how the development of the sector fits into the strategic plans of Ethiopia's political elite by demonstrating how the Ethiopian state retains control over much of the foreign exchange generated by the sector. A brief conclusion summarises the main points made in the chapter.

Before we proceed though, a brief reminder about the data used in this chapter is required. Like the previous chapters on coffee, this chapter is built on a mixture of both quantitative and qualitative data. However, as discussed in Chapter Three, the data sources used here differ from previous chapters. As before, the qualitative data comes from semi-structured interviews conducted with current and former flower farms owners, farm managers, employees of the sectoral trade association and government officials at federal and regional level. The quantitative data comes from raw data from four rounds of a sector-specific census, collected by EDRI and GRIPS in 2007, 2010, 2012 and 2013. All calculations and analyses were conducted by me. Lastly, the discussion focuses only on flower farms engaged in production under greenhouses, disregarding the 10% of total land given over to open field flower production¹, which is very different in terms of the capital requirements.

7.2 The international market for cut flowers

Modern high-technology agriculture has more in common with industrial production systems than with the rain-fed ox plough farming practised in the Ethiopian highlands. Strict product standards in international markets and the logistical requirements of delivering unspoilt fresh produce over long distances have combined with management practices aimed at maximising profits through ever greater standardisation and efficiency to produce labour processes and capital requirements in agriculture indistinguishable from industry. Some speak of the "industrialisation of freshness" (Cramer 2015).

¹ In 2013, according to census data for that year, there was a total of 1,438ha under flowers, of which 1,295ha were under greenhouses, leaving just 143ha for the production of open field flowers.

Contemporary floriculture is an example of this trend. Plants are grown in greenhouses, which are artificial environments finely adjusted to support the growth of flowers with particular traits, such as large and attractive heads, while combatting the disease load inherent in monocultures. The production process is completely dependent on modern technology, from the plant science needed to produce new varieties and determine the optimal inputs of fertilisers, herbicides and pesticides, to the chemistry of the inputs themselves, and the computer-controlled irrigation systems that keep the flowers alive. The flowers must adhere to strict phytosanitary standards to be allowed onto the European market. Cut flowers are a delicate and highly perishable product. As the flowers start dying as soon as they are cut, they must be carefully packed and cooled during all stages of transport so as to reach the final consumer in an attractive state. Flowers are luxury goods and are generally purchased for decoration or as gifts, so their visual appearance is vital to sales. Due to these properties the international trade in cut flowers, especially across long distances, only developed after the growth of commercial aviation cut transport times, thus allowing for the delivery of fresh flowers from growing locations thousands of miles away².

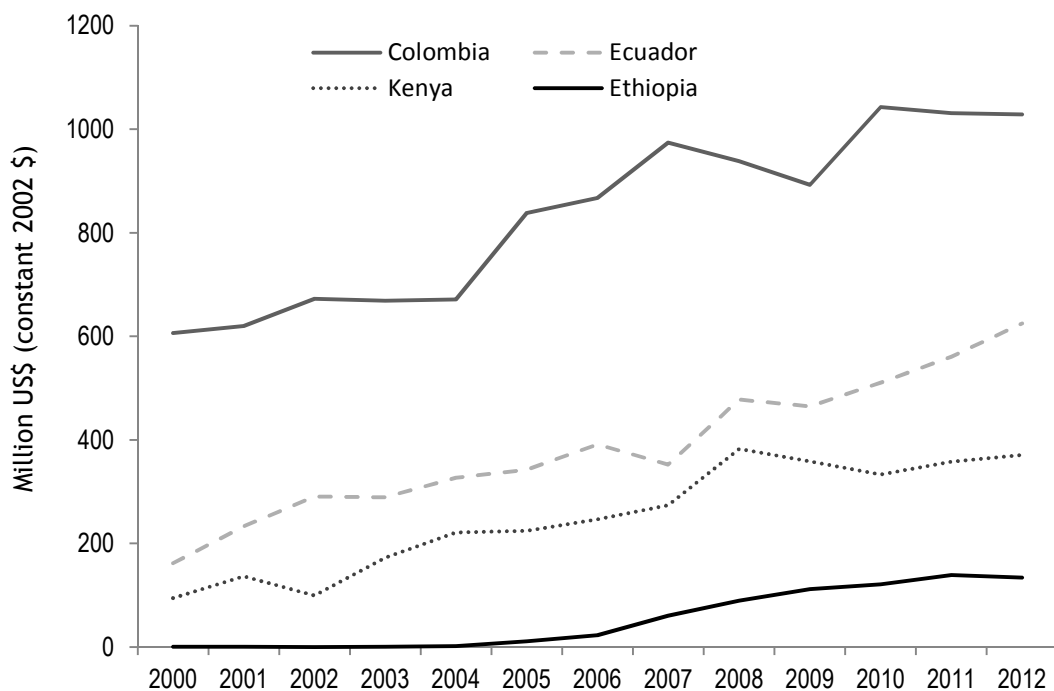
Until the 1960s the Netherlands were (almost) the sole large exporters of cut flowers in the world³. But rising costs led producers in both Europe and the US to look for cheaper locations to produce flowers, and today cut flowers are grown for export in a large number of countries around the world. Production is increasingly shifting away from high-income countries. The pioneer of this development was Colombia, and that country's success in building a flower export sector was soon emulated elsewhere (Taylor 2011). The contemporary global flower market is organised through three major hubs: the US, the EU and Japan (Wijnands 2005). As most of Ethiopia's exports go to the EU, I will limit my discussion to that hub.

² I use the term cut flowers and floriculture interchangeably in the Ethiopian context, despite the fact that globally cut flowers only constitute around 40% of the sales in the floriculture sector, which also includes live flowers (van Rijswijk 2015).

³ Although globally China and India had – and continue to have – by far the largest areas committed to growing flowers (Wijnands 2005).

Despite having lost market share in the last decades, the Netherlands continue to play a major role in the global cut flower trade. The country is both a large producer and a major re-exporter, and it completely dominates the European hub in both imports and exports. According to UN COMTRADE data, the Netherlands had export volumes, including re-exports, of over US\$4.9bn in 2011 and of over US\$4.6bn in 2012 and 2013. For comparison, Figure 7.1 shows the real export performance of the top Latin American and African producers since 2000⁴. The Latin American producers are larger, but it is clear that growth has been strong in both regions. Kenya is still the largest producer in Africa, with exports in 2012 of around US\$450m (KFC 2015). But Ethiopia is catching up with Kenya in the most important export market, the EU. By 2013 Ethiopia had become the 3rd largest external supplier to the EU (after Kenya and Ecuador), and provided 16.4% of the EU's external flower supplies, while Kenya provided 37.7% (ITC 2014). Still, all of these producers are dwarfed by the Netherlands' dominant position in the European floriculture hub.

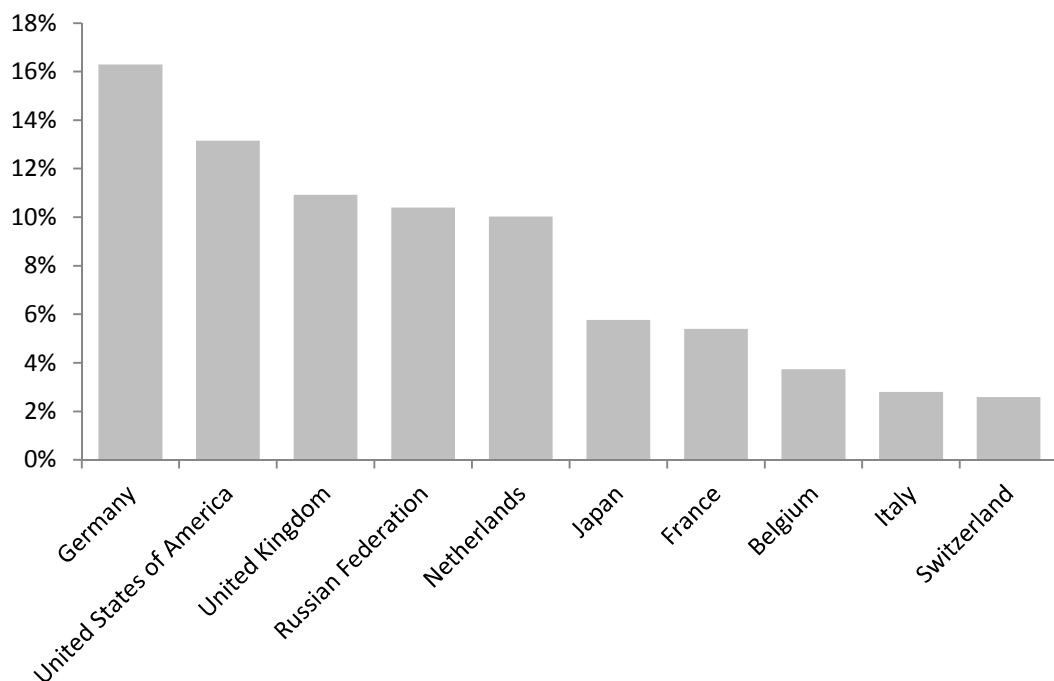
Figure 7.1 – Real value of annual flower exports for selected producers 2000-2012
(Source: Calculated from UN Comtrade, SITC rev3 code 2927).



⁴ The UN Comtrade data after 2012 contains some obvious errors, including a near-tripling of Ethiopian exports not found in official Ethiopian data, and so is not displayed here.

In terms of imports, the EU is one of the most important markets for cut flowers both globally and for Ethiopia (Oqubay 2015). Figure 7.2 shows the global import shares of the top 10 flower importing countries. The list is dominated by EU member states, although the US, Russia and Japan are important markets as well. Ethiopian farms are diversifying their sales destinations and were exporting to over 80 different countries by 2010 (Taylor 2011).

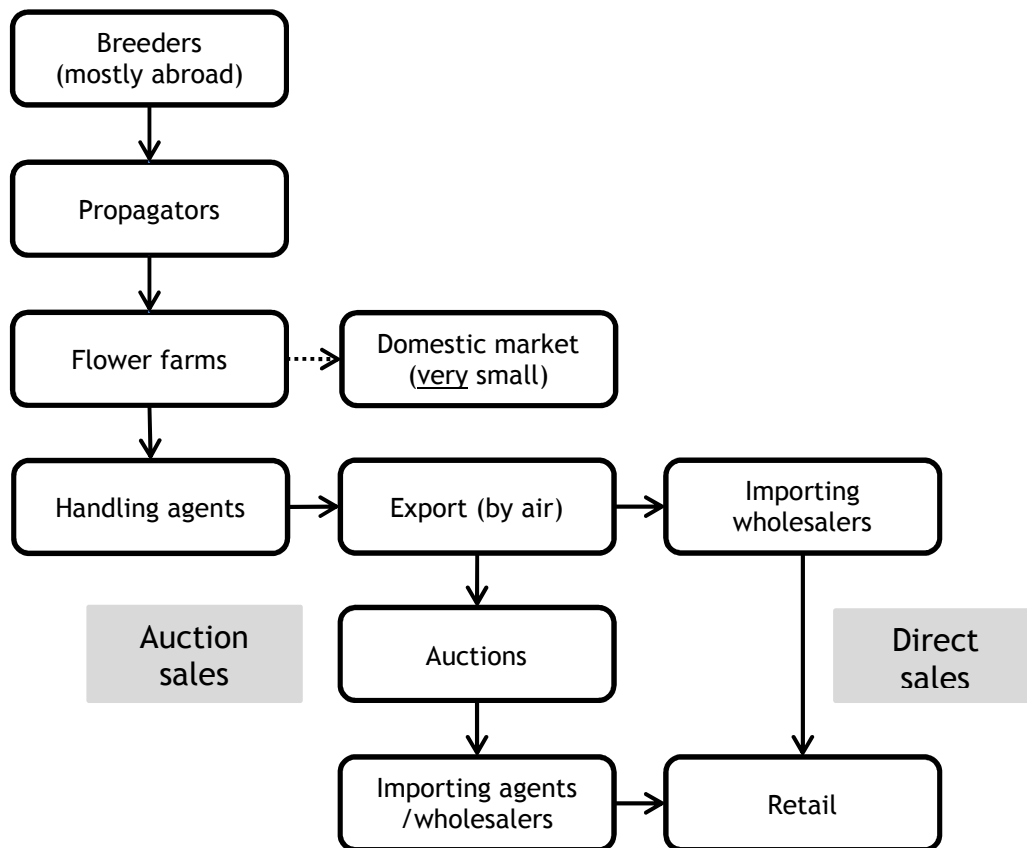
Figure 7.2 - Import share of leading flower importers (in %) in 2012
(Source: International Trade Centre)



As in the case of coffee though, we have to understand the full value chain in order to grasp the implications of market structures. The value chain for cut flowers is relatively complicated, owing to the need for an interlocking cool chain. Figure 7.3 illustrates the chain from the Ethiopian point of view. For simplicity, I have excluded all of the input supply, apart from the planting material itself (see Taylor 2011 for an overview of these parts of the chain). Two elements of the chain are especially important to understanding the dynamics of the sector in Ethiopia. First, most (but as we shall see not all) farms are dependent for their supply of new varieties on breeders, who are heavily concentrated in the Netherlands and other rich countries. These supply varieties either to propagators, who prepare the seeds

for planting, or directly to farms, who have installed the necessary propagation facilities. Breeders are paid royalties for the use of the varieties they supply.

Figure 7.3 - The cut flower value chain to the EU as seen from Ethiopia
(Source: adapted from Schaefer & Abebe 2015; Riisgaard 2008)



Second, there are two distinct sales routes. The figure is slightly misleading in that the retail segment at the end of the chain is really differentiated into two broad types of buyers: those who specialise in flowers and those for whom flowers is one product among many they offer. The former tend to buy flowers at auction, while the latter tend to prefer direct sales, though this distinction is of course very rough (CBI 2014). Farms can either sell their flowers to flower auctions, or directly to importers. Auctions trade very high-quality flowers, as this is where specialised retailers will ultimately source most of their products, and the best flowers can achieve high prices here. However, auctions are at the same time the less demanding sales channel. As well as high-quality flowers, auctions will accept almost all levels of quality and have very low minimum volume requirements. Farms do not have to undertake any real marketing activities and flowers will be

purchased by changing buyers (FF12). In 2013 the two largest auctions for the EU, FloraHolland in the Netherlands and Landgard in Germany, had turnover volumes of €4.3bn and €1.2bn respectively (ZBG 2015). Auctions can be accessed as soon as a farm has produce to deliver and provides an assured payment mechanism.

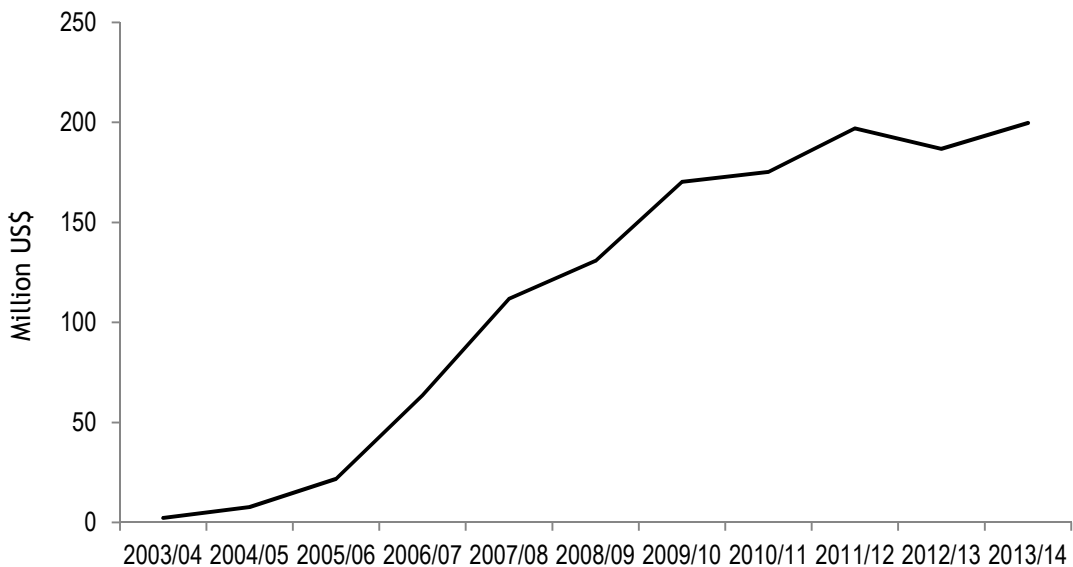
Direct sales are more difficult to achieve and manage. In the direct sales channels farms enter into purchasing agreements with buyers, who may contract the farm to deliver a certain quantity over a period of time. To be able to serve this channel farms must be in a position to supply a wider range of varieties, and quality requirements are more consistently stringent (FF9, FFM1, FFM2). Therefore farms have to be bigger and the production and packaging process must be even more tightly managed than is anyway the case. Finding buyers also means that farms have to invest in marketing (FF12). Not all buyers are alike and quality requirements as well as preferences in terms of varieties, colours and sizes vary. Buyers in Russia and the Middle East, where flower markets are smaller, are reputed to be less strict about quality. Supermarkets, especially in the UK, are interested in medium-quality flowers and are increasingly purchasing their flowers via direct sales agreements with growers. Direct sales agreements offer longer term contracts to growers, and the prices in the direct sales market are generally higher for the same level of quality. However, buyers can renege on contracts and payment is less sure than at the auction (CBI 2014, FFM1, FFM2). I return to the relevance of these sales channels for accumulation in Ethiopia's flower sector below.

In all sales channels, demand is highly seasonal with large spikes around holidays where gifts of flowers are traditional in consuming countries. As we shall see, this means that farms have to maintain a very flexible labour force. The cut flower industry – both globally and in Ethiopia – has been controversial due to a mixture of labour abuses and environmental pollution. In response, buyers are increasingly demanding that producers certify their adherence to social and environmental standards (see for instance Evers, Amoding, and Krishnan 2014; Gebreyesus 2015; Raynolds 2012; Riisgaard 2009)

7.3 Floriculture in Ethiopia

As the tired cliché has it, the Ethiopian flower sector has indeed ‘bloomed’ since its humble beginnings. Figure 7.4 shows how the sector grew from near insignificance in 2003/04 to a nominal export value of US\$199.7m in 2013/14, when flowers contributed 6.1% of total merchandise export receipts for that financial year (NBE 2015). As the domestic market for flowers in Ethiopia is tiny, export figures are a useful proxy for the overall growth of the sector, which has been explosive from 2004/05 onwards. However, Figure 7.4 also shows that growth slowed from 2009/10 onwards. The sector suffered its first contraction in the value of exports from 2011/12 to 2012/13. The slower growth from 2009/10 onwards is due both to internal factors and to the slowdown in global demand and ensuing fall in prices for cut flowers in the wake of the global financial crisis.

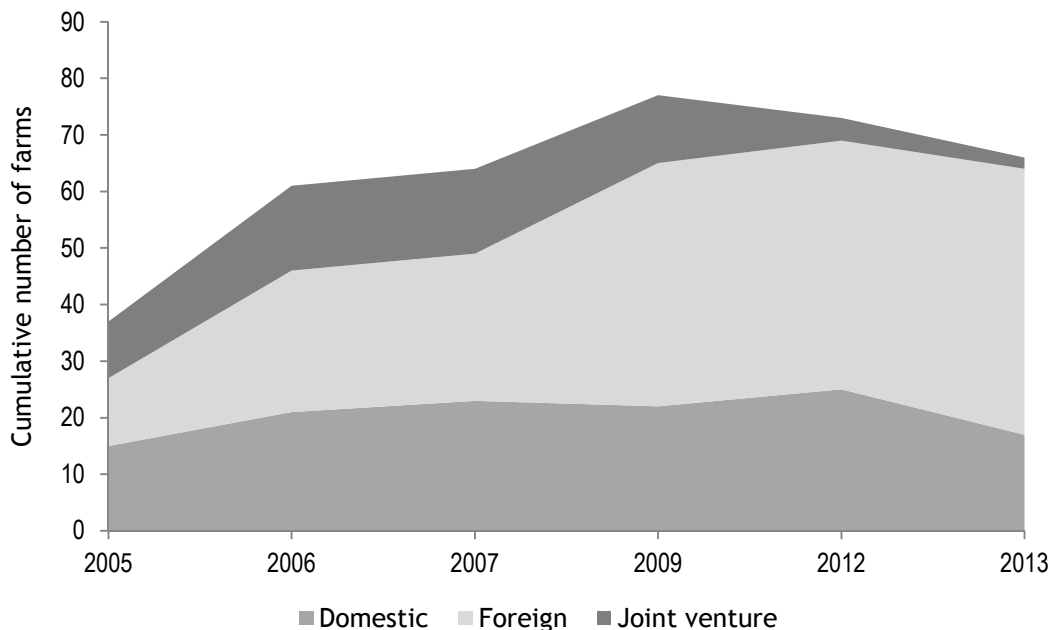
Figure 7.4 - Nominal value of cut flower exports (in million US\$) 2003/04 - 2013/14
(Source: own compilation from NBE annual and quarterly reports)



A similar trend can be seen looking at the number of businesses active in the Ethiopian floriculture sector. Figure 7.5 shows the total number of farms in the sector by ownership type in the years in which a new sector census was undertaken, as well as the years 2005 and 2006. The number of farms rose to a peak of 77 farms in 2009. Thereafter, the number drops steadily to reach 66 by 2013. As will be discussed again in more detail below, the composition of the sector has changed

dramatically since 2005. While the number of foreign farms has grown continuously, the number of Ethiopian farms in 2013 is only marginally higher than in 2005. Meanwhile joint venture operations, which made up around 16% of farms as recently as 2009, had all but ceased to exist by 2013.

Figure 7.5 - Cumulative number of farms by ownership type for selected years
(Source: EDRI survey, various years)



The reduction in the number of farms between 2009 and 2013 is also reflected in the amount of land under flowers. While there had been 1,035ha under flowers in 2009, this figure had fallen to only 911ha by 2012. As will be shown later, this reflects the impact of the global financial crisis on the sector. However, by 2013 the amount of land under flowers had reached record heights, with a total of 1,438ha planted. A careful comparison of the data sets for 2012 and 2013 has ruled out the possibility that this is merely a statistical artefact due to the omission or inclusion of large farms.

The seeming discrepancy between the performance of the sector in terms of export earnings and the amount of land under cultivation is due to the very different performances of different types of growers. These differences in performance are systematic and their causes will be explored below. But first we turn to the historical development of the sector in Ethiopia and an analysis of how the state nurtured and supported the sector's capitalists.

7.4 State and capital in the growth of floriculture

Much of the literature on the emergence and development of Ethiopian floriculture highlights the pioneering role of private capital, while also reserving praise for the decisive role played by government industrial policy (Gebreyesus and Iizuka 2010). The history of floriculture in Ethiopia has been told elsewhere many times (e.g. (Gebreyesus and Sonobe 2012; Oqubay 2015; Schaefer and Abebe 2015; Taylor 2011) and I will therefore focus my discussion of this history on the interaction between the Ethiopian government on the one hand and private capitalists on the other, while also paying attention to the institutional framework that was created to support the sector. Details on the early growth period of the sector, prior to about 2003, are somewhat vague and there are a number of competing different versions. They differ in the phasing of different investors, the key actors involved and the respective importance attributed to the state and private capital. The history presented here triangulates information from academic sources, grey literature, journalistic reports and interviews.

The roots of the sector go back to the 1980s, when under the Derg large state-owned farms began growing open field summer flowers (Schaefer and Abebe 2015). Despite their large size – some 160ha on two enterprises – these farms only ever exported small quantities, presumably because the production of flowers was a side line for them (Oqubay 2015). As discussed in Chapter Four, after the end of the revolutionary war in 1991, the new EPRDF government began the transition towards a market economy. The first private flower farms in Ethiopia, all of which grew flowers in open fields, were established from 1992 onwards by a group of four friends, some of whom had worked on the state-run farms and therefore knew how to grow open field flowers. They travelled to Kenya to observe the flower sector there and upon their return decided to try to establish flower farms in Ethiopia. Lacking sufficient capital, they sought a loan from the DBE. After 18 months the bank agreed to lend them US\$900,000, about 75% of what they had requested, but only against collateral worth 125% of the loan. The collateral requirement was met by putting up the private houses and cars owned by the group (FF7). Exports from this group, which included Ethio-Flora and Meskal Flower farm, began in 1993. By

1995 there were four farms exporting flowers and vegetables from Ziway, using the country's only railway line to get produce out.

However, these early capitalist pioneers fell victim to their own buccaneering spirit. In an interesting parallel to the land acquisition practices by coffee capitalists discussed in the last chapter, they had rented land directly from local farmers, which was illegal in Oromia at the time. In 1996 the flower farmers were therefore forced to return the land (Ethiopia Investor 2012). One of the capitalists, acting on behalf of all investors in the fledgling sector, managed to secure a meeting with the prime minister. The PM had recently been to Kenya and had seen the burgeoning floriculture sector there, which "had obviously impressed him greatly" (FF7). He took a personal interest in the development of the sector in Ethiopia and instituted a committee, chaired by himself and comprised of sector capitalists and government officials, which was to meet every three months. A high-level delegation of government officials, which included the deputy prime minister and several members of the cabinet, visited one of the pioneering farms. That same year a law permitting the rental of land from private individuals was passed.

Meskal Flower farm pioneered the production of roses in Ethiopia in the mid-1990s, and exported the first Ethiopian-grown roses in 1997 (Melese and Helmsing 2010). Ethiopia is agro-ecologically especially suited to the production of high-quality roses (Joosten 2007), and rose production would soon dominate Ethiopian floriculture. Meskal Flower also introduced the use of greenhouses, albeit ones using a wood-framed construction. However, despite the interest shown by government officials at the highest levels and the action taken to help farms, all of the first generation of farms – but not all of the first generation of capitalists – failed due to the lack of infrastructure, inputs and, ultimately, government support. State backing, while at times enthusiastic, had been piecemeal and lacking in overall vision or strategy. This was before the EPRDF changed its economic strategy and began viewing agricultural exports as vital to the success of its own economic plans. Consequently, the sector was not yet seen as a priority. For instance, Ethiopia's 1998 export promotion strategy did not mention floriculture (Schaefer and Abebe 2015).

But at least one of the original capitalists managed to survive by diversifying into vegetable production, and this individual was later to play a leading role in establishing the sectoral association, the Ethiopian Horticulture Producers and Exporters Association (EHPEA).

The year 1999 saw the entry of Golden Roses from the UK, which was not only the first foreign farm to attempt to grow flowers in Ethiopia, but also introduced the first steel-framed PVC-clad greenhouses to the country – a production technology that today is almost universal⁵. Golden Roses also brought with it a focus on high-quality roses, which it started to grow in 2000. By 2002 another domestic flower farm had begun production, and a total of five farms were licensed to produce flowers in Ethiopia. Among these was a second foreign farm, owned by an Italian capitalist. At the behest of the then prime minister, who wanted a single interlocutor in the sector to ease dialogue, the pioneering capitalists in the sector formed the EHPEA in 2002. The association was to prove an important driver of accumulation in the sector expansion through its lobbying for policy support and the extension services it provides to members. The sector was still minuscule at this point. The World Bank (2004) reports exports of cut flowers from Ethiopia worth US\$457,000 in 1998 and US\$351,000 in 1999, rising to US\$891,000 by 2001, which at the time represented just 0.3% of the cut flower exports from Africa. By comparison, Kenya was responsible for 55.1% of African cut flower exports in 2001, sending over US\$165m worth of cut flowers abroad that year.

As discussed in Chapters Four and Five, the EPRDF began with the construction of a developmental state from 2001 onwards. This entailed a shift in its view of large-scale capitalist agriculture. Thus, the government's first ever poverty reduction strategy paper, the so-called 'Sustainable development and poverty reduction plan', which was published in 2002 and covered the years 2002/03 to 2004/05 mentions the floriculture sector as a potential growth industry for the first time (MOFED 2002b).

⁵ A notable exception is one foreign farm with experience in Ecuador, which follows a very different business model to all other farms in Ethiopia by emphasising varieties choice over other considerations. This farm uses wooden framed greenhouses to save on investment costs.

However, the sector received only passing mention in this otherwise very detailed document, and the sector is not featured in the 2002 industrial development strategy, which includes key agricultural sectors and explicitly focuses on developing labour-intensive export-oriented privately-owned businesses (MOFED 2002a, see also Chapter Four). Nonetheless, the inclusion of the sector in a strategic development plan shows the government's determination to develop the sector further. And fact that the only mention of floriculture in the document occurs in a listing of sectors believed to have a "high potential of foreign exchange earning" (MOFED 2002b) also demonstrates that the generation of foreign exchange was a priority from the earliest days of policy support to the sector. Capitalist agriculture is supposed to provide the foreign exchange necessary to finance the state investment at the core of the EPRDF's economic and political strategy. But unlike in the coffee sector, in floriculture the government was an early and enthusiastic supporter of foreign direct investment.

Five more farms were licensed in 2003. Of these only one was domestic, while two were foreign and two were joint ventures between domestic and foreign capitalists. The year marks an important milestone in the development of the sector. First, the Ethiopian floriculture sector began to diversify its product range, as one of the joint ventures chose to focus on summer flowers, rather than roses, and one of the new foreign farms began producing cuttings, rather than cut flowers⁶. Second, the first Dutch flower company arrived in the country. Dutch capital, backed by the Dutch government, was to play a central role in the development of the sector, and Dutch capitalists still dominate the sector today. And third, as mentioned above, the first joint venture companies between domestic and foreign capital were established. Joint ventures play an interesting role in the sector. While most were 'legitimate' businesses, some were almost completely owned by foreigners and hence 'joint' ventures mostly on paper. These were used to provide an easy entry point for foreign capital. In some cases these companies were primarily a mechanism of land speculation.

⁶ Cuttings are decorative plant and flower parts, often used to fill bouquets, while cut flowers mean the whole head and stem, usually stripped of leaves, of the plant.

Foreign direct investment by Dutch capital was preceded and accompanied by the involvement of the Dutch government in the sector. A trade mission in 2003 established an interest in the sector on the part of the Dutch government (Melese and Helmsing 2010). Subsequently, funds were made available to Dutch-owned and co-owned existing farms and new investments under the Dutch agency for international business and cooperation's (EVD) programme for co-operation with emerging markets (PSOM) (Triodos Facet 2010)⁷. A second Dutch trade mission followed in 2004. The PSOM programme, which offered a reimbursement of up to 60% of costs for investments, was reorganised as the private sector initiative programme (PSI) in 2008 (Melese and Helmsing 2010). The requirement that businesses in receipt of grants must be at least partially Dutch-owned was dropped following the threat of legal action from the EU (Taylor 2011). The last PSOM/PSI funds made available to Ethiopian floriculture were granted in 2005 (Gietema 2012).

Donor money was also vital to expanding and strengthening the EHPEA. The association was initially supported by British aid money. At the request of the Ethiopian PM, DFID paid for office space, donated a vehicle and hired an international consultant for a three-year placement with the association. As more and more Dutch companies began entering the sector after 2003, and especially from 2005 onwards, the Dutch government became the main supporter of the association (FF7).

The most important function of the association is to provide a collective voice for the sector's capitalists and thus allow them to effectively lobby the government⁸. The association persuaded the Ethiopian government take the growth potential of the sector seriously. Once the government realised that this sector could help achieve its own political and economic objectives – employment, which helps secure social peace, and foreign exchange to help build the developmental state and capacity in other sectors – it launched its activist industrial policy in support of the

⁷ The EVD has since been renamed *Agentschap NL*.

⁸ As of February 2015 the association had 96 members, of which 75 were active firms. Its membership is heavily slanted toward floriculture and includes almost all flower farms in Ethiopia.

sector. The association was also one of the driving forces behind the creation of Ethiopia Horticulture Development Agency (EHDA), which is discussed below. These lobbying successes were achieved through joint forums with the government, which took place regularly under Meles Zenawi, but became less frequent after the introduction of the EHDA and appear to have ceased entirely under the current PM (FF9). Apart from lobbying, EHPEA is active in setting standards to help with the external image of the sector and in providing training for the workers of member companies.

In the early 2000s, the sector was beginning to expand and the government, while supportive, still lacked a coordinated policy towards the sector. This was partially alleviated by the formation of a national export coordination committee (NECC) under the chairmanship of the prime minister in 2004 (Oqubay 2015). The committee was created to promote all export sectors to maximise the direly-needed foreign exchange earnings. Until the establishment of EHDA in 2007, the NECC and particular individuals within it were the first port of call for flower capitalists, and the committee was the driving force behind the provision of services to the sector by the government (FF12).

By 2005, the sector comprised 37 farms, of which 15 were domestic, and it had grown important enough, in the eyes of government, to warrant its explicit inclusion in the next five year strategic plan PASDEP. For the first time floriculture was described a priority sector and a set of targets was given for the sector. As mentioned in Chapter Four, PASDEP covers the period from 2004/05 to 2009/10. The main PASDEP document notes that there were 322ha dedicated to flower production under greenhouses in 2004/05 and that the sector was employing 21,356 people. The plan envisaged 1,600ha under greenhouses, along with a total of 70,000 jobs, by the end of the plan period (MOFED 2005). The inclusion of floriculture as a priority sector for national development in PASDEP meant that DBE could begin extending credit to the sector and the first loans to flower farms were duly made that year (DBE2). As discussed in Section 7.5, DBE played a key role in financing the growth of the sector, and was of particular importance to domestic capitalists. The

sector's capitalists were now eligible to access the full gamut of Ethiopia's investment incentives, including a five-year tax holiday and tax-free imports of capital goods and customs duty draw-backs (Taylor 2011).

In another significant development, that year Ethiopian Airlines began chartered cargo flights carrying flowers from Bole International Airport in Addis Ababa. The sector did not yet have the capacity to fill a whole aircraft, but the government forced Ethiopian Airlines to fly with less than the full payload, causing the heavy losses for the carrier (FF7) that flying a cargo plane half-empty implies. This episode demonstrated the government's willingness to subsidise the sector, and its ability to act quickly and decisively in favour of sector capitalists when called upon. The prime minister later instructed Ethiopian Airlines to substantially expand its cargo capabilities. The role of Ethiopian Airlines is crucial to government strategy in the sector and is taken up again in 7.9.

The arrival of Sher Ethiopia, a subsidiary of the Dutch flower company Afriflora, from Kenya in 2005 profoundly changed Ethiopia's flower sector. According to the company, they came at the direct invitation of the government of Ethiopia (Afriflora n.d.). Sher Ethiopia's arrival was important for three reasons. First, the company made a substantial investment in Ethiopia. Sher Ethiopia was set up on a 1000ha lease in Ziway and had erected greenhouses on over 400ha by 2011. Second, the company had relocated much of its capital and key personnel from Kenya and later closed down its operations in Kenya entirely, thus sending a bullish signal about Ethiopia as an investment location. In fact, Sher Ethiopia has attracted the original 'barbarians at the gate' – the US financial firm KKR & Co, famous for its pioneering use of leveraged buyouts. KKR & Co made its first direct investment in Africa in 2014 by acquiring a stake of undisclosed size in Sher Ethiopia (KKR 2014). And third, the company used only part of the greenhouses it constructed for its own production and provided the rest as turnkey installations to other capitalists in hire-purchase agreements. These agreements substantially lower the barriers to entry for the sector, as a new capitalist would not have to worry about designing or setting up infrastructure (Taylor 2011).

7.4.1 Developing standards

By 2006, the sector was well-established and had reached exports of US\$63.6m (see Figure 7.4). Despite the strong export performance and a generally supportive policy environment, leading growers became concerned that further growth could be hampered by both a lack of overall strategy and by the increasingly negative image the sector ‘enjoyed’ abroad. For instance, a 2007 NGO report highlighted an absence of standards, low pay and insecure job tenure, along with health risks to workers, and called on consumers to press for minimum standards (War on Want 2007). EPHEA, in conjunction with the Ethiopian ministry of agriculture, decided to ask the Dutch government to provide assistance. The Dutch government in turn commissioned a study to develop a strategy for the Ethiopian horticulture sector (which was published as Joosten 2007). Based on this strategy the Dutch government designed an assistance programme, the Ethiopian Netherlands horticulture partnership (Helder and de Jager 2006; Humphries, van Oene, and de Jager 2006), which began in 2007 and ran until 2012. The programme included the provision of practical training for farm owners, managers and workers, a capacity building programme to improve of phytosanitary standards, and the development of a code of practice (COP) (de Jager et al. 2007). The COP was designed by Wageningen University and was considered “a prerequisite for reinforcing the reputation of Ethiopian flowers on the international market” (de Jager et al. 2015).

Initially designed as a voluntary certification system, the code was subsequently adopted by the Ethiopian government and was signed into law in 2011 (Ethiopian Flower Export, 2011). The code is now a three-tier certification system (bronze, silver and gold), the lowest tier of which is mandatory. As an EHPEA-commissioned 2007 report makes clear, the primary function of the COP was to ease access to the European retail market, which Ethiopian-based growers were keen to enter (Danse, Edwin, and Suzanne 2007). As bronze-level certification mostly means that Ethiopian labour laws must be adhered to, it allows even the worst farms to have some level of certification, as long as they are not found to be in violation of existing laws. The code is thus best understood as a marketing tool, premised on the fact that real improvements in existing social and environmental conditions had to

be made to ensure the viability of the sector. Silver-level certification by contrast is equivalent to the GlobalGap standard for floriculture (GlobalGap 2015). By 2014, only three farms had achieved gold-level certification, which is equivalent to the MPS-SQ standards (FF11).

As secondary and tertiary concerns the aforementioned report names increasing pressure from Ethiopian civil society groups to improve working conditions and regulate pollution, and the need to comply with existing Ethiopian legislation (Danse, Edwin, and Suzanne 2007). European retailers tend to demand more exacting standards than the Dutch auction and often make adherence to such standards a condition of entering into direct sales agreements (Joosten 2007). Improving wages and non-wage working conditions, let alone paying living wages, do not appear to have figured prominently, if at all, among the targets in the design of the COP.

But access to foreign markets was not the only issue threatening the further expansion of the sector. By 2007 the sector was already dominated by foreign capital. Keen to attract more capital from abroad to hasten the growth of the sector, the Ethiopian government increasingly became aware that it had to match the types of investment support available in competitor countries, and especially Kenya. While the relocation of Sher from Kenya to Ethiopia had given the country a boost as an investment location, investors were increasingly expressing frustration at Ethiopia's administration. In response, the Ethiopian government founded a service agency for the sector – the Ethiopian Horticulture Development Agency (EHDA).

7.4.2 Building institutions

The EHDA was designed to be the main government agency charged with supporting the development of the horticulture sector, of which floriculture is an important sub-sector. It was established in 2007 as a 'one-stop-shop' for investors in the horticulture sector. The idea to bundle all 'services' an investor requires was adapted from Kenya (FF7). The agency is supposed to help investors access the full package of support measures the Ethiopian government provides. However, the EHDA is not a regulatory body and the regulatory functions for the sector remain

dispersed over a number of different government institutions, which severely limits the power of the EHDA. Due to its lack of regulatory authority, the agency is not able to force other parts of the government to adhere to its wishes, and is only partially capable of playing its allocated role effectively (EHDA1). However, some growers see the EHDA as a block which has diminished the ability of growers to talk to government officials. Leading growers rely on more direct contacts to high-levels officials and implementing officials (FL).

In addition to helping investors access the incentives and privileges they are entitled to, the agency engages in capacity building and marketing promotion. Capacity building is mostly aimed at domestic investors. The agency provides consultants to help them overcome knowledge gaps. Marketing promotion means the agency tries to promote both the products and the overall image of Ethiopian horticulture abroad. To this end it works with Ethiopian embassies to improve market penetration by distributing samples, finding importers, attending trade shows. The agency also intervenes in labour conflicts to keep production going and encourages farms to engage in CSR-type social projects.

7.4.3 The global financial crisis

An insightful episode that reveals much about the government's commitment to the sector occurred in the aftermath of the global financial crisis. The subsequent recessions and sovereign debts crises engulfing Europe in 2008 dampened demand for flowers. Falling prices put pressure on producers in Ethiopia and the sector was facing a wave of foreclosures as some 42 farms were unable to service their debt (EG10). The prime minister convened an emergency unit consisting of the central bank, the DBE, the EHDA and sector representatives (Schaefer and Abebe 2015). The crisis committee decided to reschedule all of the DBE loans taken out by the sector's capitalists. While this action undoubtedly saved many farms (DBE2), it also provided money to farms that did not need it (FF11). In fact, successful sector capitalists all agreed that the problems experienced by these farms predated the crisis and were mostly due to incompetent or uninterested management, while well-run farms, both domestic and foreign, did not need assistance to weather the

storm (FF6). Successful capitalists were also greatly aided by the fact that they were selling into the European market while the Ethiopian birr was heavily depreciating against the Euro. This meant that loans taken out in Ethiopia, which were denominated in birr successively lost real value. One foreign capitalist for instance borrowed the equivalent of US\$540,000 from the DBE and had to repay just US\$500,000 (FF5)

The bailout thus helped keep farms in operation that were not economically viable even before the crisis hit (FF13, FF5). The episode is the clearest possible indication though of the government's will to see success in the sector and of its ability to take rapid and decisive action in pursuit of this goal.

By the year 2010 the sector had become successful enough to warrant closer attention by Ethiopian policy makers, which manifested itself in much more detailed planning. While the sector had been mentioned in the PASDEP, in the Growth and Transformation Plan, which was adopted that year, the sector warrants a much larger section in the main policy documents (MOFED 2010b), as well as a series of detailed annual targets in the plan's policy matrix (MOFED 2010a). The report recognised problems in marketing, logistics and transport, and sought to solve these "in collaboration with actors in the sector" (MOFED 2010b: 54). The problem of land was to be addressed by identifying suitable land, equipping it with basic infrastructure and placing it in a land bank to make it more easily accessible to prospective investors or existing capitalists seeking to expand their businesses. EHDA has identified some 60,000ha fit for horticultural development (EG10). Export earnings are expected to increase by 214% over the plan period, while the amount of land covered with flowers is supposed to increase by a cumulative 89% (MOFED 2010a). Tellingly, the plan contains no targets for employment.

It is fair to say the Ethiopian state has played a vital, but contested, role in the development of the flower sector. The sector clearly would not have grown to its current extent – or possibly at all – without the dedicated and flexible support it received from the state. In turn this support was dependent on the interests of Ethiopia's policy making elite which was keen to produce a success story for the

EPRDF's developmental state, while securing the foreign exchange necessary to drive this project forward in other – more strategic – sectors, such as manufacturing and the government mega-projects. Against this background we turn now to an analysis of the patterns of capital accumulation that this policy has produced.

7.5 Capital accumulation

The patterns of capital accumulation in the Ethiopian floriculture sector have received little attention in the otherwise expansive literature on the sector. This oversight is partly due to the research interests with which researchers have approached the sector. Some of the literature is focused on the role of the sector in global value chains and is therefore more concerned with how the sector 'fits' into the global, or perhaps better international, value chain for cut flowers (Gebreyesus and Sonobe 2012; Global Development Solutions 2006; Taylor 2011)⁹. Another prominent strand of the literature has examined the sector from the point of view of the industrial policy measures applied by the Ethiopian state, usually seeking to evaluate their relative success or failure (Belwal and Chala 2008; Gebreyesus and Iizuka 2010; Oqubay 2015; Schaefer and Abebe 2015).

However, much less attention is paid to how firms are able to enter the sector, and what determines their success or failure. I argue that one crucial element appears to be the ownership structure, in the sense of foreign and domestic ownership. This, however, tends to receive only superficial consideration. For instance, Taylor (2011) discusses the sector's ownership structure, but the discussion is limited to 'firm counts', which fails to illustrate the systematic differences between firms. Suzuki and Mano (2015) analyse the dynamics of firm exits and take-overs, but do not adequately account for who is entering the sector and how the composition of the sector is changing. A partial exception is Oqubay (2015), who highlights some aspects of the domination of the sector by foreign capital and stresses some of the qualitative differences between domestic and foreign firms, but this analysis is mostly concerned with linkage effects and government policy, and lacks detail as to

⁹ Although, with the partial exception of Taylor (2011), the cuttings sub-sector, which in Ethiopia is entirely foreign owned, has received no attention.

the drivers of these differences. Melese and Helmsing (2010) explicitly analyse the differences between domestic and Dutch-owned farms in particular, but they did not have access to comprehensive datasets on the sector. Before we turn to the particulars for entry into the sector it is necessary to clarify how much capital is necessary to start a flower farm.

7.5.1 Minimum capital requirements

Floriculture farms are technologically relatively sophisticated installations, especially compared to Ethiopian coffee plantations, and are correspondingly expensive to set up. For a new farm to be established, land has to be cleared and prepared for planting, greenhouse frames have to be erected and covered with plastic sheeting, a reliable source of water must be installed (usually a borehole), and irrigation infrastructure has to be installed, along with an electrical grid. Most farms also feature computer systems to control the irrigation systems and, in some cases, also the nutrient supply systems. In addition to the greenhouses, farms have to erect a packhouse and a cold storage facility, which are often in the same building. Depending on their business model, farms may have their own propagation unit, allowing them to supply their own planting material. These are more sophisticated in terms of technology than the regular greenhouses. Beyond this farms need office buildings for administrative and managerial functions and backup generators to ensure the cool chain is not broken during one of the frequent electricity outages. Many farms also maintain separate sales and management offices in Addis Ababa. Compared to other forms of agriculture, floriculture farms are therefore characterised by large investments of capital per hectare.

Interviews yielded cost estimates of total initial investment costs ranging from US\$405,000 per ha (FF9), to around US\$470,000 per ha (FF2, FF13) for investments made between 2006 and 2010¹⁰. The DBE was apparently willing to support projects with investment costs of up to US\$650,000 per ha (FF5). Farm owners generally emphasised the need to reach an approximate size of about 10ha to be able to offer sufficient quantities of flowers across a wide enough product range in order to

¹⁰ The farm that reported the lower number is reputed to be particularly badly run.

access all marketing channels. Assuming median investment costs of US\$450,000 per ha, setting up a flower farm on a long-term sustainable business scale requires an investment of around US\$4.5m. Excluding Sher Ethiopia, the mean areas covered with flowers on a farm was 17.1ha in 2013, but 22 farms, or about a third of those surveyed, had less than 10ha. Propagation units cost around three times as much per hectare as normal greenhouses (FF11).

The lowest investment cost for a farm with greenhouses, US\$300,000 per ha, was encountered on a farm using a growing style imported from Latin America. This emphasises planting a large selection of varieties and constantly adjusting and cycling these to meet a wide range of buyer demands, while minimising initial investment costs by relying on wood-framed greenhouses and mud-and-wattle buildings, rather than the conventional steel-framed greenhouses and buildings made of either metal sheeting or breeze blocks. To be successful, this business model must serve the direct sales market, which requires knowledge of demand trends and a well-developed network of contacts among both buyers and breeders (see Section 7.8). This particular business model appears to be unique to one foreign farm.

Investment costs appear to have remained relatively stable in recent years. A new investment by Colombian horticulture company Bellafior, which is expanding its production into Ethiopia and aims to cover around 36ha over three years with a mixture of greenhouses and open fields for floriculture, has an investment volume of US\$18m (Agribusiness Africa 2014). As not all of the 18ha will be covered with greenhouses, the investment costs for the area under greenhouses are likely to be more than US\$500,000 per ha. Costs do seem to have risen substantially since the early days of the sector though. A 2004 World Bank report found investment volumes in floriculture ranging from US\$220,000 per ha to around US\$250,000 per ha (World Bank 2004)¹¹. In interviews, farm owners complain that the price of plastic sheeting for greenhouses, a recurring expenditure for farms, has risen from

¹¹ I have used historical exchange rates to account for the large devaluation of the Ethiopian birr over the last decade.

US\$8/m² in the latter half of the 2000s to over US\$13/m², while quality has apparently declined (FF5).

7.5.2 Sources of initial capital

The question is then, how did capitalists manage to access the substantial funds necessary to enter the sector? Good quantitative data on initial sources of capital is available for the whole sector, but there is only one data point. The 2010 census round asks about the percentage of initial capital obtained from a variety of different sources. The question captures the source of funds that were used for the initial investment necessary to set up farming operations. This question was discontinued in later census rounds. As the year 2010 was the high water mark for the number of farms operating in Ethiopia, and data from the 2013 census round shows that only six farms began operations after 2010, data on initial investment from 2010 provides a good approximation of the entire sector.

It is important in this context to provide some background information on the DBE before examining the data in detail. Ethiopia's development bank not only played a pivotal role in bailing out the sector during the financial crisis, it also provided a large share of the initial capital for investment in the sector. The bank is wholly owned and run by the Ethiopian government and is designed to act as a strategic development bank, lending long-term and at subsidized interest rates to firms active in sectors designated as 'priority' by government (DBE2). Other than the state-owned commercial bank, and, to a lesser degree, the party-affiliated endowment companies (see Vaughan and Gebremichael 2011), the DBE is the main vehicle for the government to finance domestic investment. The DBE has a substantial balance sheet and the government has expanded this as the priority sectors grew. In 2013, the bank had a paid-up capital of ETB1.8bn and discussions were underway to increase this to ETB6bn (DBE2). Total accumulated lending in 2013 reached ETB27bn (DBE2). As mentioned above, the DBE began lending to flower projects in 2005, with technical support from the Dutch Rabobank. The DBE lends to the sector using a 70/30 loan facility, where 70% of the initial investment volume is the maximum amount the banks will lend, while the capitalist must bring

in the other 30% as a condition for securing the loan. The bank used to accept the project itself as collateral, essentially providing unsecured loans. This was exploited by some early investors, who defrauded the bank, and a cash deposit was made mandatory (see Schaefer and Abebe 2015 for details). Since 2007 the bank has only accepted cash collateral for the capitalist's 30% share.

The bank purposefully takes on risks that commercial banks are unable or unwilling to. Private banks in Ethiopia often do not have the necessary expertise to evaluate large-scale industrial or agricultural projects and also limit repayment periods to 12 years. They are therefore ill-suited to the lumpy investments and long gestation periods that characterise large production projects. The DBE extends loans for up to 20 years, although the average across the whole loan portfolio is about nine years (DBE2).

Table 7.1 - Sources of initial capital (in %) by ownership type.
(Source: Author's calculation from 2010 census data).

Mean fraction of initial finance obtained from						
Ownership type	Own funds (%)	Development Bank of Ethiopia (%)	Local commercial bank (%)	Foreign bank (%)	Other sources (%)	Total (%)
Domestic	34	54	4	0	8	100
Foreign	55	30	3	1	11	100
Joint venture	77	11	9.5	2.5	0	100
All farms	52	33	5	1	9	100

Table 7.1 presents data on the mean fraction of initial investment funds obtained from different sources, both for the sector as a whole and for different ownership types. Just two sources of finance accounted for 85% initial investment in the farms active in 2010: own funds and loans from the DBE. For the sector as a whole own funds, that is funds that were already owned by the capitalist or company prior to entering the farm in question, were by far the most important source of finance, supplying 52% of all initial capital invested in floriculture. Loans provided by the DBE supplied 33% of funds for initial investments. The catch-all category 'other sources' was the source of 9% of initial funds, although only seven farms reported

having sourced funds from this category. Banks other than DBE played only a marginal role, due to the unwillingness of private finance in Ethiopia to lend to high risk long-gestation projects (Schaefer and Abebe 2015), although they were more active in financing the expansion of existing project, which is less risky.

The distributional pattern seen in Table 7.1 shows considerable variation across different ownership types. The pattern just outlined holds fairly well for foreign farms, but not for domestic farms or joint venture operations. Foreign farms relied on own funds for 55% of initial investment needs and on DBE loans for a further 30%. Of the 43 foreign companies active in the sector in 2010, 14 supplied the entirety of their initial financial needs from own funds. However, a number of foreign farms used own funds only for very low fractions of their overall initial investment needs. The 'other sources' that supplied 11% of the funds for foreign farms are easily explained. Five of the seven farms that took funds from 'other sources' were foreign farms, and four of these farms relied on such sources for more than 90% of their initial funds. Of these four companies, two are subsidiaries of mother companies in other countries, while the other two have sister companies that operate farms outside of Ethiopia. The 'other' source of funds is therefore in most cases a related foreign company, which supplied the funds from its own capital stock.

Domestic farms were much more reliant on DBE loans to finance their initial investments. DBE loans accounted for 54% of the initial investment funds used by domestic farms, while own funds only covered 34%. 'Other sources' supplied 8% of funds. The two domestic farms that reported using 'other sources' are both subsidiaries of other companies, implying that their mother companies are the sources of these funds. Strikingly, none of the domestic capitalists were able to meet their initial financial requirements entirely from own sources, while 12 of the 22 domestic farms active in 2010 report taking 70% of their initial funds from DBE loans. Only 30% of foreign farms had taken out the maximum allowed in DBE loans, as opposed to the 55% of domestic farms.

Joint venture farms, of which there were still 12 in 2010, present a different picture yet again. For them own funds are by far the most important source of start-up finance, representing 77% of funds used for initial investment, while DBE loans accounted for only 11%. And even this low percentage of DBE loans in the overall investment finance portfolio is driven by just one joint venture farm, which took out a DBE loan to cover 70% of investment needs. Of the 12 joint venture farms, 10 took no funds from DBE at all. Seven of the joint venture operations are co-owned by Dutch partners, three have UK partners, and one each have partners from Belgium and Israel. The mean share of the largest shareholder in these ventures, presumed to be the foreign partner¹², is 69%. It stands to reason that the rationale for such partnerships is to marry foreign capital to local knowledge of the policy and regulatory environment. That this type of ownership arrangement has all but disappeared in Ethiopia today and has mostly been folded into foreign ownership underlines the weakness of the Ethiopian partners in many of these arrangements, which may in some cases have been of a purely legalistic and instrumental nature anyway.

7.5.3 Pathways of accumulation

The capital requirements for investing in floriculture are, certainly by the standards of average Ethiopian incomes, substantial. The most accessible option for an Ethiopian businessperson to access the necessary funds is the DBE loan facility. But even accepting the lowest estimate for initial investment cost of US\$300,000 per ha of greenhouse space, and this is premised on adopting a very specific production style and most probably not achievable for inexperienced growers, a prospective investor seeking a loan would still have to bring US\$90,000 per ha in order to qualify for the DBE loan facility.

As explained in Chapter Three, I interviewed a total of 16 flower capitalists across 13 separate interviews, of whom six were domestic, seven were foreign and three were from the Ethiopian diaspora. This means that domestic and diaspora

¹² This is an assumption, but it is in line with information from interviews and with census data from other rounds where there is explicit data on ownership shares in joint venture farms.

capitalists were heavily oversampled. Two of the domestic capitalists had left the sector by the time of the interview. It is useful to compare the backgrounds and experiences of these different groups¹³. All but two of the foreign capitalists interviewed came from floriculture backgrounds. Of these two, one farm is the subsidiary of a foreign-owned business group with a long history in Ethiopia, reaching back to the imperial regime. Their main business is the import and distribution of vehicles and machines. The family that own this business group are wealthy, but still made use of the DBE's offer to provide 70% of the capital as credit. The other farm was founded by Sheik Al-Amoudin's business group, which has extensive experience in agriculture. Floriculture was a new venture for them though. As part of Ethiopia's largest private business group, access to capital was not an issue. The group decided to invest after having been asked to by the government. These two investors were the only companies interviewed that were not family-run businesses.

The other five foreign farms were all founded by capitalists with experience in floriculture. One capitalist was a former foreign military officer who had originally come to Ethiopia to train air force pilots. His father had grown flowers in Latin America for many years and helped provide capital, while 70% came from the DBE. Another grower hailed from a European family with experience in flower sales and had himself operated a flower farm in Latin America prior to coming to Ethiopia. The investment funds necessary came from the sale of the business there. One of the others is a subsidiary of a Dutch floriculture company and the mother company provided much of the seed capital. Another was set up as a subsidiary of a European-owned flower company from Kenya, which chose to expand into Ethiopia rather than acquire more land in Kenya. The branch in Kenya supplied much of the seed funding. Lastly, one was a joint investment project between experienced Dutch growers and a large Dutch horticulture company. This last company is unusual in that the majority of its capital came from a foreign bank loan, backed by Dutch government guarantees.

¹³ One of the domestic capitalists refused to discuss his accumulation history though.

In summary, most of the foreign capitalists had extensive experience in floriculture prior to entering the sector. The farms lacking this experience were the subsidiaries of large international business groups, who could easily buy in the necessary expertise and for whom the investment represented only a small share of their overall capital and hence a comparatively small risk. These companies also have many years of experience operating in Ethiopia, and at least in one case felt it necessary to invest in flowers to oblige the government.

The latter experience is paralleled by domestic and especially diaspora investors as well. Both domestic and diaspora investors report that the federal government was pushing for investment in the sector from at least 2006 onwards, and was courting investors quite aggressively. To domestic investors the government promoted the sector as a low-risk investment (FF6, FF9). However, domestic capitalists were less successful than their foreign counterparts at bringing farms into operation even once an investment licence had been granted. The lower conversion rate from licence application to active projects amongst domestic investors may be evidence of the mis-targeting of policy support (Macchiavello and Morjaria 2012). Only one of the domestic and diaspora capitalists had any experience in floriculture prior to establishing their current farms. This individual was a pioneer of the Ethiopian flower sector, whose first farm failed (see Section 7.4). Domestic and diaspora capitalists had to buy expertise by hiring expensive consultants. These cost in the region of US\$1,000 per day, and both domestic and diaspora capitalists report having spent sums of up to US\$18,000 on such expertise while setting up their farms (e.g. FF13, FF9), though some also report having received support from programmes financed by the Dutch government (e.g. FFM1). Moreover, in the early days of the sector some Ethiopian farms were cheated by consultants, who led them to overinvest on material or to buy at inflated prices from companies with which they had financial links (FF5, FF13, FF7). In addition to having to purchase more external expertise, domestic and diaspora capitalists also had access to less money for investment. In my qualitative sample, foreign capitalists invested significantly more in their initial year than domestic capitalists did: the former spent ETB23.7m on average and the latter ETB11.8m. Capital spending per hectare was, with some

exceptions, broadly comparable; foreign capitalists simply established larger farms. For the population of flower capitalists as a whole the respective figures are ETB28.9m and ETB21.3m¹⁴.

All domestic capitalists interviewed were highly educated and had at least an undergraduate degree¹⁵. This is also true for the population of flower capitalists, both foreign and domestic, though foreign capitalists were far more likely to have degrees in agronomy, while most domestic and diaspora capitalists have degrees in business administration and related disciplines. The high level of education amongst Ethiopian and diaspora capitalists reflects their social origins in the Ethiopian elite. One is the scion of a successful Ethiopian business family, with prior investments in manufacturing and the import trade. The family provided 30% of the seed capital and borrowed the rest from the DBE. Two others did not come from wealthy families, but had managed to accumulate substantial amounts of capital prior to entering the floriculture business. One had made money as a *mercato* trader, before opening a share company with friends, who had invested successfully in textile manufacturing and hotels¹⁶. This capitalist completed a degree prior to opening the share company. The DBE provided a loan for 70% of the initial capital. Another capitalist made money in trucking for humanitarian relief efforts, before expanding into grain trading and acquiring a former state vegetable farm when this was privatised. The farm was opened with a foreign business partner. They jointly provided 30% of the seed capital from their other businesses and borrowed the remaining 70%. This investment was one of the first 'real' joint ventures in the country. The first joint venture had a domestic capital share of just 0.5% (FF8).

One domestic capitalist got part of the seed capital by working in a professional position in the Ethiopian branch office of a transnational corporation. He used

¹⁴ The census does not provide data on the amount of land initially developed, so it is not possible to assess in how far the higher capital spend in the population is due to foreign capitalists developing more land or spending larger amounts per hectare.

¹⁵ As mentioned above, one of the domestic capitalists refused to answer any questions pertaining to his background. His education level could not be established.

¹⁶ The *mercato* (the Amharic term is taken from Italian) is a gigantic open air market in Addis Ababa, catering to both retail and wholesale markets. It is the centre of Ethiopia's trade in food, consumer goods and spare parts.

severance pay and accumulated savings from that position to start a share company with 20 other acquaintances. They decided to invest in a flower farm and were able to borrow 70% of the necessary capital from the DBE. This farm has since been taken over by a foreign investor, perhaps indicating the instability of the original arrangement. Just one domestic capitalist began his career in agriculture. After attending university he took over a 10ha mixed produce farm from his father. Using proceeds from the farm he was able to expand into livestock fattening and livestock trading. He is the only domestic respondent to have had experience in floriculture from working on open field farms during the Derg regime. After his first foray into floriculture failed, also an open field farm, he was able to fall back onto his livestock business. He opened a greenhouse-based flower farm with a foreign business partner, unusually using a commercial bank loan for 70% of the capital. Though the circumstances are not clear, it seems the foreign partner later pulled out and he became the sole owner of the farm.

The diaspora investors interviewed were diverse in their accumulation paths. One came from a family of professionals abroad, who were able to provide 30% of the start-up capital, while the DBE provided the rest. Another had originally come back to Ethiopia to open a successful alcohol import business. Wanting to expand into another business that generates foreign exchange, he was “enticed” by the government to invest in flowers. The sale of his first business covered 30% of the necessary funds and the DBE provided the other 70%. The last diaspora investor made money working in the UK financial sector. By pooling his savings with an Ethiopian business partner, whom he later bought out, he was able to put down the 30% necessary to get the DBE to lend the rest.

The domestic and diaspora investors have travelled a wide variety of accumulation paths. The large capital requirements, even when taking advantage of generous DBE loans, mean that they need to have either had substantial business success in their own right, or have access to money through their families or business partners. What is perhaps most striking is the almost complete absence of agricultural, let

alone floricultural, experience prior to entering this knowledge-intensive sector. This analysis will be taken up again in the next chapter.

We should also briefly examine farm failure, which is an important aspect of the accumulation pattern in the sector. As shown in Section 7.3, there has been a substantial reduction in the number of farms since 2009, and since 2012 for domestic and foreign farms in particular. The ‘churn’ in the sector has been substantial since the early days. For instance, between 2007 and 2009 alone seven farms were taken over by rivals and nine farms exited the sector completely (Suzuki and Mano 2015). Following the crisis, another ten farms were foreclosed up to 2013, the majority were domestic (Oqubay 2015). Farms are foreclosed by the DBE as a measure of last resort, when loan rescheduling fails to produce a solution (see also Section 7.4.3). Successful farms, which have developed their entire land lease and are constrained in their expansion by a lack of land, can further accumulate land by taking over failed farms (EL, FF5, FF3). Successful sector capitalists and government officials all report that farm foreclosures are due to indifferent management, and that this is a more common problem for domestic investors. As we have seen, domestic investors are less likely than foreign capitalists to be fully focused on floriculture. “Ethiopian investors may own three firms [in addition to their flower farm], but focus on their other businesses.” (EG10). Some may also have been pushed or enticed by the government to invest and appear to have underestimated the challenges inherent in running a flower farm: “You must focus completely on the farm and be there with your flowers every day” (FF11). Interestingly, according to census data domestic farms are far more likely to employ ‘advanced’ management tools such as performance related pay, but foreign capitalists maintain that even the best domestic farms are not on a par with experienced Dutch growers (FF12). The profitability of a farm depends more on product choice, market knowledge, and the design of the overall labour process than on labour management tools.

We turn now to the other two major factors of production – land and labour – before discussing why the outcomes have been so different for foreign and domestic farmers. Once this has been established I will argue that the strategic aims of the

Ethiopian government were well-served by the floriculture sector, despite its (relative) 'failure' to incubate successful domestic capital accumulation.

7.6 Land and farm size

As explained in Chapter Four, it is government policy to avoid mass expropriation of smallholders in the central highlands, as this would entail unacceptable political risks (see also Makki 2012; Makki 2014). Floriculture, which uses relatively small amounts of land to produce large amounts of foreign exchange and generates a lot of employment in peri-urban areas, is therefore ideal from the government's point of view.

Good land for floriculture, and in particular for growing roses, must have particular characteristics: The land needs to be situated close to a plentiful supply of water (Wijnands 2005). Nights should be relatively cool, but daytime temperatures should be high, with good solar irradiation. Rainfall should be reliable, but not excessive (de Vries 2010). In general, these conditions are met in the Rift Valley regions of Ethiopia, where all Ethiopian flower farms are located. The floriculture areas of Ethiopia consist of two distinct growing areas, with different agro-ecological profiles, which necessitate quite different systems of production. Highland areas, from 2,400m to 2,600m, are especially suitable for the production of large-headed rose varieties, which fetch premium prices in the market, but have much lower yields than smaller-headed varieties. Intermediate types can also be grown here. Lower-lying areas, from about 1,800m down to 1,000m are good for growing small bud and intermediate varieties. These fetch lower prices per stem but have higher yields (Joosten 2007). Environmentally, the only downsides to Ethiopia as a growing location is the prolonged summer rain season in the highlands, which increases the disease burden on plants due to the high levels of humidity it produces (de Vries 2010).

However, agro-ecological factors are not the only consideration when it comes to identifying suitable land for a flower farm. Land for floriculture must be close to an international airport to allow for prompt export. Such an airport must be equipped with cold storage facilities so that flowers can be packed with minimal deterioration

in quality. Most flower farms in Ethiopia are in the vicinity of Addis Ababa airport, where the Ethiopian government has built a cold storage hall. In 2013 no farm was more than five hours drive from the airport in Addis Ababa, and the mean driving time to the airport was under two hours.

However, as shown in Chapter Four, access to land is an intensely political topic in Ethiopia. Once policy support for the sector really took off in 2005, the Ethiopian government sought to make land easily available to investors. To this end the federal government encouraged regional governments to lease land from their own holdings to investors and to help the new capitalists negotiate land leases directly with local farms. As is also the case with coffee, it appears there is substantial corruption in the land allocation processes at regional and sub-regional levels (FF11), which are also accompanied by speculation, as some ‘investors’ took land in the hope of being bought out by capitalists actually seeking to build farms (EL). According to the EHDA, the early days of the sector attracted “licence hunters and land grabbers”, leading the government to impose a minimum investment threshold (GE10). Federal and regional agencies frequently contradict one another’s rulings on land issues (EL). The result was that some farmers lost access to state land they had been using, but had no legal rights to, in which case they received no compensation (FFM2). Other farmers were expropriated by the government to make room for the flower farms. Given the severe shortcomings of Ethiopia’s compensation system in cases of land expropriation (see Ambaye 2013), the result was often a simmering resentment to the new developments, even though members of these farming households are often employed there: “if anything happens [i.e. a worker gets seriously injured] on the farm, I fear they [the surrounding population] will destroy it” (FFM2). Misgivings about land administration in the regions were also an important factor in the spate of protests that began in Oromia region in October 2015 (Berhane 2015).

7.6.1 The distribution of land holdings

High quality census data on land leases and land development with greenhouses is only available from 2005 onwards. Total land leases grew from 1,081ha in 2005 to a

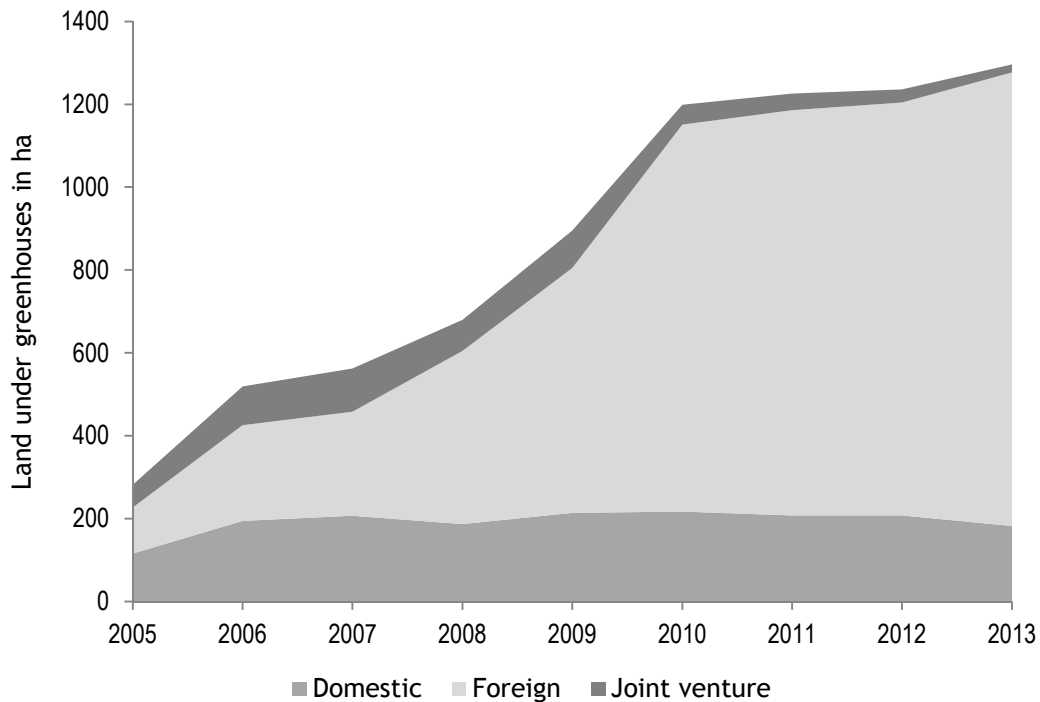
peak of 2,897ha in 2009, after which they dropped back slightly to 2,606ha in 2013. The amount of land under greenhouses grew more steadily, as greenhouse construction represents a costly investment, compared to taking out a lease. Over the same period land under greenhouses grew from 282ha in 2005 to 1,296ha in 2013. Growth in greenhouse construction slowed down markedly after 2010 but was still positive over the whole period.

However, the distribution of floriculture land in Ethiopia is dominated by foreign farms. While domestic farms had leased more land than foreign farms in 2005, this dominance had already been overturned by 2006. Total land leases by domestic farms reached their highest level, 665ha, in 2007 and have declined in most years since, bottoming out at 356ha in 2011, before recovering slightly after that. Foreign land leases, on the other hand, have driven the expansion of total land leases almost by themselves, growing every year, apart from a slight reduction in 2010. By 2013 foreign farms held a total of 2,066ha of leased land, dwarfing the 485ha held by domestic farms that year. Particularly interesting is the period from 2011 onwards, as foreign farms expand their holdings by taking over leases previously held by domestic farms.

The polarised distribution in land is even starker when looking at land that was actually developed with greenhouses. This data, disaggregated by ownership type, is presented in Figure 7.6. As aforementioned, total land under greenhouses expanded in every year for which there is data, although the growth rate has slowed dramatically since 2010. Domestic farms as a group have hardly increased the amount of land they have under greenhouses since 2006, and the small gains that were made had been reversed by 2013. After a high point of 217ha in 2010, the land under greenhouses held by domestic farms fell back to 182ha in 2013, which is lower than the 195ha that group had held in 2006. Foreign farms, on the other hand, have expanded the amount of land under greenhouses they hold in every year since 2005 and by 2013 totally dominated the distribution of land under greenhouses. They grew from just 111ha under greenhouses in 2005 to 1,095ha under greenhouses in 2013. Over the same period joint venture farms have all but

vanished, leaving just two farms by 2013, holding a combined total of 19ha under greenhouses. The sector has gone from an almost completely even distribution of land between foreign and domestic firms in 2005, to a situation in which foreign farms hold 84.5% of all greenhouses, while domestic farms hold only 14%.

Figure 7.6 - Land under greenhouses (in ha) by ownership type
(Source: EDRI survey, various years)



The domination by foreign capital is due to both rises in the relative number of foreign farms vis-à-vis domestic farms and the larger average size of foreign farms. As seen in Figure 7.5, foreign farms made up 71% of all farms in 2013, up from 32% in 2005. And, as shown in Table 7.2, which presents the mean amount of land under greenhouses per farms for different ownership categories between 2005 and 2013, foreign farms have also expanded more rapidly.

Domestic farms have increased the amount of land under greenhouses from an average of 8ha in 2005 to an average of 11ha in 2013. At the same time foreign farms appear to have grown from an average 9ha under greenhouses in 2005 to an average of 23ha in 2013. However, this average is heavily distorted by the presence of Sher Ethiopia with its enormous landholdings. Sher Ethiopian alone held 420ha under greenhouses in 2013. But even excluding Sher Ethiopia, foreign farms on

average are larger than domestic farms, and the gap between foreign and domestic farms has been growing in recent years, from 1ha in 2007 to at least 3ha from 2010 onwards.

Table 7.2 - Mean amount of land under greenhouses by ownership type (in ha) 2005 – 2013.
(Source: author's calculation from census data)

Mean land under greenhouses (in ha) held by

Year	Domestic farms	Foreign farms (incl. Sher Ethiopia)	Foreign farms (excl. Sher Ethiopia)	Joint ventures
2005	8	9	n.d.	6
2006	9	9	n.d.	6
2007	9	10	10	7
2008	9	11	11	7
2009	10	15	12	14
2010	9	23	13	12
2011	10	23	13	10
2012	10	23	14	8
2013	11	23	14	10

Foreign capital has been the driving force behind the expansion of the sector. To speak of an Ethiopian floriculture sector is correct only in that the sector is located in Ethiopia and uses Ethiopian land and Ethiopian labour to grow flowers. The vast majority of means of production are not owned or controlled by Ethiopian capital. As we shall see in the next section, the foreign capital was also responsible for the bulk of employment the sector has created.

7.7 Employment, wages and labour agency

The Ethiopian floriculture sector has been very successful in creating employment. The sector relies exclusively on wage labour to fulfil its labour demand and employs both skilled and relatively unskilled workers. Amongst the unskilled workers we find predominantly production and packhouse workers. The majority of these unskilled workers in the sector are women. In 2007, the last year for which data is available, 70% of production workers were women. This figure is confirmed in interviews (FFM2). Some farms have a gendered division of labour, whereby women are employed directly in production, while men form the maintenance

teams (FFM2). Their work is overseen by supervisors, who are better trained and are responsible for ensuring productivity and labour discipline. All farms also require more specialised workers though, from clerical and administrative office staff to floriculture specialists in production. Unlike in coffee, labour costs represent only a fraction of a flower farm's fixed costs, generally not exceeding 5% (Taylor 2011, various interviews).

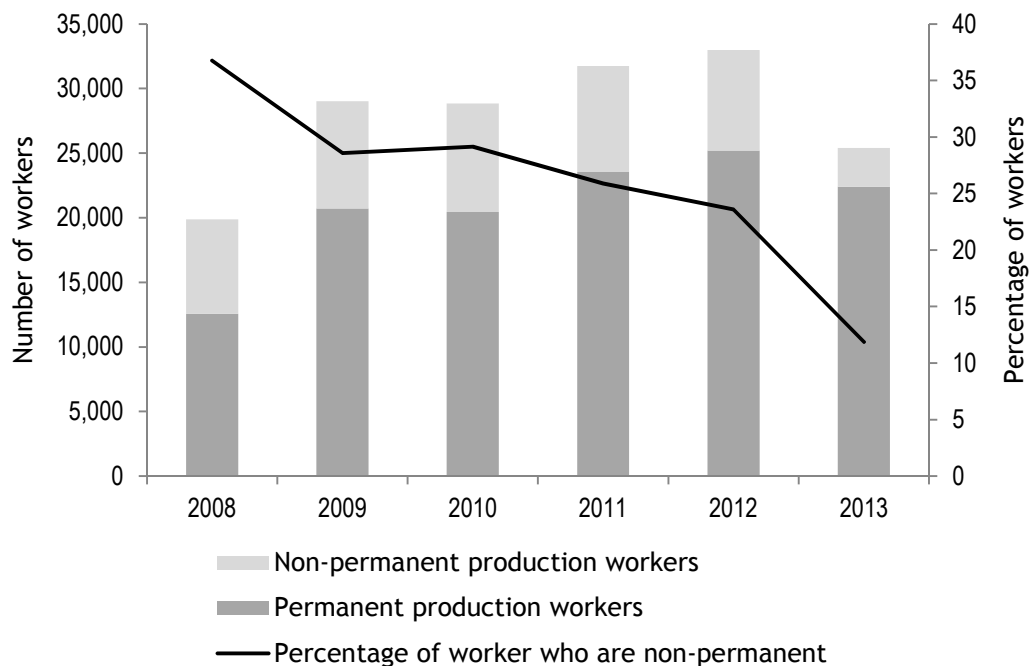
7.7.1 Employment creation

Job creation in the sector has been very rapid. The sector is extremely labour intensive. Both foreign and domestic farms required an average of 24 production workers per hectare planted in 2013. One foreign farmer said that in Colombia that figure is closer to 12 workers per hectare (FF5). In the early days of the sector labour was pulled in from surrounding villages, but that labour supply was soon exhausted. The rapidly growing labour demand was met through increased labour migration to the flower growing areas (Mano et al. 2011). The town of Ziway, which is home to Sher Ethiopia and a major centre for flower production, has experienced very rapid population growth (Taylor 2011).

The majority of jobs created have been for production workers. These are for the most part relatively unskilled positions in the greenhouses and packhouses. In 2013, these accounted for 91% of all jobs in the sector. Workers receive on-the-job training, supplemented by training sessions provided through the EHPEA's training department. For rose growers it takes between five days and a week to train a worker (FF9, FF11). For propagation work, which is more complex, it can take three months to train a worker (FF11). Job growth in this category has been strong. Production workers are employed under different contractual arrangements: on permanent contracts, temporary contracts, or employed as day labourers. Under Ethiopian employment law (specifically Labour Proclamation 377/2003), workers employed on a temporary contract must be made permanent after 45 days of employment, and adherence to this rule is a condition of getting bronze level COP certification, which, as mentioned above, is mandatory for all farms (EHPEA 2013).

The demand for labour in Ethiopian floriculture production is directly related to the demand for Ethiopian flowers in its export markets, of which the EU is by far the most important. Peak periods of demand are in the lead-up to Valentine’s day, Mother’s day, and Easter. In periods of high demand, volumes of purchases and prices rise. Labour demand rises concomitantly as farms struggle to deliver sufficient quantities. Conversely, demand and prices are low from June to September, with the lowest demand from July to mid-August, and in the so-called ‘green weeks’ leading up to Christmas (FF4). The lull in summer is also partly due to the fact that European flower producers are better able to meet demand from the EU during summer, when they do not have to heat their greenhouses. Ethiopian farms therefore require substantial flexibility in terms of labour supply across the year, and they employ two distinct mechanisms to try and maintain this flexibility. On the one hand they make substantial use of (paid) overtime arrangements (FFM1), making workers work much longer hours in periods of peak demand. This includes the use of enforced overtime, which is illegal in Ethiopia (Aman 2011). On the other hand they use temporary contracts and day labourers.

Figure 7.7 – Number of workers (LHS) & share of temporary workers (RHS) in production 2008-2013
(Source: EDRI survey, various years)¹⁷



¹⁷ Separate data on production workers is only available from 2008 onwards.

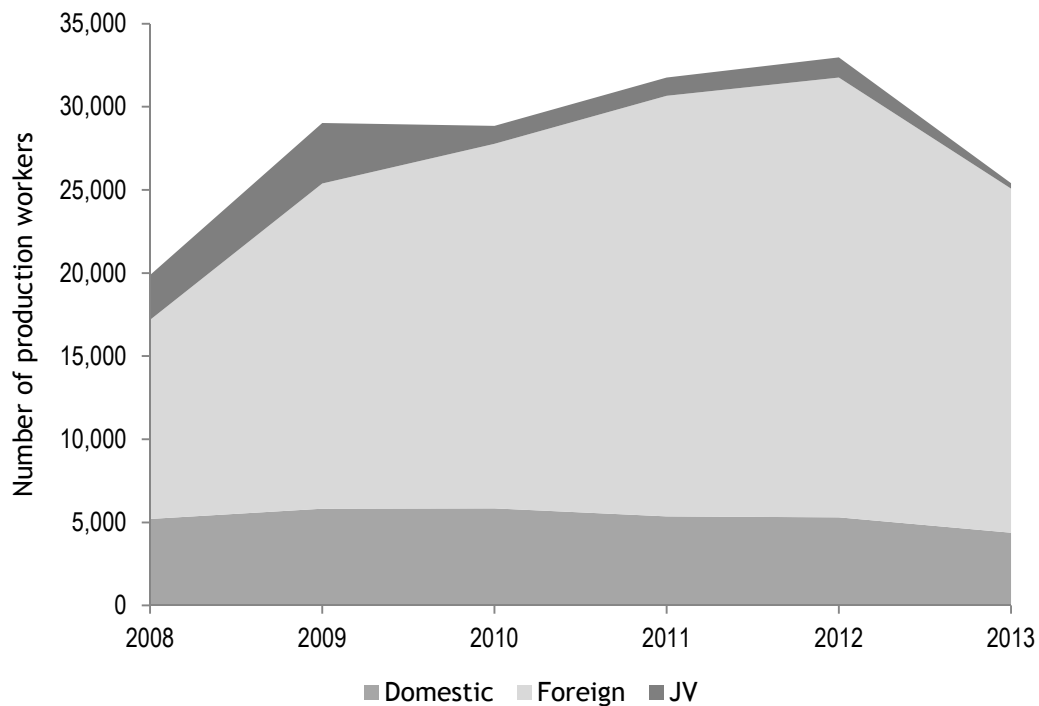
Figure 7.7 shows the numbers of permanent and non-permanent production workers and the percentage of production workers on non-permanent contracts between 2008 and 2013. The figures given are averaged over calendar years and therefore do not reflect the seasonality of employment in the sector. They do, however, very clearly show a trend towards decreasing casualization, at least in relative terms. By 2008 there were 19,882 production workers, of whom 37% were not on permanent contracts. The number of production workers rose steadily as the output of the sector grew, reaching an all-time high of 32,973 workers in 2012. By then the proportion of non-permanent workers had fallen to 24%, but had grown in absolute terms compared to 2008. In 2013, the number of production workers dropped to 25,140, a reduction by 23% compared to 2012. Most of this fall came from a reduction in the use of casualised workers. Their number dropped to only 3,018, a decrease of 71%. Non-permanent workers made up only 12% of the production workforce in 2013¹⁸. The sharp reduction of non-permanent workers from 2012 to 2013 underlines the precarious nature of casual employment, as these workers will be the first to be dismissed when demand lessens.

The development of employment in production, like the distribution of land discussed above, shows substantial differences between foreign and domestic farms and joint ventures. Figure 7.8 reproduces the employment figures for production showing the distribution of employment for each types of ownership. Almost all of the increase in the employment of production workers between 2008 and 2013 has occurred on foreign farms. The number of production workers on domestic farms increased from 5,198 in 2008 to 5,304 in 2012, a rise of just 2%. By contrast, the number of production workers on foreign farms more than doubled from 11,982 in 2008 to 26,453 in 2012. During the same period joint ventures saw their production workforce decrease from 2,707 to 1,216. The subsequent fall in employment in 2013 affected both domestic and foreign farms in similar proportions, and the production workforce on joint venture farms collapsed into near insignificance. Over the last

¹⁸ These figures should be viewed with caution as they are based on self-reporting by companies. As Ethiopian labour law enforcement has become more stringent with the imposition of the mandatory bronze level COP certification, firms may lie about their use of casualised labour.

few years that part of employment growth in the sector that matters most for the poor has expanded almost exclusively due to the presence of foreign capitalists, whilst the latest fall in such employment has been shared almost equally in proportional terms by both foreign and domestic farms.

Figure 7.8 - Number of production workers by ownership type 2008 – 2013
(Source: EDRI survey, various years)



However, the sector has also been an important source of employment for skilled labour, both in production and in administrative and managerial positions. In the beginning it was very difficult to find Ethiopian staff who were qualified for more senior positions. The educational component of the Ethiopian Netherlands Horticulture Partnership was intended to help train a new generation of Ethiopian technical specialists. Due to the lack of qualified and experienced personnel in the country, the government had allowed farms to hire foreign professionals to fill gaps in technical and managerial positions that could not be staffed with Ethiopians, but this was considered far from satisfactory (Taylor 2011). An EHPEA survey revealed a substantial demand for more local skilled staff and trained professionals. In response a diploma programme was set up at Jimma University. The diploma quickly proved to be insufficiently advanced to meet the needs of the sector and

eventually full BSc and MSc degrees in horticulture were established at the same university (FF7). Whilst equipping graduates with solid theoretical foundations, the degrees still left them ill-prepared for the practical challenges of working on a farm, where the scope for error is very small (FFM2). So a practical training centre was opened to give training to both recent graduates and existing employees (Gebreyesus and Sonobe 2012). Another important component of training is provided by the EHPEA's own training department. Skilled workers still require at least one month of one-the-job training (FF3).

The education programme was very successful in providing people with the necessary skills to the sector. In 2013 there were 1,789 managers and supervisors from Ethiopia and 85 managers and supervisors from overseas, while the corresponding figures for 2009 were 1,321 and 130, respectively. In other words the share of foreign senior staff fell from 9.8% to 4.8% in just four years, which shows the powerful 'import substitution' effect of educating higher level specialists in Ethiopia. Domestic farms have always relied on Ethiopian staff. Strikingly though, by 2013 more than half of the foreign farms had Ethiopian farm managers and 15% even had Ethiopian general managers. By comparison, in 2007 only 32% of foreign farms had Ethiopian farm managers, while just 8% employed Ethiopian general managers. So while the sector is dominated by foreign capital, that capital is increasingly using Ethiopian skilled labour.

Moreover, the sector is using more skilled labour per unit of land. In 2009 domestic farms on average had 1.5 managers and supervisors per hectare planted, and foreign farms had 1.9, while the average for all farms was 1.7. By 2013 the all-farm average has increased to 1.9 per hectare, showing that production was more closely supervised and managed. All of this increase was due to foreign farms, who were employing 2.2 managers and supervisors per hectare, while this number had dropped to just 1.2 on domestic farms. Given the knowledge-intensity of production, this development does not auger well for the future of domestic farms.

7.7.2 Wages and working conditions

The introduction of standards in the form of the COP appears to have had a positive impact on working conditions. Standards tend to be more effective in the direct sales route, where buyers have greater influence than in the auction route (Taylor 2011; also see Riisgaard 2009 for similar results in Kenya and Tanzania). A much greater effect though is likely to come from the pressures inherent in maintaining a stable production regime in a demanding and highly competitive market (see Gibbon and Riisgaard 2014 & Riisgaard and Gibbon 2014 for the situation in Kenya).

The best evidence on wages in Ethiopian floriculture comes from the FTEPR project. Unlike the EDRI data this does not rely on self-reporting by employers. Moreover, the FTEPR data takes into account all aspects of the 'social wage', such as the provision of food and medical services. The FTEPR project reports a median daily wage of ETB12.5 (US\$1.13 at the time) in 2009 (Cramer et al. 2014b: 73). Large and statistically significant effects were found for returns to education while there was no significant difference between genders – at least among unskilled production workers (Cramer et al. 2014b: 12). The FTEPR team also report that 90% of employers provided clean toilets, 90% paid for overtime and more than half had some provision of medical care. However, the same report also notes that 40% of farms applied pesticides while workers were in the greenhouses, and that 44% of workers had experienced payment delays, while 29% reported physical or sexual abuse at the workplace (Cramer et al. 2014b: 86).

Looking at the self-reporting forms, the EDRI census shows that there have been large increases in nominal wages. In 2013 self-reported daily cash wages for production workers, not including the social wage were ETB23.4 for new workers, rising to ETB30.2 after completing training, or US\$1.27 and US\$1.64. Most of this increase simply means that wages have kept pace with inflation: adjusted for four years of CPI inflation ETB12.5 in 2009 equal ETB24.5 in 2013. The rest of the increase is due to the need to retain workers in the face of competition from other sectors, in particular urban labour markets in construction and manufacturing, and the

possibility of migrating to the Middle East in search of work (see for instance Fernandez 2010; Fernandez 2013). The latter option, which drew especially young women who hoped to find work in domestic service, had a hugely destabilising effect on the floriculture workforce (FF1, FF11, FFM2). When the Ethiopian government closed the legal migration route to the Middle East in late 2013, this reportedly greatly reduced turnover (FF13).

It seems less likely that rising nominal and real wages in the sector have been the result of labour activism. While almost the entire workforce of the sector is apparently unionised (Oqubay 2015), unions in Ethiopia are extremely weak. Ever since the Ethiopian government's repression of the Ethiopian Teacher Association (ILO 2002), unions have had to battle restrictive legislation and an unwillingness of private employers to engage with unions (CETU 2012), as well as internal weaknesses such as a lack of trained staff (Bersoufekad 2003). However, the 2003 labour proclamation has strengthened the position of unions with regard to collective bargaining rights (ILO 2013).

The situation of unions in Ethiopian floriculture has hardly been researched and the published material available is contradictory. While a report commissioned by Ethiopia's main agricultural union reports that over 90% of surveyed floriculture workers believe the unions promote their interests (Aman 2011), an independent researcher claims that respondents thought unions had little power to influence wages or conditions and complained about corrupt union leaders (Beyene 2014). The latter researcher concludes that: "It appears that unionization among flower workers in the Rift Valley area was functioning with the purpose of fulfilling international marketing requirements rather than empowering its members to claim their rights." (Beyene 2014: 60). It is possible that improvements in wages are due to increasing certification of farms according to international standards. Further research will be necessary to establish whether the adoption of international standards has had an impact on wages and working conditions (see for instance Gebreyesus 2015; Riisgaard 2011). Given the relative weakness of organised labour in the sector, it is not surprising that a recent survey found that more than half the

sampled workers reported low levels of job satisfaction due to concerns about low wages, job insecurity and health risks (Staelens et al. 2014).

To summarise the argument so far, it is clear that domestic farms have not been able to match the growth of their foreign counterparts, with the result that foreign capital dominates the sector – as we have seen – in terms of capital expenditure, land leases and control over labour.

7.8 Knowledge, markets and differentiation among capitalists

7.8.1 Access to varieties

As has already been demonstrated above, bringing to market, selling and delivering fresh flowers is a complicated and logistically demanding process. Much depends on the correct choice of varieties. Picking the right varieties to grow requires knowledge of agronomy, the market, and contacts to specialised buyers who can supply information about what end customers want. It is striking how differently foreign and domestic growers view the significance of variety choice. Foreign growers stress the importance of choosing the right varieties, ones that will grow well in the particular micro-climate of the farm and fetch good prices in the market, with great consistency. While some Ethiopian growers are aware of the vital importance of variety choice, and acknowledge that foreign companies have an advantage in this regard (FF13), others appear blasé: “Flower is flower. You pick them from the catalogue. It is just like choosing your clothes” (FF10)¹⁹. Ethiopian growers are, with some notable – and successful – exceptions, not only less careful and less well informed when it comes to variety choice, they also grow fewer varieties. In 2012, the average foreign farm grew 12 varieties of roses, while the average domestic farm grew only seven. One particular foreign grower offers a selection of around 40 varieties, with an even greater number constantly being trialled in test patches on the farm (FF5).

¹⁹ Perhaps not surprisingly this grower had left the sector.

While domestic growers are certainly at a disadvantage in terms of understanding the market for flowers, and therefore may underestimate the importance of variety selection, they also face supply constraints. Roses and other flower varieties, as described in Section 7.2, are produced by commercial breeders, who are constantly striving for novelty in a fashion-driven market. Breeders are concentrated in the Netherlands and, to a lesser extent, Israel (Wijnands 2005). They use 'classic' techniques of increasing their profits, namely market segmentation and price discrimination. Breeders reserve access to the newest varieties likely to fetch the best prices for the 'best' growers, namely those they know and trust. The general managers of foreign farms in Ethiopia in 2013 had on average more than twice as much experience in floriculture as their counterparts on domestic farms. Due to their long years in the business, foreign growers have been able to build these vital trust relationships with breeders.

At the same time, breeders offer different contractual arrangements to different growers. While Ethiopian growers mostly report that they purchase varieties on a five-year basis, with all royalties payable upfront (FF6), foreign growers are often offered contracts that demand pre-payment of royalties only for a year at a time, with some contracts offering even shorter periods (FF4). In part, this behaviour is understandable as some domestic growers have in the past chosen to simply not pay any royalties, in effect stealing the intellectual property of the breeders that supplied them (FF9). The end result is that domestic growers are collectively treated as potential thieves and are offered markedly less flexible contracts as a result. Having to provide pre-payment for longer periods not only creates liquidity pressures for the farms, but it also locks farms into growing particular varieties for long periods of time, giving them little room to adapt to market trends or the demands of particular buyers. This makes their participation in the more lucrative direct sales market less likely.

Beyond their superior access to varieties in the market, at least some of the foreign farms have also managed to build the technical capabilities necessary to secure their own supplies of varieties. As shown in Table 7.3, while all domestic farms are

reliant on breeders for their supply of varieties, almost 20% of foreign farms have access to other channels. A small number obtain varieties from their mother companies (see Section 7.5), whereas around 13% of foreign farms in Ethiopia breed their own varieties, something no domestic farm is capable of.

Table 7.3 - Sources of new varieties by ownership type
(Source: EDRI census, 2013 round) NB: figures are rounded and do not always sum to 100%.

Ownership type	Share of farms purchasing varieties from		
	Breeders (%)	Mother company (%)	Own development (%)
Domestic	100	0	0
Foreign	82	4	13
Joint Venture	50	0	50

7.8.2 International linkages and experience

Besides their easier and better access to breeders, and hence varieties, foreign farms are also often integrated into international business structures, giving them greater access to capital and allowing them to sell to other branches of the business abroad. Data for the 2013 census at first glance reveal little variation between foreign and domestic farms in terms of integration into wider business structures. About 35% of the farms in each group are a subsidiary of another company. However, a closer examination of the data does reveal a significant difference. All of the six Ethiopian farms that are subsidiaries are owned by mother companies from Ethiopia. Four farms are owned by mother companies that own two farms and one belongs to a mother company whose field of activity cannot be identified. Another farm, Selam Flower Plc, claims to be owned by “Effort Company”, which almost certainly refers to the party-linked Endowment Fund for the Rehabilitation of Tigray (EFFORT)²⁰.

By contrast, of the 16 foreign farms which are owned by another company, only two are owned by companies located in Ethiopia²¹. Of the 14 companies whose mother

²⁰ Confusingly, while Vaughan and Gebremichael (2011) confirm that EFFORT used to own a company called Selam Horticulture, this was no longer listed as an EFFORT company in 2011.

²¹ And these mother companies are of course foreign-owned or the farms would not be classed as foreign.

companies reside outside of Ethiopia, seven are owned by Dutch companies, three by Indian companies, and one each by companies from the UK, Belgium, Switzerland and Germany. More importantly though, almost all of the mother companies have experience in floriculture or other forms of technologically advanced agriculture. This of course conveys a significant advantage to their daughter companies in terms of knowledge about production technology, production process management and marketing. In addition to these linkages, another four foreign companies had sister companies engaged in floriculture in other countries.

7.8.3 Business models and firm ownership

Given their superior experience, international connections and – at least in some cases - technical capabilities, it is not surprising to find that foreign farms tend to operate a different business model to domestic ones. While they are of course both in the business of selling cut flowers, the similarity is in some cases superficial. Table 7.4 shows the average fraction of sales through different marketing channels by ownership type. For the sector as a whole, direct exports account for 65% of sales while 33% go via the Dutch auction. However, the Dutch auction accounts for 70% of sales by domestic farms, on average, while the direct sales account for only 29%. The opposite is true for foreign farms. They make an average of 79% of their sales in the direct sales channel and use the auction only for 19%.

The average figures just presented hide part of the picture. Of the 46 foreign farms active in 2013, 30 farms sold all of their produce through direct sales. By contrast, only three of the 17 domestic farms active that year sold more than 50% of their flowers via direct sales, and five domestic farms – almost one third – had no direct sales at all in 2013. Foreign farms are predominantly engaged in direct sales, whereas the standard for domestic farms is to sell to auction. There are of course exceptions, i.e. successful domestic farms that sell all or most of their flowers directly and foreign farms that rely completely on auction sales, but by and large foreign and domestic farms operate different business models. Those foreign farms

that rely primarily on the auction route tend to be producers of very high quality flowers (FF12).

Partly this bifurcation of the Ethiopian floriculture sector according to ownership type is due to the integration of some foreign farms into international floriculture companies, such that these farms only sell to their mother companies abroad. In part, however, it is also due to the superior market knowledge possessed by foreign farms, who have much easier access to relevant networks, both internationally and in their home countries.

Table 7.4 - Marketing channels by ownership type in 2013.
(Source: calculated from EDRI census data.) NB: figures are rounded and do not sum to 100%.

Ownership type	Mean fraction of total sales going to			
	Auction in the Netherlands (%)	Other auctions (%)	Direct export (%)	Domestic market (%)
Domestic	70	0	29	1
Foreign	19	1	79	3
Joint venture	48	0	50	3
All farms	33	1	65	2

One might be tempted to think of this foreign domination as a hidden failure within Ethiopia's premier case study for the success of its industrial policy, but this would be mistaken. The strategic goal of the EPRDF is not *primarily* the successful creation of a dynamic group of domestic capitalists. Rather, dominant elements of Ethiopia's political elites seek to secure the political and economic means to pursue their project of state-led development – fuelled both by the belief that this is the best way to ensure the development of Ethiopia and by concerns for their own political and economic survival. Creating employment is a necessary ingredient as this helps secure social peace and buys time for a successful developmental state to grow. But more important is control over large amounts of foreign exchange, without which the public investment programmes at the heart of this project cannot proceed. I turn now to an explanation of how this control was established in the floriculture sector.

7.9 State control of foreign exchange

As in the coffee sector, it is clear that the overarching concern for the government was the generation of foreign exchange, followed by the need to create employment – a point which is acknowledged by leading Ethiopian policy makers, see Oqubay (2015). Although some capitalists point to the limited concern for the welfare of workers in the early days of the sector to suggest that the generation of foreign exchange was the more important goal (FF5). Both of these objectives should be understood as contributions to the EPRDF's overall politico-economic project, as discussed in Chapter Four. In the flower sector, where practically all produce is exported, the main worry for the government is not so much to ensure that goods are actually exported and thus generate foreign exchange, but to make sure that the foreign exchange is available to the Ethiopian state (I return to this point in the next chapter). To achieve this latter aim the government employed a mixture of regulation and activist industrial policy.

The regulatory arm of the foreign exchange control regime for the sector is handled by the National Bank of Ethiopia (NBE), which is the central bank and controls the inflow, distribution and outflow of foreign exchange. The NBE decides whether farms are eligible for export permits, without which farms may not trade abroad. As there is almost no domestic market for flowers, farms crucially depend on their ability to export. When flower farms export they are paid in international reserve currencies. They are then forced to remit 90% of this foreign exchange to the NBE, which pays them out in Ethiopian birr (FF12). The remainder can be used to import inputs or make payments abroad. Failure to remit the correct amount, even if resulting from errors made by either NBE or the Customs and Revenue Authority, means the farm is held to be 'in arrears'. Farms that are in arrears are not eligible for the renewal of their export permit and so will be unable to export until they have settled their accounts with the NBE (FL). Sector capitalists largely agree that some regulation was necessary, as farms were cheating the government by illegally keeping foreign exchange earnings abroad. A directive regulating foreign exchange earnings was passed in 2008, but had limited impact. As of 2010 export permits had

to be sought on a monthly basis (FL)²². In 2011 the rules were changed again. The amount to be repatriated was based on the weight exported rather than the stem count as before. Exporters complained that the new rules were inflexible, as the minimum to be repatriated is only infrequently reassessed and hence does not move with market prices. Consequently, when prices are too low, as happens during the seasonal lulls in demand, farms reduce exports as they would have to repatriate more than they are paid for the flowers (FF11). In these circumstances it is more economical for farms to destroy their produce (FF4). Moreover, it is apparently very easy to be placed in arrears and lose the export permit even for minor mistakes. One capitalist complained that his farm had lost its export licence for a month as a result of an error of around €2,000 – a trifling amount for a company with annual turnover over €10m (EL). Farm owners hence take a rather dim view of these regulations (Oqubay 2015). A domestic capitalist summed up the situation: “They [the Ethiopian government] want to have hard currency but are blocking it out of ignorance” (FF1).

Another problem is that the system of regulation is considered to be unfair. Should they choose to, foreign companies can quite easily circumvent this regulation by selling flowers to their parent companies at falsely low prices (FF8). They could then legally transfer all of the foreign exchange thus generated to Ethiopia, while much of the real profit accrues to the mother companies which sell the flowers on. Domestic companies without parent or sister companies abroad would find it much more difficult to engage in such fraud. It is not possible to assess how prevalent such practices are, but some foreign growers believe them to be widespread (e.g. FF12), and some domestic growers agree (FF2). A leading Ethiopian policy maker also counts the diversion of funds by foreign farms as one of the major challenges facing the sector (Oqubay 2015).

The other way in which foreign exchange is harnessed for use in the state’s strategic interest is through Ethiopian Airlines, which handles the vast majority of

²² To export herbs, farms need daily export licences. By contrast, in Israel – a major competitor in this field – such licences are granted for one year at a time (FF3).

floriculture exports (Gebreyesus and Iizuka 2010). The government has used this airline in three strategic ways, all in service of its industrial policy. First, the airline has operated flights at a loss to serve the cut flower sector and the government has subsidised airline fuel to mitigate the transportation costs faced by the farms (Abebe and Schaefer 2015; Schaefer and Abebe 2015). Second, the government took the opportunity offered by the growth of the sector to massively – and very successfully – expand the cargo operations of its national carrier. This included the construction of a new cold storage facility at Addis Ababa airport (Oqubay 2015). Both of these have been costly measures aimed at supporting the growing flower sector and further developing an internationally competitive national carrier at the same time.

Ethiopian Airlines ‘soaks up’ much of the foreign exchange generated by the sector. Ethiopian flower farms – foreign and domestic – have to pay for cargo at Ethiopian Airlines in foreign exchange (FF1). Transportation costs make up about 50% of the cost structure of these farms. However, freight is not a true cost to the farms, as the costs of transport are generally passed on to the customer (FF5). On the other hand, Ethiopian farms must remain internationally competitive so that price increases by Ethiopian Airlines may have to be partially absorbed by farms in the form of lower profit margins. Either way the foreign exchange remains with a fully government-owned corporation and can be used to build this corporation. As mentioned in Chapter Four, Ethiopian Airlines is the largest foreign exchange earner in the country (World Bank 2014). But beyond this it is – as the leading national champion – also a key component of the EPRDF’s growth strategy in its own right.

7.10 Conclusion

This chapter has analysed the processes of accumulation at play in the Ethiopian floriculture sector. I have shown how the sector first emerged through the initiative of private capitalists and was then supported in its growth through the direct and forceful involvement of the Ethiopian state. I have, however, also underlined the key role played by foreign capital and donor assistance in the growth of the sector. The growth of Ethiopia’s cut flowers sector is a much-cited example of successful selective industrial policy and a rare example of such a feat by a country as poor as

Ethiopia. The Ethiopian state developed the necessary institutional framework for the sector to thrive and the growth of the sector would not have been possible without massive state investments in infrastructure and transport.

While this chapter parallels the analysis of the previous two chapters, the emphasis is different. Where Chapters Five and Six aimed at mapping out a sector and the historical roots of its development for the first time and at analysing how a group of domestic accumulators emerged, this chapter has shown how and why domestic accumulators have found it difficult to develop in floriculture. Much of the growth in the sector has been due to foreign capital and the actions of foreign capitalists. Analysing their backgrounds has shown how they were for the most part already familiar with both the technical and the marketing aspects of floriculture. Within a relatively short period of time they had come to dominate the sector. They have also provided the bulk of employment in the sector.

The domestic capitalists that did manage to establish themselves in the sector have benefited greatly from government intervention. The Ethiopian state not only provided them with cheap land, but also put up most of the capital needed to establish farms. It even shielded these capitalists from the impact of the global financial crisis by rescheduling loans. While foreign capitalists of course also profited from state largesse, they were much less dependent on state action for their survival. I have argued that the reasons for the diverging performance between foreign and domestic investors are the formers' superior market knowledge and international connections.

The next chapter compares state action and accumulation patterns across the two sectors – coffee and cut flowers. It will show how differences in state action have led to widely different outcomes, but will also highlight the commonalities in the government's approach to both sectors, namely the integration of both into the EPRDF's larger strategic plan. Crucially, it will show how the Ethiopian state has chosen to focus on the path cleared by its success in floriculture. Industrial development will depend on enticing foreign capital into Ethiopia – as rapidly as possible – by applying the lessons learnt from the floriculture sector: using

Ethiopia's disciplined state apparatus to supply both the necessary infrastructure and a supportive institutional framework, while maintaining control of foreign exchange flows. This is the latest incarnation of the EPRDF's developmental state.

Chapter eight

Concluding remarks: towards a comparison

8.1 Comparing accumulation in coffee and flowers

We are now in a position to compare the processes of capital accumulation between the two sectors. As I have demonstrated in the previous two chapters, the accumulation patterns in coffee and flowers differ in substantial ways. To understand why the observed differences occurred we must focus on the connections between the identity and types of the accumulators, the variances in technical and market requirements in the two sectors, and the role of the state. The latter, which centres on industrial policy and regulation, will be dealt with in the next section.

The most striking difference between the capitalists in both sectors is the much lower prevalence of domestic accumulators in the flower sector. This relatively low rate of participation by domestic capitalists in the flower sector has two reasons: high barriers to entry and high rates of business failure among domestic farms. In the coffee sector, by contrast, barriers to entry were lower and business failures less common. Barriers to entry and rates of business failure are determined by the technical requirements for production and the nature of market competition in both sectors.

The main barrier to entry in the flower sector is the capital-intensive nature of production, which means that setting up a flower farm is very expensive. As shown in the previous chapter, setting up a flower farm costs around US\$450,000 per hectare, and reaching what many capitalists felt was the minimum viable scale

(around 10ha) costs around US\$4.5m. Even when using the DBE's 70/30 credit offer a capitalist has to provide US\$1.35m in cash. By contrast, in the coffee sector investment costs are much lower. As shown in Chapter Six, bringing a hectare of previously uncleared land into production costs around US\$2,160. Moreover, coffee farms can be developed sequentially to a greater extent than flower farms can, as coffee plantations also do not have to reach a particular size to be able to serve the market, nor are there necessarily minimum scales in terms of efficiency¹. Some farmers began by developing areas as small as 10ha in their first year of operation, thus necessitating capital outlays of around US\$21,600, or around 5% of the cost of a single hectare of flowers under greenhouses. The costs of entering the coffee sector are therefore dramatically lower than in the flower sector. This means that not only were there relatively fewer domestic investors in the flower sector, but those investors that did enter were much wealthier. While of course some of the investors in the coffee sector were wealthy prior to entering the sector – the larger exporters for instance – the lower cost of entry has meant that capitalists operating at much smaller business scales also had the option of setting up plantations. Where the coffee sector allowed owners of local hotels and relatively small-scale traders to enter, the capital requirements in the flower sector made it much more likely for investors there to come from large established business groups.

The second factor in explaining the different participation by domestic investors across both sectors is to be found in the rate of exit, which was very high in the flower sector. By contrast, I came across only two cases of farm closure in the coffee sector, and both were related to disputes among business partners². The rate of exit is directly related to the competitive pressures in the flower sector. As Brenner (1977) illustrates, market competition acts as a disciplining device that drives a systematic need to innovate when capitalists are forced to produce at certain costs in order to

¹ This is not true if they want to operate their own processing plant, which is more profitable. However, farms do not have to process their own coffee. The DBE estimates that a farm would need a planted area of at least 150ha to operate a wet mill profitably. I have encountered plantation owners with smaller farms who had invested in wet mills and were operating at a profit though.

² How the rate of business closures will develop in the coffee plantation sector will be interesting to see.

be able to sell their output at a profit. In the example Brenner uses, 16th and 17th century England, a competitive market for land rentals ensured that capitalists were constantly forced to innovate to lower the costs of production or they would be pushed out of the market by more efficient producers, who were able to afford to pay higher rents. By contrast, however, Ethiopia, where all land is owned by the government, has no real land rental market. Here market discipline functions via other mechanisms, and, moreover, by ones that function very differently in the coffee and flower sectors. In neither case, though, is the competitive pressure the direct result of the presence of other producers in the country.

In the flower sector, prices are set in overseas markets over which growers have no control. But to be able to sell their flowers at all, these flowers have to fulfil exacting criteria in terms of freshness, appearance and shelf life, all of which necessitate expensive inputs. Reducing production costs by saving on inputs such as person hours worked or pesticides will diminish flower quality and thereby reduce sales prices or even make sales impossible, if the flower quality does not meet buyer's expectations. In addition to costly inputs, the farms themselves have high running costs. Cool houses consume a lot of energy, and the plastic sheeting of the greenhouses, as well as all of the electronic controlling systems need constant maintenance. At the same time, as shown in the previous chapter, almost all domestic capitalists had to borrow heavily to be able to set up their farms, meaning that they must make minimum monthly loan repayments, or face foreclosure. All in all these monthly outgoings, which cannot be avoided for more than the briefest of periods without serious repercussions, combined with externally fixed prices mean that farm owners are under existential pressure to meet minimum productivity levels. Farms that fail to achieve a level of efficiency that keeps their cost-revenue ratios within acceptable bounds cannot survive.

In the coffee sector market discipline is much less pronounced. As mentioned in Chapter Six, coffee capitalists all realised that it is relatively simple to avoid losing money while operating a plantation. The reason is that the market, and especially the domestic market, accepts a wide range of quality levels. At the same time, the

major costs on a coffee plantation are labour costs. In Chapter Six it was shown that there is a direct connection between labour inputs and coffee quality: a dramatic reduction in labour inputs will lower the quality of the coffee and will probably exclude it from the lucrative specialty market. However, the lower quality coffee can still be sold into the mid- to low-quality market, allowing the farmer to break even. Coffee plantations do not, apart from labour costs, have many outgoings that are indispensable to the operation of the farm, almost all other costs can be reduced without seriously impeding yields and quality – at least in the short term. This greater flexibility means that coffee farms are much more resilient to price reductions and to incompetent management. While a coffee capitalist must combine organisational ability and market knowledge to operate a plantation that produces large profits, a plantation can exist with low or no profits for a considerable period of time³. As a result of the lower entry costs discussed above, coffee plantations, at least at small initial scales, are much less dependent on credit, which removes the need to make monthly repayments, thereby further reducing competitive pressure.

An issue that cuts across barriers to entry and market discipline is the knowledge intensity of both production and marketing. The minimum knowledge requirements in both areas are higher in the flower sector; greater knowledge opens up new market segments in coffee, but is not essential to farm survival. Setting up a flower farm and growing flowers is technically demanding, and capitalists who lack the necessary know-how are forced to purchase it at high costs. Moreover, as the previous chapter demonstrated, the selection of varieties, which requires both agronomic expertise and knowledge of market trends, is crucial to business success.

In coffee, agronomic expertise is vital to both farm survival and business success. But given Ethiopia's long history of growing coffee, and the presence of JARI, such expertise is also available to farmers at comparatively low costs. Ethiopian experts in coffee agronomy frequently work for monthly salaries that are a fraction of the

³ The coffee plantation sector is still young, and the lead time to production is much longer than in flowers, so it will be interesting to see how competitive dynamics play out in coming years. I expect that more efficient high-quality producers will buy out less efficient ones, not because the latter are forced to sell, but because they find it profitable to do so.

day rates charged by international floricultural consultants⁴. Market knowledge, on the other hand, is not at all necessary for coffee plantation owners. As we saw in Chapter Five, they can simply transport their coffee to the ECX, have it graded and wait for a buyer to purchase it. Should they, however, be able to gain insight into the specialty trade and engage in direct exports, they can achieve far higher prices. To slightly misuse Wood's (1994, 2002b) categories, the specialty market is strictly an opportunity, not an imperative⁵. The combination of opportunities for rapid accumulation provided by the specialty market and the possibility for farms to survive at relatively low levels of productivity while selling only low-quality coffee are likely to bring about differentiation among coffee capitalists in the future.

Barriers to entry, competitive pressures and knowledge requirements thus combine to produce very different environments for accumulation across the two sectors. These are not the only factors at work though. The observed patterns of accumulation must also be placed in the context of the government's industrial development strategy.

8.2 Differences in industrial policy

The industrial policy regimes applied to the coffee and flower sectors differed in almost all key aspects. Where the flower sector enjoyed an evolving set of targeted support interventions, the coffee sector was mostly subjected to marketing regulation. The two exceptions to this pattern were in access to land, where the federal state strove to make land for investment available in both sectors, and in investment incentives, which were comparable across both sectors. Regarding land, the coffee sector probably enjoyed an advantage in this respect, as local governments generally supported the coffee capitalists. The relative remoteness and lower population density of the coffee plantation areas helped keep down the level

⁴ There is also anecdotal evidence of domestic flower capitalists who received misleading and wrong advice from international consultants, some of whom purposefully convinced inexperienced growers to purchase overpriced equipment from firms the consultants had business links with.

⁵ See Chapter Two for a discussion of Wood's notion of the market imperative in capitalist systems.

of conflicts over land⁶. In the crowded agricultural areas around Addis Ababa however, access to land for flower farms was much more difficult and the regional and local governments were frequently unwilling to grant requests for land for fear of stoking tensions⁷. Moreover, while new coffee plantations were often granted 'state' lands, these public lands were soon taken up around Addis Ababa, and the government instead had to help 'facilitate' land deals with local small farmers. Consequently, the coffee lands were extremely cheap to lease. In addition, the government granted new coffee plantations a 50% reduction in lease rates for the first four years, to account for the fact that coffee trees are not productive in this period. The cheap public land granted to coffee plantations constitutes an indirect subsidy and is the largest direct support offered to the coffee sector.

Capitalists in both sectors also had access to similar sets of investment incentives, as these depend solely on having legal status as a recognised investor⁸. Legally-registered investors may import certain capital goods (including vehicles) duty free, and can take advantage of a generous tax holiday, as well as a number of smaller benefits. These were taken advantage of to various degrees by all capitalists in both sectors. The smallest capitalists in the coffee sector reaped the least benefit, as they lacked the money to import capital goods and hence could only use the tax holiday.

By contrast, the sectors offer a very different picture in terms of help in accessing capital. While the DBE did eventually provide subsidised loans to both sectors, these were made available to the coffee sector only relatively late, while flower farms could draw on this source of finance early on. In the coffee sector, the DBE also imposed an ill-thought out minimum size criterion of 150ha, which excluded the smaller farms from accessing DBE – arguably those capitalists that would have most needed financial support. Consequently, relatively few coffee plantations used

⁶ As noted in Chapter Six, plantations did not emerge in the most densely populated coffee growing areas, despite the favourable agro-climatic conditions there.

⁷ The widespread protests that broke out in many parts of central Oromia in late 2015 are testament to just how deep resentment about land issues runs.

⁸ This of course means that illegally planted coffee farms do not have access to these incentives, but this can hardly be blamed on the state.

DBE loans, and prior accumulation was the largest source of finance. In the flower sector however, DBE was by far the largest provider of finance.

A similarly pronounced difference between the sectors was evident in infrastructural support. As discussed in Chapter Seven, the government provided new cold storage facilities at Addis Ababa airport and used the growth of the flower sector as an opportunity to massively expand the cargo capacity of Ethiopian Airlines. This integrated cool chain was a vital necessity without which the expansion of the flower sector would simply not have been possible. It could be argued that the ECX system, with its network of regional warehouses and grading centres, represents a similar support for the coffee sector, but this comparison is not valid. The ECX channels all coffee produced in Ethiopia, meaning that the vast majority of the coffee that passes through the ECX system was not grown on large-scale farms, while the cold storage facilities exclusively serve the flower capitalists. More importantly though, as shown in Chapter Five, the ECX was neither intended to serve as a support institution for the coffee capitalists, nor was it helpful in their export business. Farms in neither sector received direct infrastructure support and had to build access roads and water supplies at their own expense.

Across both sectors the government sought to assist capitalists by providing input, albeit to very different degrees. In the flower sector, where inputs such as pesticides and herbicides are essential to the operation of farms, the government put in place measures to ease imports, while also actively developing domestic input suppliers for items such as packaging⁹, and for transport services. In the coffee sector, the new capitalists relied heavily on the JARI for the provision of improved varieties. Unofficially, JARI also played an important role in providing expertise, as its staff and former staff are often engaged privately as consultants or even as full-time farm managers. However, JARI long preceded the current wave of investments in plantations and has not been expanded to cope with the new demand. It is better seen as a remnant from the first expansion of plantations under the imperial regime, than a targeted piece of industrial policy to support current accumulation. No

⁹ For linkage formation in the flower sector see Taylor (2011) and Oqubay (2015).

efforts were undertaken by the government to create a domestic supply chain for inputs, or even to encourage their use.

The government also intervened in the labour market much more actively in the flower than in the coffee sector. To support the flower sector, the government opened up new specialised graduate and postgraduate degrees and established a vocational training centre – all in response to lobbying by the sector’s capitalists. Officials of both the regional and federal governments also intervene directly in labour disputes in the sector with the aim of minimising disruptions to production. By contrast, the coffee sector has seen no expansion of educational offerings in response to the surge in investment, and extension programmes that do provide expertise to the sector are targeted exclusively at smallholders¹⁰. At the local level, in some *woreda* officials assist in publicising requests for workers by local coffee capitalists in the local area, and some even provide harvest workers by ‘lending out’ secondary school pupils or convicts. None of these efforts, however, are federally coordinated or amount to a coherent policy.

A final difference, one that is both an effect of the variation in policy regimes and a cause of ongoing dissimilarity between the sectors, is the nature of the policy dialogue, by which I mean the access capitalists have to high-level policy makers. The coffee plantation capitalists have very limited representation at federal level. The producer association, ECGPEA, lacks both funding and staff, and therefore struggles to be an effective lobbying organisation for its members’ interests. Individual coffee capitalists also generally do not have meetings with Ethiopia’s political elite¹¹. The situation in the flower sector is very different. As noted in Chapter Seven, the early and ongoing involvement of foreign capitalists meant that the flower sector’s business association, EPHEA, is well funded and staffed – to the extent that it maintains its own research department. From the early days of the sector, government officials at the highest levels took an active interest in the sector

¹⁰ Examples are the programmes run by foreign NGOs to support cooperatives and the extension support offered by the Ethiopian Agricultural Transformation Agency.

¹¹ A partial exception are the larger exporters, who, as shown in Chapter Five, have recently moved into production. However, as also illustrated in Chapter Five, their relationship with the federal government has been tumultuous at times.

and met its representatives frequently. The government has even provided a new regulatory agency, the EHDA, to promote dialogue with the sector. While some of the flower capitalists felt that the EHDA actually impeded dialogue with the government, many of the foreign capitalists still enjoy privileged access to decision makers on a personal level¹². Prior to the EHDA the sector enjoyed privileged access to high-level decision makers and many of the sector capitalists continue to privately enjoy such access. This access has of course made it much easier for the sector's capitalists to be heard within the government, and has allowed them to help shape the sector's industrial policy¹³.

8.2.1 Explaining differences in industrial policy regimes

How can we account for the differences in both the scope and ambition of government support between the two sectors? My argument is that the key lies not so much in the differential ability to lobby for government support, but rather in the priority the government affords to the generation of foreign exchange. As I demonstrated in Chapter Four, this need is related to the strategic aims of Ethiopia's policy elites, who have attached their singular claim to legitimacy to delivering rapid (socio-)economic development. Understanding this need requires the kind of in-depth analysis I provided, which links elite strategies to the particular, historically evolved politics of state-building and power in Ethiopia.

On the face of it, the lack of support for the coffee sector, which provides far greater amounts of foreign exchange than the flower sector, still seems baffling. The key to understanding the difference is to ask what support was *necessary* to ensure the generation of, and control over, foreign exchange in both sectors. As I made clear in the previous chapter, without targeted support neither foreign nor domestic farms in the flower sector could have grown to the extent that they did (Oqubay 2015; Schaefer and Abebe 2015). Crucially, this support encompassed all stages of

¹² Several foreign capitalists proudly showed me the mobile numbers of leading government officials on their own mobile phones.

¹³ Although, as I have shown in Chapter Seven, this does not mean that they are always consulted or that policies are made in their favour, rather than to suit the government's own strategic aims. But where there is overlap between the government's goals and the sector's interests the flower capitalists have proven an effective lobby.

production and marketing, including financial and administrative in setting up a farm in the first place. Almost all domestic investors made use of the DBE's loan facilities, indicating just how much of a constraint the high capital requirements would have been in the absence of such loans.

In the coffee sector, however, the application of industrial policy was simply not necessary to the same extent. The long history of coffee growing and Ethiopia's earlier experiences of large-scale plantations under both the imperial and Derg regimes meant that key support institutions, such as a competent research institute and sufficient processing capacity, were in place¹⁴. In particular, Ethiopia already had people who understood large scale coffee farming, due to having worked on private plantations in their youth, or because they were active or former employees of the gigantic state farms. In the coffee sector, the government was therefore content to simply put in place the means to control the marketing of coffee, the ECX system. No support of production was offered¹⁵. As explained above, loans were granted only late in the development of the sector, and even then targeted only the largest producers.

In short, the flower sector had to be nurtured by the government in order to begin producing a revenue stream. The coffee sector, by contrast, was much more able to sustain its own growth process using institutions and capabilities that were already present and merely required recombining by enterprising capitalists. The flower sector also had positive side effects, from the point of view of the government, such as providing much needed employment in the politically sensitive central highlands and the opportunity to develop the national carrier. The industrial policy success in the flower sector also had an important demonstration effect for the efficacy of a growth strategy that relies on foreign capital for rapid expansion¹⁶.

¹⁴ Even if these were not able to serve the coffee sector as a whole.

¹⁵ The Ethiopian government has prepared a development strategy for the coffee sector as a whole, but at the time of writing this had not yet been published. It will be interesting to see whether this attempts to tackle the long-standing production and productivity issues in the sector.

¹⁶ I suspect – but have no way of proving – that this was necessary for a faction within the ruling elite to win support for a further opening of the economy to foreign investment.

8.3 Summarising the main findings

In this study I have illustrated how agrarian capital accumulation is taking place in the Ethiopian coffee and cut flower sectors, and I have clarified the role of the state in nurturing this growth in one sector, and all but ignoring it in the other¹⁷. In both sectors I have related domestic accumulation to the structuring effects of international markets. I proceeded by framing the concepts and analytical narratives against contrasting theories to come up with key questions, before addressing the challenges of operationalising empirical work to address those questions. I contextualised my empirical work within the main global, national and local dynamics using mostly secondary sources. Against this context, which is vital to explaining the empirical results, I laid out the fresh empirical contribution of my work for the two sectors.

In Chapter Two I argued that the Marxist political economy on the agrarian question offers the most flexible and useful framework for examining processes of agrarian accumulation. Building on the works of Marxist classics, as well as more contemporary works by political Marxists, I developed a theoretical structure that focuses on rural class formation and its interaction with state policy. I pointed to weaknesses in the most important alternative theories currently used to understand processes of structural transformation, namely new institutional economics and developmental state theory. I argued that new institutional economics does not have a satisfactory theory of institutional change, and instead reverts to extra theoretical explanations of rapid institutional shift, while the developmental state approach generally pays insufficient attention to processes of capital accumulation.

I demonstrated in Chapter Three how such an enquiry cannot realistically progress without relying on in-depth fieldwork. In particular, I showed how standard survey methods would most likely have led to a misplaced trust in results achieved through probabilistic sampling from incomplete and biased sampling frames. Generating a complete sampling took months of fieldwork, and drew on a wide variety of sources of data, including triangulating information held at different

¹⁷ See Iliffe (1983) on the concept of the 'nurturing state'.

levels of government and, crucially, snowballing. At least one group of highly dynamic producers would have been missed by relying on government records and association membership lists alone, as these were operating without any official licence and hence are 'invisible' to standard survey methods. I also put forward the argument that accumulation, which is a process in time, must be understood as such, and cannot be adequately analysed simply from a synchronic snapshot such as a quantitative survey. Uncovering this historical dimension required both in-depth qualitative interviews and a close analysis of the existing historical literature on capital accumulation in Ethiopia.

In Chapter Four I presented a historical overview of the changing political economy of Ethiopia's state building project over three different regimes. I outlined the first development of agrarian capitalism under the imperial regime, and its violent end in the Ethiopian revolution of 1974. My main focus in this chapter was the evolution in the organisation of the EPRDF state and its turn towards an aggressive programme of state-led development and industrial expansion, which was accelerated for reasons of political survival after 2005. As this programme relies crucially on high levels of public investment – only partly financed by external funds – the generation and control of foreign exchange is a key priority for the federal government, and the industrial policy regime applied to the economy as a whole, and specifically to the flower and coffee sectors, has to be understood in this light.

Chapter Five served to lay out the international and domestic context in which capital accumulation in the coffee sector took place, both historically and recently. I demonstrated that coffee revenues have been of strategic importance to the Ethiopian state for almost a century and showed how the current investment into large plantations has important historical precedents, whose institutional legacies help understand how the current accumulation proceeded. The main focus of the chapter was on the evolution of coffee sector regulation under the EPRDF, which I argued is geared primarily towards the control of the foreign exchange generated by coffee exports. I illustrated how actions by the Ethiopian state, along with the

particularities of international markets had opened up space for large-scale private plantations to thrive.

In Chapter Six I presented the results of the first ever systematic investigation of large-scale private coffee plantations in contemporary Ethiopia. I examined the complex patterns of capital accumulation and showed how capitalists had secured control over land and labour. Capitalists in the sector mostly had funds from prior accumulation outside of agricultural production. The largest group can be broadly defined as merchant capital, of which an important subgroup were coffee processors. Using them as an example I demonstrated how their move into production was necessitated by the unplanned effects of government action. Moreover, I demonstrated how the accumulation processes themselves had often eluded government control with instances of illegal land grabbing and an active market in smuggled coffee. This is an important warning against attempts to 'read off' effects from policies without taking account of the often substantial local heterogeneity. I also demonstrated how the most dynamic accumulators had used the particular configuration of government policy and external market opportunities to carve out space for highly profitable sales into the specialty coffee market. This dynamic is likely to be a driver of further differentiation among the coffee capitalists in the future.

A parallel analysis of the accumulation patterns in the floriculture sector was presented in Chapter Seven. As in the coffee sector, I discussed the structure of international flower markets and presented the historical evolution of the sector in Ethiopia. The main emphasis was on demonstrating the differential success of domestic and foreign capitalists. Foreign capitalists used their advantages in terms of sectoral knowledge and experience to operate a business model distinct from that of many of their domestic peers. Another key finding was that the industrial policy for the sector also contained a mechanism which allows the government to track and control the foreign exchange flows the sector generates. As in the coffee sector, the actions of the state are best understood by relating policies to the strategic aims of Ethiopia's political elites.

These results allow for a wider evaluation of ideas about agrarian transitions, in particular about the combination of internal and external dynamics in explaining processes of agrarian capital accumulation and its connection to structural transformation. Unlike in the 'classic' transitions discussed by Byres (1996), it is clear that in Ethiopia the manufacturing sector is largely not of 'agrarian origin', but rather is heavily – but by no means completely – financed by external funds (see Chapter Four), or, where domestic, relies on capital largely accumulated outside of agriculture¹⁸. This gives some credence to Bernstein's (2016) notion that the agrarian question of capital is now of less importance for the development of capitalist economies, as other (external) funds are available to finance industrial development (see also the discussion in Chapter Two). However, as I have shown, agrarian capital accumulation is occurring in Ethiopia, and in a manner only partially foreseen and controlled by the state. These ongoing transformations affect tens of thousands of people and have transformed vast areas of land. Studying their mechanisms and implications is therefore of great importance. And while a degree of industrial development is indeed possible without a thoroughgoing capitalist transformation of agriculture, even the (in absolute terms) limited industrial development witnessed in Ethiopia has necessitated an industrial policy regime focused on expanding agricultural exports – and the revenue streams they generate – to overcome balance of payments constraints. The agrarian question of capital thus remains an important explanatory framework for those seeking to understand not only how and why agrarian capital accumulation occurs, but also how these patterns link into wider processes of structural transformation.

A final question is what the future holds for Ethiopia's new agrarian capitalists. Both sectors are relatively young and in coffee in particular the sector is still in a period of development. The prospects of capitalists in both sectors also depend to a degree on developments in international markets, and on the degree to which capitalists can avail themselves of the opportunities offered by the most lucrative

¹⁸ Confirming the main tendencies of my own finding, a wide-ranging survey by Sutton and Kellow (2010) showed that leading domestic firms in a number of industrial sectors have their origins in merchant capital, and especially trade.

market segments. In coffee, a particularly dynamic group of domestic plantation owners has successfully entered the market for specialty coffee, while in the flower sector domestic capitalists are lagging behind their foreign counterparts in terms of quality and variety choice. How the emergence of new groups of agrarian capitalists will affect the Ethiopian political economy in the long run remains to be seen. In Côte d'Ivoire for instance, a group of plantation capitalists were able to successfully transform themselves into an industrial class (Rapley 1994). The leading capitalists in the flower sector are already part of mixed business groups¹⁹. Future studies will have to examine whether the new coffee capitalists are moving out of their own sector into the wider economy.

8.4 Avenues for future research

The results presented here could be taken forward in a number of interesting ways. In the flower sector, a useful study in terms of policy would systematically track the owners and managers of failed farms in order to fully identify all factors that contributed to the relative weakness of domestic capital formation there²⁰. In keeping with the focus on domestic accumulators, further studies could also focus on the closely related vegetable horticulture sector, where, as anecdotal evidence suggests, domestic capitalists are having more success, owing to lower capital requirements and a less technically demanding production process.

In the coffee sector, the study of capital accumulation could be logically 'completed' in two ways: vertically and horizontally. A horizontal study would expand the survey conducted here into a full census (or at least a large-N sample survey) of private coffee plantations in all parts of the country. This information appears to me indispensable to anyone wishing to formulate support policies for the sector. As I have argued throughout, such a survey would have to be complemented by in-depth qualitative work. A vertical study, by contrast, would hone in on that area of capital accumulation I excluded from my enquiry, namely accumulation 'from

¹⁹ As discussed in Chapter Seven though, they moved from other businesses into the flower sector, rather than vice versa.

²⁰ Of course, it would also be interesting to track failed foreign capitalists and map any systematic differences in reasons for business failures between foreign and domestic farms.

below' through the slow process of differentiation among (relatively) small-scale farmers. I encountered evidence of such differentiation during my research (see also Cramer et al. 2014 and Ponte 2002), but there is – to the best of my knowledge – as yet no systematic study of these patterns, and we thus have no real idea of their scale or dynamics.

Further studies in both sectors could focus on the lived experiences of wage workers, and in particular on labour struggles and emerging forms of organisation, as well as on personal histories of migration. These would complement the data on wages and working conditions collected by Cramer et al. (2014), with information on how to increase the bargaining power of workers. Lastly, an in-depth historical study, including of archival material, would be necessary to flesh out the historical sketches of both Ethiopia's political economy and previous instances of agrarian accumulation I have provided here. For, as Polly Hill says: "If we know no history our minds are not blank, but cluttered with half-truths and inventions" (1963: 4).

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