

# Crisis in the Birthplace of Coffee



Oxfam International research paper

September 2002

# The Coffee Crisis in Kafa Province of Ethiopia

This report was commissioned as a background paper for Oxfam International's coffee campaign. It was researched and written by Ruth Mayne, Abera Tola, and Gezahegn Kebede. The report summarizes information from interviews with farmers and co-operatives in Kafa province, as well as with exporters and government officials. It assesses the impact of the coffee crisis in Ethiopia, and possible solutions. The Ethiopian Government has welcomed Oxfam's campaign.<sup>i</sup>

## Introduction

*'I have no other income, just coffee. I don't even have animals. I depend on coffee for all clothing, food, to pay taxes, children's uniforms, and medical expenses. Our lives depend on coffee. Coffee is everything for us ... Five to seven years ago I was producing seven sacks of red cherry and this was enough to buy clothes, medicines, services, and solve so many problems. But now even if I sell four times as much, it is impossible to cover all my expenses.... I had to sell my oxen for only 400 Birr to pay back the loan I took out for fertilizers for corn, or face prison... My brother has died and I have to help his four sons. Three of them can't go to school now because I can't afford the uniform... We have stopped buying teff this year and edible oil. We are just mainly eating corn.'*

*Mohammed Ali Indris, Ethiopian coffee farmer, Kafa province*

Ethiopia is credited with being the birthplace of coffee. It is Africa's leading producer and exporter of arabica coffee, one of the finest brands on the world market. The coffee is organically produced and grown underneath native trees, and consequently it also has the valuable distinction of conserving indigenous forests.

There are many varieties of coffees, each with its characteristic flavor and taste, and variously described as mocha, sweet, wine, floral, spicy, or fruity. Coffee plays an important part in Ethiopia's culture. Approximately 53 per cent of Ethiopian coffee is consumed nationally. The coffee ceremony is an important feature of Ethiopian hospitality. The host sits on a stool before a tiny charcoal stove. Nearby is an incense burner smoking with fresh grass scattered on the ground. The host washes the coffee beans, roasts them in a pan, turning them regularly, grinds them with a pestle and mortar, then brews the coffee with water in a coffee pot until it starts to bubble. When it is ready, the coffee is served in tiny china cups with lots of sugar. Traditionally, the guest must accept at least three cups – the third in particular is considered to bestow a blessing.

According to a senior government official, 'coffee is the nucleus of the Ethiopian economy'. It accounts for approximately 60 per cent of the country's exports, generating vital income and foreign exchange. The government estimates that there are 1.2 million coffee farmers and approximately 15 million households either directly or indirectly dependent on coffee for their livelihoods.<sup>ii</sup> Small farmers, most of whom work less than half a hectare of land, grow Ninety-five per cent of coffee.

According to the International Coffee Organization (ICO), world coffee prices have plunged to a 30-year low, declining by more than 70 per cent in the last four years alone. This price fall is crippling coffee farmers and undermining the rest of the economy. Coffee areas are 'drastically affected', according to one government official. 'Farmers

can't afford to send their children to school, buy medicines or food. Their health and nutrition is affected.' The wider economy is also under threat: 'When coffee incomes fall, so does demand for other goods and services - food products, tin, cement for roofs, household items. The service sector is practically paralyzed.'

Interviews with coffee farmers, government officials, and exporters conducted by Oxfam in April 2002 revealed a similar picture. USAID's Famine Early Warning System (FEWS) and the European Union's Local Food Security Unit (EU-LFSU) also highlighted the deteriorating situation in a report in January 2002. 'The impact of depressed prices has been considerable at the household level,' noted the report. 'Many coffee farmers have been forced to sell assets such as cattle and to cut down on essential expenses, including food'.

The National Bank of Ethiopia reported in February 2002 that 'the collapse of coffee prices has severely dented Ethiopia's precious foreign exchange reserves'. The value of coffee exports fell drastically, from approximately \$262m in 1999/00 to \$175m in 2000/01. In terms of volume, exports have fallen from 103,423 tons in 1991 to 94,000 tons in 2001.<sup>iii</sup>

The impact of the reduction in foreign exchange has been felt in government budgets but the full effect was circumvented due to donor lending. One government official reported that imports had been cut back; other officials reported that the economy is now slowing down.

The fall in the coffee price is potentially disastrous for a country as poor as Ethiopia. Although it boasts extraordinary historical, cultural, and natural wealth, previous decades of military rule, conflict, and drought have made it one of the poorest countries in the world. With a per capita income of \$100, it is ranked 158 out of the 162 countries on the UN's human development index. Between 40 and 45 per cent of the population live on less than a dollar a day. Eighty-five per cent of people live in rural areas, eking out a precarious existence on small plots of land. As previous droughts have so graphically shown, it does not take much to push the country into famine.

## **The impact of the coffee crisis on farmers in Kafa province (Jimma and Limu zones)**

### **Background**

Kafa is believed to be the original home of coffee and the origin of the word 'coffee'. It is part of Oromiya region and lies to the west of the Great Rift Valley. Its altitude is between 1300m and 2100m, and its temperate climate never exceeds 29°C. The region receives plenty of rain, and is characterized by rolling hills and valleys, fertile soil, and lush vegetation. Farmers grow coffee under the shade of indigenous forest trees such as acacia, which also act as host to a variety of wildlife, including Columbus monkeys and wild hogs. Corn, legumes, and root crops are also grown. The conditions are so good for

coffee that farmers do not require fertilizers or pesticides. The coffee is consequently of very fine quality, and totally organic, while also helping to conserve the forests.

### **The origin of coffee**

According to local legend, coffee was discovered by accident. A young goat herder from Kafa province of Choche Guda locality noticed one day that his goats became even more troublesome than usual after grazing on certain berries. He tried some himself and experienced similar effects. Later, a monk came past, tried some berries, and noticed that they stopped him falling asleep while he read his sacred texts at night. The word spread around the monastery, and other monks also tried the berries. Coffee was chewed in Ethiopia for many centuries after this discovery, dated at around 1000 AD. It has become an integral part of Ethiopian culture. Everyone in the country drinks coffee, whether rich or poor.

More than one million people live in Kafa province. Jimma is its capital, and the most important coffee-collecting center in the country. Coffee farmers are considered to be a little better off than other farmers are, but even so they live close to the poverty line. The vast majorities have less than one hectare of land, living in small roundhouses made of mud and stick, with roofs made out of thatch or, for slightly wealthier families, out of tin.

### **The coffee crisis**

The main cause of the unprecedented and uninterrupted fall in the price of coffee since 1977 is oversupply on the international market. Lower prices mean significantly lower incomes for farmers, pushing them back to subsistence levels. However, despite this, production levels have remained the same for the last five years.

The farmers with whom Oxfam spoke said that they were no longer able to buy clothes and teff (which is used to make *injera* – a staple starch), to pay vital medical expenses, or to send their children to school. Some had been forced to sell oxen and goats at low prices. All were trying to survive by eating more of their own corn.

Farmers cannot cover their basic production costs and are operating at a loss. After the last harvest in September 2001, farmers in Jimma sold red cherry at between 0.5 and 1.00 Birr/kg, while average production costs were approximately 1.53 Birr/kg.<sup>iv</sup> Farmers reported that the price they receive has fallen from around 2.50 Birr/kg for red cherry in 1999/2000 to 50-100 cents/kg in 2001/02. Some of the co-operatives had gone bankrupt, or were not operating in some of the areas Oxfam visited, because they could not get loans in time; hence the price was probably even lower than it would otherwise have been.

The price of dry coffee has fallen from around 58 Birr/sack (i.e. 90 cents/kg) in 1999 to 20 Birr/sack (i.e. 30 cents/kg) in 2001.

The price of corn, a key staple in the region, also fell from around 120-birr/100 kg five years ago to 20-30 birr/100 kg in 2001. This was caused by reduced demand, a consequence of both declining coffee incomes and a good corn harvest.

## **Coffee production**

The fall in the price of coffee had not deterred most farmers interviewed by Oxfam from tending their plants, although this has happened in other coffee-growing countries and areas. Few had plans to switch to other crops, although one farmer had found another job. From their answers this seemed to be due to the strong tradition of coffee farming, and the (perceived or real) lack of viable alternatives.

Those farmers interviewed had areas planted to coffee ranging from one-third to three-quarters of a hectare; one farmer had 1.75 hectares planted with coffee. The rest of their land was devoted to other crops such as corn, false banana (a root crop), cabbage, and peppers.

Coffee is grown under the shade of acacia trees whose leaves act as a natural fertilizer. Some farmers – particularly the Bench people, who inhabit the province along with the Oromo – also attach beehives to the shade trees.

Coffee is weeded in June and harvested in September. Men carry out most of the farming tasks related to coffee and corn production, although women and children may help with the harvest. Women have particular responsibility for false banana and vegetable gardens. They also fetch water and firewood, and process and cook food.

## **Coffee processing**

There are two types of coffee processing – wet and sun-dried. Nearly 80 per cent of the country's coffee exports are sun-dried. Only ripe berries can undergo wet processing, and have to be processed immediately after harvest. Farmers handpick the red cherries several times between late September and December at intervals of 8-10 days. They then sell the ripe cherries to the co-operative washing stations, private traders, or warehouses, where they are sorted. They are then pulped, fermented for 12-48 hours, and washed. After this they are put on sun-drying tables for two to three hours, and then on a large plastic sheet where they are turned every 20 minutes for a day until they retain approximately 11.5 per cent of their moisture content. The dried coffee is stored in warehouses for a minimum of seven to ten days, where it continues to lose moisture. And then transported to Addis Ababa, the capital, where it is hulled (the removal of the parchment/husk) by the exporter.

The remaining cherries, which cannot be sent for wet processing, either because they ripen too late for the pulping station or are not selected, are sun-dried on the farm. Farmers spread them over a mat on the ground and rake them at regular intervals. They are then stored in small mud warehouses on the farm, where they continue to lose moisture, and sold to a local co-operative, petty trader, or warehouse for hulling, bagging, and transportation to the auction house in Addis Ababa.

## The marketing chain

Farmers prefer to sell red cherry for wet processing because this results in higher quality coffee and fetches a better price. For red cherry, the buying season is very short, and so farmers must sell immediately. In theory, a farmer can sell dry berries at any time in the year, waiting until the price gets high in June and July. In practice, they often face financial difficulties and have to sell immediately, when prices are low. Men, women or children take coffee to market.

Information about coffee prices on the national or international market is difficult to obtain. There is a broadcast every day on national radio, but very few farmers have a radio. Moreover, broadcasts are in Amharic, a language that many people do not speak.

Before the recent coffee crisis, farmers interviewed in Kafa had a choice of selling either to a private trader or wholesaler, or to a co-operative. Traders are usually independent from exporters. Farmers reported that the traders offer slightly higher prices for coffee than the co-operative. One farmer said that in 2000/01 the co-operative was paying 1 Birr/kg for red cherry, and the private traders 1.25 kg/Birr. But most preferred to sell to the co-operative, because in a good year it provides dividends from the profits it makes from exports. The farmers also highlighted the important regulatory role played by the co-operative in establishing a floor price below which traders cannot go. The co-operatives also provide other important services (*see below*).

However, since the crisis, some of the co-operatives have gone bankrupt or have not had the finance to buy sufficient quantities of coffee. This meant that the traders dropped their prices even lower than would otherwise have been the case.

After processing, the private collector or co-operative bags the coffee and transports it to Addis Ababa. Here, the beans are inspected and graded by the government Coffee and Tea Authority. A graded sample is then taken to the auction house where an exporter may buy it. Unlike the situation in other countries, exporters do not buy directly from farmers. Moreover, all exporters are Ethiopian; the law prohibits foreign firms from buying at the auction house. A few are agents of the big importers.

The exporter sorts, cleans, and blends the different coffees to prepare them for export; in the case of wet coffee, they also have to hull the coffee. The exporter then takes the coffee beans back again to the government, where they are re-inspected and certified for export, and finally packaged in labeled bags (60 kg/132lbs).

In the Oromiya Region (which includes Kafa province), the recently established Oromiya Co-operative Union buys the coffee from the co-operatives, transports it to the capital, and carries out the hulling, sorting, and cleaning. The coffee is tested and graded by the government, but the Union can bypass the auction and sell direct to international dealers.

The exporters sell to coffee importers, and have little or no contact with the coffee roasters. However, it is clearly seen as buyers' market. With only three per cent of the world market, government officials from the Export Promotion Agency said that they have no bargaining power. An official from the Ethiopian Coffee and Tea Authority characterized the international market as follows: 'the roasters are getting cheap coffee due to the increase in supply from Vietnam, which is decreasing in price. The roasters are getting the highest margins now. They are transferring this to the producers or to consumers.' According to one exporter, 'the roasters are greedy - even they acknowledge that. Even ten cents more on the price would be enough to improve the situation in Ethiopia.'

The major ten coffee importers from Ethiopia in order of size are Volcafe, Weser International, Al Kahair General, Mitsui, Nichimen, Mitsubishi, Toyota Tususho Corporation, Taloca, Toshoku, and Bernhard Rothfos.<sup>v</sup> The main importers of Ethiopian coffee are located in Germany (28.70 per cent of total volume), Japan (21.25 per cent), Saudi Arabia (13.61 per cent), the US (8.41 per cent), France (6.35 per cent), Belgium (5.24 per cent), Italy (4.21 per cent), Holland (2.10 per cent), and Poland (1.53 per cent). The UK imported only 0.60 per cent.<sup>vi</sup> The US and German markets are declining, while the Japanese, Saudi, French, and UK markets are growing.<sup>vii</sup>

### **The producers' share of the export price**

In the 2001 season, farmers sold 1kg of red cherry for 0.5-.75 Birr/kg and 1kg of dry cherry for 1-1.50 Birr for either co-operatives or collectors. Collectors sold 1kg of red cherry for 0.75-1 Birr for suppliers who process the red and dry cherries to washed and sun dried green coffee. After processing, the suppliers transport coffee to the auction centre in Addis and sold 4-6 Birr/kg for sun dried and 8-11 Birr/kg for washed green coffee to exporters. And finally exporters sold sun dried for 7-9 Birr/kg and washed coffee for 11-16 Birr/kg for international buyers. In the case of the Unions, the Co-operatives perform the processing and transporting of coffee to Addis Ababa, and sell to the Union. The Union pays 8-11 Birr/kg for washed coffee and 4-6 Birr/kg for sun dried coffee, and sells washed green coffee for 23-26 Birr/kg for Fair Trade, 15-20 Birr/kg for non Fair Trade and sun dried coffee for 8-10 Birr/kg for non Fair Trade buyers. (The ratio of red cherry to clean coffee is 6:1.)

(The ratio of dried to clean cherry is 2:1.)

The Coffee Chain							
Free Trade				Fair Trade			
	Sell	Buy	Type		Sell	Buy	Type
Farmer	0.5-0.75 Birr/kg		Red Cherry	Farmer	0.5-0.75 Birr/kg		Red cherry
	1-1.5 Birr/kg		Dry Cherry		1-1.5 Birr/kg		Dry cherry
Collector	0.75-1 Birr/kg	0.5-0.75 Birr/kg	Red Cherry	Cooperatives	8-11 Birr/kg	0.5 Birr/kg	Washed green
	1.25- 1.75 Birr/kg	1-1.5 Birr/kg	Dry Cherry		4-6 Birr/kg	1-1.5 Birr/kg	Sun dried
Suppliers	4-6 Birr/kg	1.25- 1.75 Birr/kg	Sun dried green	Unions	23-26 Birr/kg (FT)	8-11 Birr/kg	Washed green
	8-11 Birr/kg	4-6 Birr/kg	Washed green		15-20 Birr/kg (not FT)	8-11 Birr/kg	Washed green
Exporters	7-9 Birr/kg	4-6 Birr/kg	Sun dried green		8-10 Birr/kg (not FT)	4-6 Birr/kg	Sun dried
	11-16 Birr/kg	8-11 Birr/kg	Washed green			23-26 Birr/kg (FT)	Washed green
Buyers		7-9 Birr/kg	Sun dried green			15-20 Birr/kg (not FT)	Washed green
		11-16 Birr/kg	Washed green			8-10 Birr/kg (not FT)	Sun dried

Thus, in the private marketing chain, coffee farmers from Jimma get approximately 27 per cent of the export price. This small share is attributable to the rather long marketing chain, the number of people involved in it, and the inefficiency of the marketing infrastructure (such as transport, storage, and local authority taxes). Farmers in other regions of Ethiopia receive a higher share of the producer price (approximately 54 per cent), partly because the quality of their coffee is higher.<sup>viii</sup> This still compares poorly with Ugandan farmers, who receive 70 per cent of the producer price, and those in Kenya, who receive 80 per cent.

However, according to the Head of the Oromiya Co-operative Bureau, if a farmer sells to a co-operative and the coffee is exported by the Oromiya Co-operative Union, they can

receive dividends from export sales, which increase this percentage to 70 per cent. This is because the Union is able to bypass the auction house, and has obtained a premium price for Fair Trade or organic coffee. The Fair Trade price received by the Oromiya Co-operative Union for last year's harvest was US\$1.41/lb (26 Birr/kg) compared with the average export price of US40-50 cents/lb. (9.40 Birr/kg).

One exporter interviewed by Oxfam said that when prices first started falling, the middlemen were hardest hit. None of them predicted that the price would fall so far for so long. Traders and exporters therefore bought coffee in the expectation of a normal price, but when it continued to fall they lost money. Many were forced to leave the market. However, it is now the farmers who are worse off. They are selling at a very low price, while the traders and exporters know that the export price has picked up slightly in recent months and that they will be able to benefit from the higher price.

### **The role of co-operatives**

Interviews with farmers and co-operatives illustrated the extremely valuable role, which co-operatives can play in regulating the coffee market, by setting a floor price below which private traders cannot go. They can also help farmers access higher-value Fair Trade markets overseas. Oxfam America supports the Oromiya Co-operative Union, which buys coffee from approximately 23,000 member households in the region to sell direct to international markets.

Of the additional income the primary co-operatives receive from the export of coffee, 70 per cent has to be paid out in dividends to farmers, thereby increasing their share of the export price. The co-operatives are also required by law to set aside 30 per cent of income from exports to provide other vital social services. Those services cited by co-operative members include short-term credit, health, food and agricultural inputs, and investments to infrastructure, such as roads and electricity.

Interviews with farmers also showed how the falling price of coffee had forced some co-operatives into bankruptcy, or temporarily to stop purchasing coffee. A key problem is the difficulties and delays co-operatives face in getting credit from the government bank. Another is that exporters post-date their cheques to coffee suppliers, which then bounce when the exporters make losses on international markets. In the whole of Ethiopia, it is estimated that approximately 60m Birr were lost due to post-dated cheques. Many private pulps also went bankrupt, and stopped pulping as a result.

The crisis caused by 'dry cheques' was a factor in the establishment of the Oromiya Co-operative Union in 1999, an idea that the Co-operative Bureau promoted among farmers in Oromiya. Financed by shares from co-operative members, the Union bypasses exporters and sells direct to overseas markets. It also allows co-operative members to benefit from greater economies of scale.

The Union's functions are varied, and include exporting its members' produce, providing a warehouse service, promoting coffee processing, ensuring a supply of organic coffee, supplying its members with modern inputs, providing transport for

produce, educating its members on coffee extension services, promoting the District co-operative, supplying members with basic consumer goods at wholesale prices, establishing a fuel depot, providing savings and credit facilities, and representing its members.

Oxfam America has helped the Co-operative Union find overseas specialty markets in the US, France, and Germany by financing and facilitating its participation in coffee conventions. It has also helped the Union obtain certification from FLO-International, the international Fair Trade labeling organization. The Fair Trade price of US\$1.41/lb is more than triple the price other exporters are receiving (US\$43 cents/lb.). The Union was also able to sell coffee at US\$80 cents/lb.

In 2002 the Union exported more than 20 containers of Fair Trade coffee. It sells the only organically certified arabica coffee in Africa. However, difficulties in obtaining loans mean that this is only one-third of its potential output.

Co-operatives in Ethiopia acquired a bad name under the previous military regime of the Derg. Peasants were forced to join them, and committee members were appointed by government rather than elected. The government used co-operatives to recruit farmers for the war effort and commandeered their grain stores to feed the army. The new government then dismantled the co-operatives, but intensive lobbying by members of the government's Co-operative Bureau led to a new law establishing co-operative societies in 1998. This allowed for their formation on a voluntary and democratic basis, to help members collectively solve their economic and social problems.

## **Possible solutions to the coffee crisis**

The following ideas were suggested during discussions with farmers, government officials, and exporters.<sup>ix</sup>

### **National level**

The government's main response to the coffee crisis so far has been to cut the 6.5 per cent export tax on coffee and to exempt farmers and traders from the withholding tax of 5 per cent. (The withholding tax is levied on the purchase of any materials costing more than 10,000 Birr. The buyer is obliged by law to withhold this money from the seller and pay it to the tax authorities). This has led to a large decrease in government revenue. However, there is still another tax in place that requires exporters to pay 6.5 per cent on their entire exports if they sell above a certain price. Given the current low price, this is a potential rather than real problem, but the General Manager of the Co-operative Union proposed that it should be revised.

The government is also exploring how to improve coffee extension services, and raise the yield and quality of coffee. Average productivity is very low and could be improved by allowing a little more sun, better weeding, and greater use of manure. If the price improves, farmers will tend their farms better. As the largest share of coffee exports is sun dried, farmers may be able to improve their income by improving the process of

drying cherry and upgrading the quality of drying tables and mats. The government is also investigating diversifying into new markets, particularly the specialty, organic, and Fair Trade markets.

The Export Promotion Agency wants to reduce the marketing chain, which it regards as very lengthy, and with high transaction costs. The formation of the Co-operative Union is one attempt to solve this problem. It has also been suggested that the auction should be changed into an exchange.

The Export Promotion Agency also pointed to certain dilemmas for the government. Should it start encouraging diversification now, or hope that the price will improve? How can incomes be improved when most farmers have such small plots of land?

A government stabilization fund to buy grain was not seen as sustainable, because the government lacks the necessary finance and facilities and would have little influence. It does intervene in grain markets, where the price is mainly set domestically.

The formation of a Co-operative Bank has been proposed in response to the difficulty faced by co-operatives in obtaining loans. And in response to the problem of 'dry cheques', the government has advanced money to help exporters, and has also found an interim solution whereby every exporter has to open a special bank account, and the bank has to write to the Coffee Authority guaranteeing that the exporter has the necessary funds to purchase the coffee. The money received at the auction has to be paid to this account only. However, this solution is seen as unsatisfactory, because money is left idle in the bank. One exporter suggested that they set up a futures market in Addis.

It was also suggested that training is needed for co-operatives to improve management and the processing of coffee, and that extension services are needed to help farmers improve the production and on-farm processing of sun-dried coffee. The key focus for co-operatives should be on improving the production and processing of red cherry, because this is of better quality and can receive a higher price in export markets.

Financial support and training for the Co-operative Union is needed to help improve and expand its activities. It is currently heavily reliant on the excellent leadership of its General Manager, Tadesa Meskela. New computers could, for example, help it engage in Internet trading.

The possibility of Ethiopia adding value by roasting and exporting its own coffee was discussed. According to one exporter, the potential for this is limited, because ground coffee quickly loses its flavor without adequate packaging, and therefore has to be flown rather than shipped. Airfreight is expensive and involves only small quantities. However, Ethiopia could investigate shipping its beans direct to specialty retail outlets in importing countries.

## International level

Exporters and government officials pointed to the need to curb over-production, particularly from Brazil and Vietnam. One exporter said that solutions would not be meaningful without US participation. The same exporter suggested that the proposal to curb supply on quality would be meaningless unless there was a way of policing it. This would require active US involvement, as importing countries would have to carry out sample checks. It is not clear that the companies would accept this, because they are currently benefiting from blending different coffees. The exporter suggested that Oxfam should consider pushing coffee roasters to label their coffee by country of origin and by grade, as this could reduce Vietnamese production.

Exporters and government officials were also somewhat doubtful about the chances of getting the roasters to pay more, because they are currently enjoying high margins. One official reported a roaster's comment in an international meeting that producing countries had not shared their increased margins with companies when the producer price was high, so why should the companies share their profits with producing nations now that prices were low.

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<sup>i</sup> Ethiopian Export Promotion Agency, personal communication, April 2002.

<sup>ii</sup> Ibid.

<sup>iii</sup> Ethiopian Coffee and Tea Authority, personal communication, April 2002.

<sup>iv</sup> Data from the Ethiopian Export Promotion Agency.

<sup>v</sup> Ibid.

<sup>vi</sup> Ibid.

<sup>vii</sup> Ibid.

<sup>viii</sup> Export Promotion Agency, personal communication, April 2002.

<sup>ix</sup> Oxfam's own recommendations with respect to the coffee crisis are set out in its report 'Mugged: Poverty in Your Coffee Cup', published in September 2002.