

# The Role of Coffee Trade in Shaping Ethiopia's Economic Development from the 1960s to Present

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## Abstract

This study examines the role of coffee trade in shaping Ethiopia's economic development from the 1960s to the present. It explores the evolution of Ethiopia's coffee industry through key policy transformations, market liberalization, and economic reforms, highlighting their impact on national export revenues, foreign exchange reserves, employment creation, and rural economic development. The analysis addresses the challenges faced by Ethiopia's coffee sector, including climate change, market volatility, and global competition, while also identifying opportunities for growth through sustainability practices, certification, and market diversification. Finally, the study outlines strategic pathways for future development, focusing on enhancing productivity, building resilient supply chains, and aligning coffee trade strategies with broader national development goals.

**Keywords:** Ethiopia, coffee trade, economic development, policy reforms, export revenues

## 1. Evolution of Ethiopia's Coffee Industry

Ethiopia's coffee industry experienced significant changes from the 1960s to the 1980s due to government policies that sought to centralize control over coffee production and trade. One of the most notable changes occurred in the early 1970s when the Derg regime, which came to power in 1974, implemented land reform policies that nationalized all land, including coffee plantations. This policy aimed to promote equitable access to agricultural resources but resulted in major disruptions in the coffee market. Private plantations were seized, and cooperatives were reorganized under state control, reducing efficiency and productivity. The exodus of experienced farmers and traders led to a decline in coffee production and export quality.

Table 1. Timeline of Major Policy Changes in Ethiopia's Coffee Sector (1960s-1980s)

Year	Event
1966	Coffee Export Control by State
1974	Land Nationalization (Derg Regime)
1976	Formation of Coffee Cooperatives under State Control
1979	Establishment of Ethiopian Coffee Marketing Corporation (ECMC)
1984	Strengthened ECMC Monopoly on Coffee Exports

Table 1 illustrates the key policy changes during this period, highlighting the nationalization of land in the 1970s and the establishment of the Ethiopian Coffee Marketing Corporation (ECMC) in the late 1970s, which further centralized control over coffee exports. This timeline shows the progression from private sector involvement to

state control, with each policy shift contributing to market inefficiencies and reduced export revenues.

In the late 1970s and early 1980s, the ECMC was given a monopoly over coffee exports, controlling prices and managing distribution to stabilize farmer incomes. However, as shown in Table 1, this monopoly stifled competition and innovation, leading to inefficiencies in pricing and a significant reduction in Ethiopia's coffee export earnings during the period.

With the fall of the Derg regime in the early 1990s, Ethiopia's coffee sector began transitioning towards market liberalization. The government dismantled the ECMC's monopoly, allowing private traders and cooperatives to participate in coffee exports. This move fostered a competitive environment, leading to improvements in coffee quality and supply chain efficiencies. Reforms aimed at supporting smallholder farmers were also introduced, enhancing access to credit, inputs, and training.

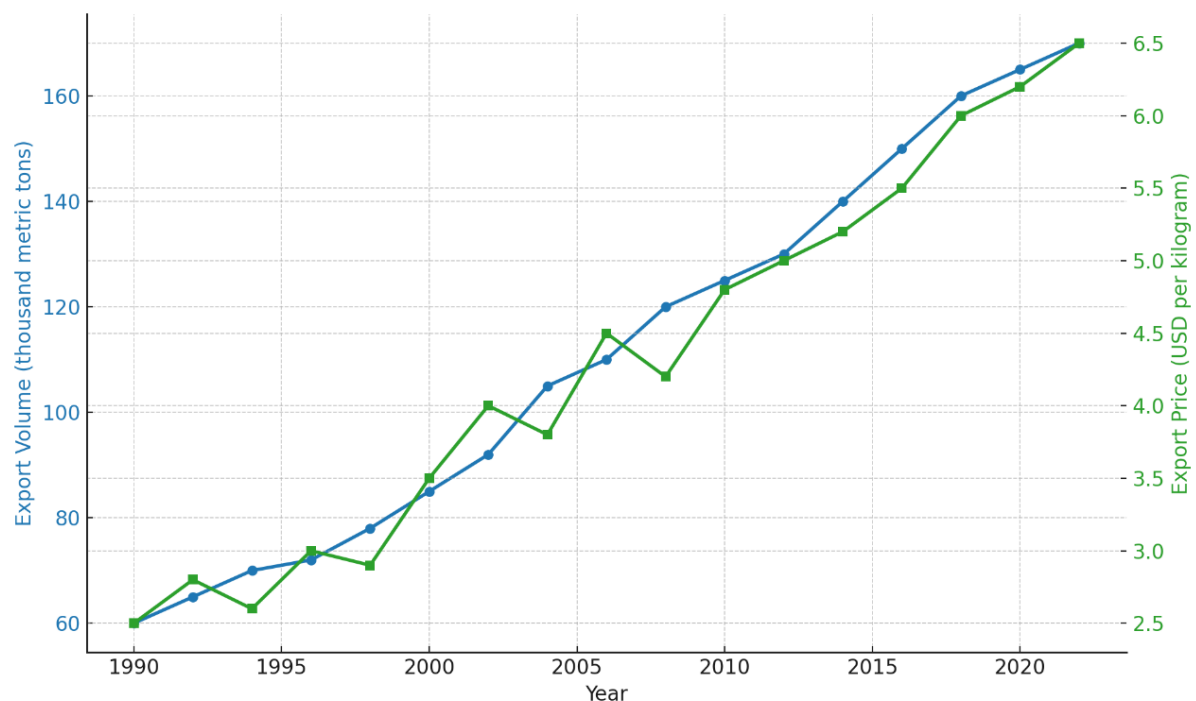


Figure 1. Coffee Export Volume and Price Trends in Ethiopia (1990s-Present)

Figure 1 provides a graphical representation of coffee export volume and price trends from the 1990s to the present. The figure demonstrates a clear upward trend in export volumes and revenues following the liberalization policies of the early 1990s. It highlights key milestones such as the establishment of the Ethiopian Commodity Exchange (ECX) in 2008, which introduced modern trading systems, improved price transparency, and reduced transaction costs, further enhancing Ethiopia's position in the global coffee market.

By the early 2000s, as indicated in Figure 1, the positive impact of these reforms became evident. The liberalization measures, along with the establishment of the ECX, led to increased production and improved global competitiveness, positioning Ethiopia as a leading coffee exporter once again.

## 2. Economic Contributions of Coffee Trade

### 2.1 Impact on National Export Revenues and Foreign Exchange Reserves

Coffee has been a cornerstone of Ethiopia's economy, significantly contributing to national export revenues and foreign exchange reserves since the 1960s. As one of the world's largest coffee producers, Ethiopia relies heavily on coffee exports as a source of income, especially given the limited diversity of its export portfolio. Over the decades, coffee has consistently accounted for a substantial share of the country's total exports and has been a critical driver of foreign exchange earnings.

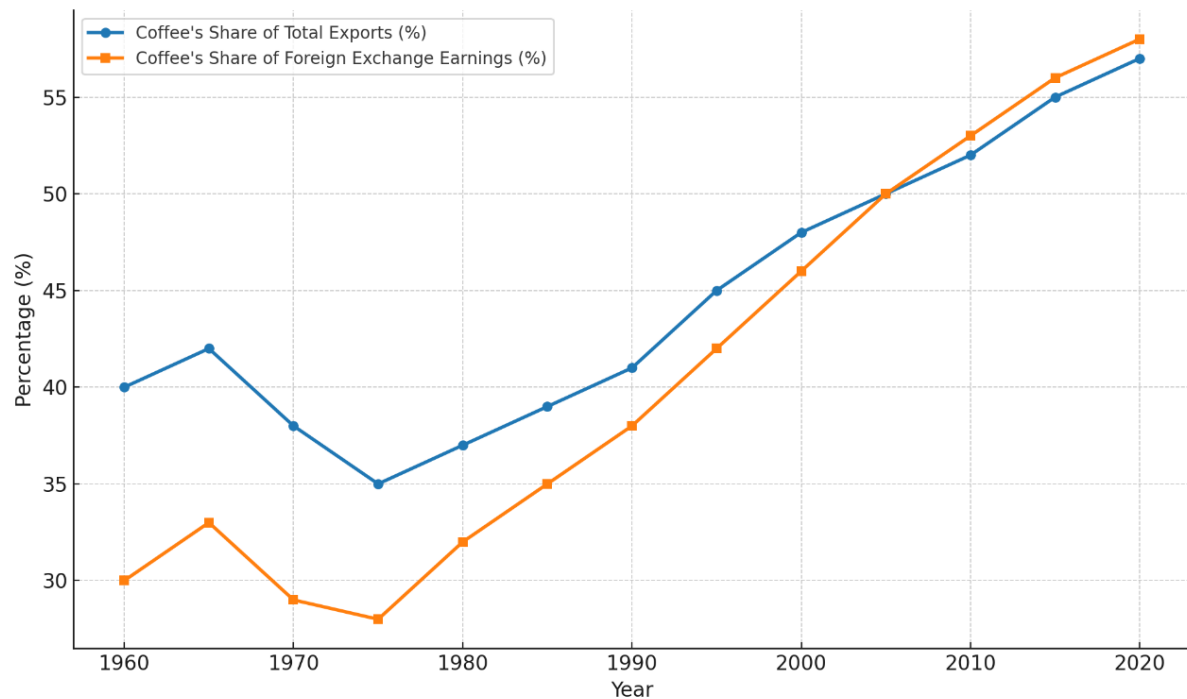


Figure 2. Coffee's Share of Total Exports and Foreign Exchange Earnings in Ethiopia (1960s-Present)

Figure 2 illustrates the trends in coffee's share of Ethiopia's total exports and foreign exchange earnings from the 1960s to the present. The blue line shows that coffee consistently made up between 35% and 57% of the total exports, indicating its vital role in Ethiopia's trade profile. The orange line represents coffee's share of foreign exchange earnings, fluctuating but generally showing an upward trend, reaching as high as 58% in recent years.

During the 1960s and 1970s, coffee accounted for about 40-42% of Ethiopia's total exports, providing a crucial stream of income that funded various national development programs. However, the nationalization policies of the 1970s, under the Derg regime, initially led to a decrease in coffee's contribution due to inefficiencies in production and distribution. Despite these setbacks, coffee remained an indispensable part of Ethiopia's economy, contributing around 30-33% of foreign exchange earnings during this period.

From the 1990s onwards, market liberalization and policy reforms helped stabilize and increase coffee exports. By the early 2000s, coffee's share of total exports began to rise steadily, reaching over 50% in some years. The establishment of the Ethiopian Commodity Exchange (ECX) and other market reforms improved price transparency and reduced transaction costs, which boosted Ethiopia's competitiveness in the global coffee market. Consequently, the share of coffee in foreign exchange earnings also grew, reaching 58% in recent years, reflecting its continued significance to the national economy.

Overall, the data demonstrates that despite policy challenges and external market fluctuations, coffee has remained a vital economic asset for Ethiopia, underpinning national revenues and foreign exchange reserves and supporting economic stability and growth over several decades.

## 2.2 Role in Employment Creation and Rural Economic Development

The coffee sector plays a crucial role in employment creation and rural economic development in Ethiopia. As one of the country's most labor-intensive industries, coffee production involves millions of smallholder farmers, laborers, and their families, providing a primary source of income and employment in many rural areas. Ethiopia's coffee-growing regions, such as Oromia, the Southern Nations, Nationalities, and Peoples' Region (SNNPR), Sidama, Amhara, and Tigray, heavily depend on coffee cultivation and processing activities.

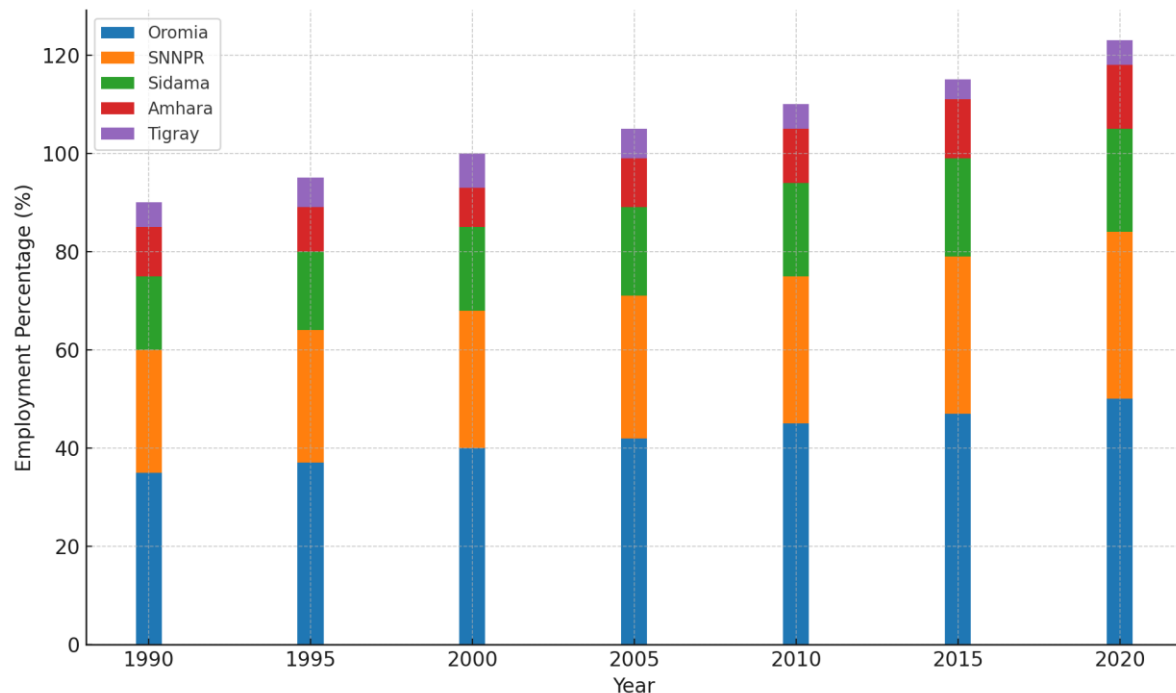


Figure 3. Employment Distribution in Ethiopia's Coffee Sector by Year and Region

Figure 3 illustrates the employment distribution in Ethiopia's coffee sector by year and region, showing the dominant role of key coffee-producing areas. The Oromia region consistently accounts for the largest share of employment, reflecting its status as the leading coffee producer in the country. For instance, from 1990 to 2023, Oromia's share of coffee sector employment increased from 35% to 50%. The SNNPR and Sidama regions follow, contributing significantly to national employment in coffee, with their shares also gradually increasing over the years.

This widespread employment is critical for rural economic development, as coffee farming is the main economic activity for many communities. The income generated from coffee production supports local economies, funding education, healthcare, and infrastructure. The employment opportunities created by the coffee sector, including seasonal labor for harvesting and processing, also provide a vital source of income for rural households, helping to reduce poverty levels and improve livelihoods.

Moreover, coffee production's role in employment extends beyond farm-level activities. It includes various stages of the coffee value chain, such as transportation, processing, and marketing. These activities generate additional employment opportunities, stimulating local economies and contributing to Ethiopia's overall economic growth.

Overall, the coffee trade's impact on employment creation and rural development is profound, demonstrating its importance as a source of livelihood and economic stability for millions of Ethiopians, particularly in rural regions. The continued growth and development of the coffee sector will remain essential for maintaining and expanding these benefits in the future.

### 3. Challenges and Opportunities in the Coffee Sector

#### 3.1 Overcoming Climate Change, Market Volatility, and Competition

Ethiopia's coffee sector faces several significant challenges that threaten its sustainability and growth, primarily climate change, market volatility, and increasing global competition. Each of these factors presents unique difficulties that require strategic adaptation to ensure the continued success of the coffee industry.

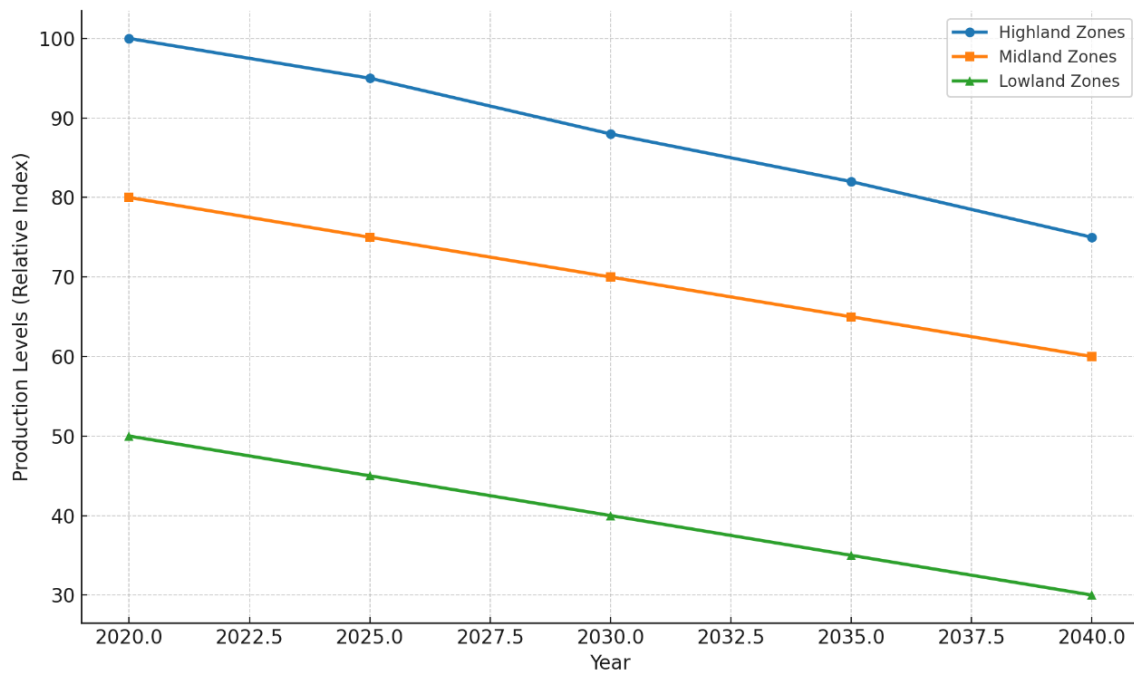


Figure 4. Impact of Climate Change on Coffee Production Zones in Ethiopia

Figure 4 illustrates the impact of climate change on Ethiopia's coffee production zones from 2020 to 2040. The chart shows that production levels are projected to decline across all major coffee-growing regions, with varying degrees of impact depending on the altitude. Highland zones, represented by the blue line, are expected to see a relatively moderate decline in production levels, dropping from 100 (relative index) in 2020 to 75 by 2040. Meanwhile, midland and lowland zones, represented by the orange and green lines, are forecasted to experience steeper declines, with lowland zones facing the most severe reduction, from 50 in 2020 to just 30 by 2040.

Climate change poses a critical threat to coffee production in Ethiopia, primarily through increased temperatures, irregular rainfall patterns, and the spread of pests and diseases. As shown in Figure 4, lower-altitude areas (midland and lowland zones) are particularly vulnerable, with predicted reductions in suitable land for coffee cultivation. As temperatures rise, coffee plants suffer from heat stress, reduced yields, and increased exposure to diseases like coffee leaf rust, affecting both the quantity and quality of coffee produced.

In addition to climate challenges, Ethiopian coffee farmers face significant market volatility. Global coffee prices fluctuate due to various factors, including shifts in supply and demand, economic conditions, and speculative trading. Such volatility creates uncertainty for Ethiopian coffee exporters and farmers, who often struggle to predict their income, plan for the future, or invest in necessary improvements.

Furthermore, Ethiopia's coffee industry faces growing competition from other coffee-producing countries, such as Brazil, Vietnam, and Colombia, which have invested heavily in modernizing their coffee sectors. These countries often benefit from more advanced infrastructure, technological innovations, and larger-scale operations, allowing them to produce coffee more efficiently and cost-effectively.

To overcome these challenges, Ethiopia's coffee sector must adopt strategies that enhance resilience and competitiveness. This includes investing in climate-resilient coffee varieties, improving farming practices, diversifying markets, and increasing access to global markets through better infrastructure and marketing efforts. Addressing these challenges effectively will be crucial for maintaining Ethiopia's status as a leading coffee producer and exporter in the face of changing environmental and economic conditions.

### 3.2 Leveraging Sustainability, Certification, and Market Diversification

In response to the challenges posed by climate change, market volatility, and growing global competition, Ethiopia's coffee sector has significant opportunities to leverage sustainability practices, pursue certification, and diversify its market base. These strategies not only address existing vulnerabilities but also position Ethiopia to enhance its market presence and increase the value of its coffee exports.

#### Leveraging Sustainability Practices

Adopting sustainable coffee farming practices is essential for Ethiopia to maintain and improve its coffee

production amid environmental challenges. Sustainable practices, such as agroforestry, organic farming, and water conservation techniques, help mitigate the adverse effects of climate change, improve soil quality, and preserve biodiversity. For example, intercropping coffee plants with shade trees can reduce the impact of rising temperatures, conserve water, and increase the resilience of coffee farms to pests and diseases. Additionally, sustainable practices reduce the need for chemical inputs, lower production costs, and contribute to long-term soil health, which is critical for maintaining yields and quality.

Moreover, Ethiopian coffee producers can capitalize on the growing global demand for sustainably sourced coffee. Consumers, especially in premium markets in Europe and North America, increasingly prefer coffee that is ethically produced, environmentally friendly, and supports fair trade. By adopting sustainable practices, Ethiopian coffee farmers can tap into these high-value markets, potentially commanding higher prices for their products.

### **Pursuing Certification**

Certifications such as Fair Trade, Organic, and Rainforest Alliance can help Ethiopian coffee producers differentiate their products in the global market and gain access to niche markets that prioritize ethical and sustainable sourcing. These certifications provide assurances to consumers about the quality, environmental impact, and social standards of the coffee they purchase. For example, Fair Trade certification ensures that farmers receive fair prices for their coffee, which can help stabilize incomes and promote community development.

By pursuing these certifications, Ethiopian coffee producers can enhance their brand image and reputation, making their products more attractive to international buyers. Certifications can also offer benefits such as access to premium markets, increased bargaining power, and more stable long-term trade relationships, all of which contribute to the sector's economic resilience.

### **Market Diversification**

Diversifying Ethiopia's coffee markets is another critical strategy to mitigate the risks associated with market volatility and competition. Currently, Ethiopia exports most of its coffee to a limited number of countries, primarily in Europe and the United States. Expanding into emerging markets, such as Asia, the Middle East, and other parts of Africa, can reduce dependence on a few large buyers and spread the risk across a broader customer base.

Market diversification also involves expanding the types of coffee products offered. Ethiopian producers can explore value-added products like roasted coffee, specialty blends, and instant coffee, which can command higher prices and appeal to different consumer segments. Additionally, developing direct trade relationships with international roasters and retailers can help eliminate middlemen, increase profit margins, and build stronger, more transparent trade networks.

By embracing sustainability, achieving certifications, and diversifying both markets and products, Ethiopia's coffee sector can create new opportunities for growth, increase resilience against external shocks, and maintain its competitive edge in the dynamic global coffee market.

## **4. Strategic Pathways for Future Development**

To ensure the long-term sustainability and growth of Ethiopia's coffee sector, it is essential to develop strategic pathways that address current challenges while capitalizing on available opportunities. These strategies should focus on enhancing productivity, building resilient supply chains, and aligning the coffee trade with broader national development goals.

### **Enhancing Productivity and Building Resilient Supply Chains**

One of the primary strategic pathways for Ethiopia's coffee sector is to enhance productivity and build resilient supply chains. This involves investing in improved agricultural practices, research, and development to increase yields and ensure consistent quality. Key actions include:

- **Adoption of Climate-Resilient Coffee Varieties:** Developing and distributing climate-resilient coffee varieties that can withstand higher temperatures, unpredictable rainfall, and increased pest infestations is crucial. Research institutions and government agencies should collaborate with local farmers to promote the use of these improved varieties. This strategy will help mitigate the impact of climate change and secure stable coffee production in the future.
- **Infrastructure Development and Supply Chain Optimization:** Improving infrastructure, such as transportation networks, storage facilities, and processing plants, is vital for reducing post-harvest losses and ensuring the efficient movement of coffee from farms to markets. Additionally, investing in digital platforms and modern trading systems, like the Ethiopian Commodity Exchange (ECX), can

enhance transparency and reduce transaction costs, leading to more efficient supply chains. Strengthening supply chains also involves providing farmers with better access to inputs, credit, and training to improve their productivity and resilience.

### **Aligning Coffee Trade Strategies with Broader Development Goals**

To maximize the benefits of the coffee sector, Ethiopia should align its coffee trade strategies with broader national development objectives. This approach ensures that the growth of the coffee industry contributes to overall economic and social progress. Key strategies include:

- **Integrating Coffee Sector Policies with National Development Plans:** Aligning coffee sector policies with Ethiopia's national development plans, such as the Growth and Transformation Plan (GTP) and the Climate Resilient Green Economy (CRGE) strategy, can help ensure that the coffee industry supports the country's broader goals of economic diversification, poverty reduction, and sustainable development. This integration involves creating synergies between coffee production and other sectors, such as tourism, manufacturing, and renewable energy, to promote inclusive growth.
- **Promoting Social and Economic Inclusivity:** Ensuring that the benefits of coffee sector growth are widely distributed across all regions and communities is critical for long-term stability. Policies should focus on supporting smallholder farmers, women, and youth, who are often the most vulnerable groups within the coffee industry. Providing access to education, training, and resources will empower these groups to participate more fully in the coffee value chain, thereby promoting social and economic inclusivity.

By focusing on these strategic pathways—enhancing productivity and building resilient supply chains, and aligning coffee trade strategies with broader development goals—Ethiopia can secure a more sustainable and prosperous future for its coffee sector. These strategies will help mitigate existing challenges while positioning the country to take full advantage of new opportunities in the global coffee market.

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