DOI: https://doi.org/10.20372/afnr.v2i1. 844
ISSN: 2520-7687 (Print) and 3005-7515 (Online)
Journal of Agriculture, Food and Natural Resources
J. Agric. Food Nat. Resour. Jan-Apr2024, 2(1): 79-91
Journal Home page: https://journals.wgu.edu.et

Review Article

Current Status of Specialty Coffee Production and Market in Ethiopia: A Review

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Abstract

Despite being the world's second largest legally traded commodity after crude oil and a crucial source of income for smallholder farmers, particularly in Ethiopia, Ethiopia's specialty coffee market faces significant challenges. This review aims to provide a comprehensive assessment of the current state of specialty coffee production and marketing in Ethiopia. The review identifies both strengths and weaknesses within the existing system, specifically focusing on the specialty coffee market segment. This review analyzes data from various sources, including the Food and Agriculture Organization of the United Nations, and the Central Statistical Agency of Ethiopia, different methodologies employed for the studies, i.e., a systematic search of scholarly databases, organizational websites, reputable journals, coffee-specific publications, and others. Key findings reveal that the Ethiopian specialty coffee market structure is characterized by a high barrier to entry, differentiated products, and dominance by a few traders. Additionally, the review identifies price instability, inadequate market access, insufficient promotion and incentives, and low prices for producers as central challenges. The analysis emphasizes the need to foster a competitive landscape to empower smallholder coffee growers and grant them equitable access to the specialty coffee market. By enabling them to capture a larger share of the profit margin, the review ultimately proposes this as a key strategy to enhance their livelihoods and bolster the specialty coffee industry in Ethiopia.

Article Information

Article History:

Received: 25-10- 2023

Revised: 18-03-2024

Accepted: 28-03-2024

Keywords:

Coffee Production
Specialty coffee
Market access
Market structure
Price instability

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INTRODUCTION

Ethiopia has prioritized the agricultural sector ever since the adoption of the Agricultural Development Led Industrialization (ADLI) New Century goal and associated policy frameworks in the early 1990's (FAO, 2014). Agriculture remains a significant sector in Ethiopia, employing over 42% of the workforce according to 2020 data from the Food and Agriculture Organization (FAOSTAT, 2024). Over fiveyears, the GDP's share of agriculture decreased from 44.7% in 2010–11 to 37.2% in 2015–16 (Degaga, 2020). Agriculture continues to be the country's largest economic sector, despite its diminishing GDP contribution over the past five years. It serves as a primary export commodity, a major local food supply, and a source of raw materials for the manufacturing sector (Batte *et al*., 2017).

The government recently started looking into the new technologies information from abroad to enhance Ethiopia's market-oriented agricultural development. Some emerging knowledge domains include technologies, biotechnological tools and products, organizational changes and extension arrangements, output marketing, access to inputs, and rural finance (ILRI, 2005). It has created a long-term, framework for strategic planning to raise the caliber of agricultural output and traded goods, lower marketing expenses, and boost competitiveness in the marketing industry (Hailu *et al*., 2016).

However, the market for agricultural commodities is currently unstable because there isn't a well-integrated policy for commodity marketing that takes all the processes into account involving transport, grading, storage, packaging and information facilities for both producers and consumers, as well as a well-equipped institutional setting that can offer all marketing solutions to all market actors (Hailu *et al*., 2016). Limited finance availability, unstable prices, manufacturers' lack of access to market and price information, and local traders are also among the main obstacles to agricultural marketing in Ethiopia (Jabbar, 2004). One of the primary causes of the diminishing worker productivity in Ethiopian agriculture is thought to be the marketing system's inadequate performance (Aregay and Tesema, 2023).

Coffee is an engine of Ethiopian economy and first in terms of export. Ethiopia's potential as a supplier of some of the world's best coffees has not yet been completely realized (Bart *et al*., 2014). The structure and operations of the worldwide coffee market have an impact on the coffee industry, which is heavily reliant on global prices. Ethiopia is one of the

nation's mostly impacted by the global coffee price problem (Nicolas, 2007). Coffee is still a crucial part of the Ethiopian economy and export trade despite the severe price volatility that has been rattling its value chain. However, the continuous price decrease has significantly undermined its production basis and aspirations, necessitating the urgent need for suitable financial services to support rural populations (Bastin and Matteucci, 2007; Degaga, 2020).

Over the past few decades, several changes have made an impact on the global agricultural value chain, including the liberalization of some markets and the growing significance of retail and its ramifications for developing countries (Minten *et al*., 2019). The framework of the coffee industry value chain and its participants have been significantly impacted by these developments (Carlos *et al*., 2020). Ethiopia's coffee business is rapidly changing as a result of the influence of global competition and the rising demand for specialty coffees. In addition to countries like Germany, Saudi Arabia, Japan, the United States, Belgium, Korea, Italy, France, and the United Kingdom, markets like Sudan and China also saw an increase in Ethiopian coffee consumption. Notably, China experienced a significant jump in rankings, moving from 33rd place in 2021 to 8th overall among Ethiopian coffee importers in 2022 (FBC, 2022).

After Brazil and Colombia in terms of volume and value, Africa's top coffee producing nation is Ethiopia and ranks third globally in terms of Arabica coffee production (Chemura *et al*., 2021; FAO, 2012). Ethiopia currently holds the top spot in the world coffee market and ranks fifth in terms of production (FAOSTAT, 2022).

Despite Ethiopia's remarkable reputation as the birthplace of coffee, the specialty coffee markets in the country faces several constraints that hinder its full potential. These limitations include inadequate infrastructure, suboptimal pre- and post-harvest handling practices, limited access to credit for coffee marketing, a lack of extension services, and insufficient market linkages between participants along the long coffee marketing chain. Addressing these challenges requires a comprehensive understanding of specialty coffee marketing and its limitations. This review aims to provide a thorough assessment of the current state of specialty coffee production, productivity, and marketing in Ethiopia, highlighting the strengths and weaknesses of the existing system and identifying areas for improvement.

The Significance of the Review

Information on Ethiopia's coffee production systems, marketing actors, and allocation of their profit margins are all provided in the review. The data is anticipated to be a useful input that will aid market participants in understanding production and marketing restrictions as well as the effectiveness of coffee marketing in the nation. The data produced by this review is anticipated to be useful to a variety of institutions, such as national and international research institutes, development agencies, traders, growers, policymakers, extension service providers, and government and non-governmental organizations.

Review Objective

This review aims to provide a comprehensive assessment of the current state of specialty coffee production and marketing in Ethiopia. The review identifies the strengths and weaknesses of the existing system and proposes areas for improvement.

Review Methodology

A systematic search for relevant information was conducted using scholarly databases (Google Scholar, Science Direct, Scopus) for peer-reviewed articles on Ethiopian specialty coffee, organizational websites (FAO, ILO, Ethiopian government agencies) for official data and reports, and additional credible sources (news articles, industry publications, book chapters). The search included publications in English between 2010 and 2024, prioritizing peer-reviewed articles and reputable sources. Selection was based on relevance and credibility to the research review topic. The gathered information was then critically analyzed and synthesized to provide a comprehensive overview of the current state of Ethiopian specialty coffee production and marketing.

Intended Audience

This review is intended for a broad audience encompassing national and international research institutes, development agencies, market participants (traders, growers, and policymakers), extension service providers, and government and non-governmental organizations (NGOs), aiming to inform various stakeholders involved in the Ethiopian specialty coffee sector.

The Review as Input for Different Stakeholders

This review offers valuable insights for a variety of stakeholders involved in the Ethiopian specialty coffee sector. Policymakers can utilize the analysis of market constraints and opportunities to design interventions that empower smallholder coffee farmers. This could include initiatives to improve infrastructure, promote cooperative marketing, and encourage investment in technology and quality control. For investors, the review highlights the potential for growth in the Ethiopian specialty coffee market while also providing a clear understanding of the challenges that need to be addressed. Farmers can benefit from the practical recommendations on improving coffee quality, production methods, and market access. Finally, end-users gain valuable information on the unique characteristics and rich history of Ethiopian coffee, potentially influencing their purchasing decisions and appreciation for this specialty product.

In essence, this review serves as a roadmap for strengthening the Ethiopian specialty coffee sector, benefiting all participants, from farmers to end-users. By addressing the identified challenges and capitalizing on the existing opportunities, Ethiopia can solidify its position as a leading producer of high-quality coffee on the global market.

LITERATURE REVIEW

Term Definitions

Specialty coffee

Specialty coffee is defined as coffee that has received a score of 80 or higher on a scale of 100 by a qualified Q Grader or a certified coffee taster (SCAA) (CQI) (THESCCO, 2022). The Tea and Coffee Trade Journal was the first publication to adopt the term "specialty coffee" in the 1970s. Since that time, advances in farming, roasting, and brewing technology as well as a rise in the desire for premium coffee has led specialty coffee more widely available (THESCCO, 2022). Specialty coffee stands apart from other varieties due to its meticulous cultivation and processing. Grown in regions with ideal soil conditions and altitudes, these coffee beans are harvested at their peak ripeness, ensuring optimal flavor development. Furthermore, specialty coffee undergoes rigorous selection processes, where only the highest-quality beans are chosen. This dedication to quality control throughout the entire production chain results in the complex and exceptional flavor profiles characteristic of specialty coffee (Nesbitt, 2004; Aregay & Tesema, 2023).

Table 1: Specialty Coffee - Q Grade Score Sheet

SCORE	GRADE	SPECIALTY YES/NO
90–100	Outstanding	Specialty Coffee
85–89.99	Excellent	Specialty Coffee
80–84.99	Very Good	Specialty Coffee
<80.0	Below Specialty Quality	Not Specialty Coffee

Source: (THESCCO, 2022).

Any coffee that receives more than 80 points out of a possible 100 is considered specialty coffee, according to the table above. Cupping and visual inspection are used to rate green coffee. A 350 g sample of green coffee beans is taken for visual inspection, and any defective beans are counted. Black beans and sour beans are examples of main defects (e.g. broken beans). Coffee must have no fundamental flaws and less than five minor flaws to be considered a "specialty" (THESCCO, 2022). Specialty coffee is typically grown at high altitudes, under the farmer's close supervision. From there, it is either sold straight to roasters or sold at a premium to coffee dealers. After that, the roasters develop unique profiles for every coffee, strengthening and bringing forth its natural characteristics. Then, baristas use freshly cultivated and roasted coffee to create premium beverages, frequently with extreme precision and specialized machinery (THESCCO, 2022). With notable exceptions, the majority of nations that grow commercial coffee also produce a modest amount of specialty coffee. Specialty coffee is associated with nations like Ethiopia, Kenya, and Colombia, but many lesser-known nations are competing to produce some of the best coffee in the world.

For instance, Panama has developed a reputation in recent years due to its highly educated farmers, emphasis on boosting biodiversity, and assortment of varied microclimates. Specialty coffee is becoming more widely consumed in the USA, where daily consumption increased from 9% in 1999 to 34% in 2014 (THESCCO, 2022). Specialty coffee is in greater demand on international markets, particularly because it is also blended with lower-quality coffee to create instant coffee (Chemura *et al*., 2021). As a result, there are potentials for smallholder communities and coffee-growing nations to receive a premium price of roughly +20 to +50% over that of conventional coffee beans (Boaventura *et al*., 2018; Lannigan, 2020).

Nearly 5 million smallholder farmers cultivate coffee in forest or agroforestry systems, producing 400,000 tonnes on average annually with a projected export value of more than US$1 billion (Hirons *et al*., 2018; Murken, 2020). Additionally, coffee cultivation takes up over 10% of all cropland used for commercial agriculture, and coffee exports account for roughly 30% of all agricultural exports (CSA, 2019; Murken, 2020). The nation also has Africa's largest domestic coffee market (Ridley, 2011).

Unique Ethiopian coffees like Yirgacheffe, Sidamo, Harar/Moka, Nekemte, and Limu, among others, join the elite ranks of premium single-origin coffees alongside renowned offerings from Hawaii, Indonesia, and Jamaica (Mengistie, 2011; Putri, 2020; Chemura *et al*., 2021). These celebrated Ethiopian specialty coffees, distinguished by their distinct character and exceptional quality, are classified as "exemplary" within the global trade (International Trade Centre, 2011). This classification signifies their inherent value, characterized by a unique and exquisite cup profile, coupled with limited supply compared to global demand.

Characterized by complex and vibrant flavor profiles, Ethiopian specialty coffees are renowned for their distinctive floral and citrusy notes, often accompanied by hints of fruit, spice, and chocolate. These unique flavor profiles are attributed to a confluence of factors, including the country's diverse microclimates, the utilization of indigenous heirloom coffee varieties, and traditional processing methods (Chemura *et al*., 2021; Taye, 2011). This distinct character, coupled with a commitment to quality and responsible production practices, has cemented Ethiopia's position as a major player in the global specialty coffee market. Ethiopian coffee is widely marketed for its unique attributes, making it a highly sought-after commodity among discerning coffee enthusiasts worldwide.

Marketing

Marketing transcends a mere sales function; it's a social and managerial activity that facilitates the exchange of value between individuals and organizations. Its prime objective is to help people and organizations acquire what they seek, establishing profitable and enduring relationships with customers in the process (Kotler & Keller, 2021). This differs from a transactional approach, where the focus lies solely on generating revenue.

Traditionally, businesses prioritized production, often neglecting customer needs and desires until after products were manufactured. This approach has given way to a market-driven philosophy, where marketing acts as the guiding force (Dibb *et al*., 2021). By aligning production with clear insights into market demands, businesses can ensure their offerings resonate with customer preferences, leading to increased satisfaction and loyalty.

Marketing is more than just communication or promotion. It involves collaborative and iterative processes of for understanding the market landscape. This includes gathering data through market research, customer feedback, and competitor analysis (Verhoef *et al*., 2020). These insights inform strategic decisions across various business functions, encompassing product development, pricing, distribution, and communication strategies.

Successful marketing hinges on the unwavering commitment to generating value for customers. This value can encompass practical benefits, emotional connections, and even social impact. Businesses must clearly articulate how their offerings fulfill these desired values through their marketing efforts, resulting in a perceived return on investment for customers (Vargo & Lusch, 2017). Marketing, in its essence, acts as a bridge between individuals and organizations, enabling the creation and exchange of value. By fostering strong customer relationships and responding to evolving market demands, marketing plays a critical role in achieving sustainable success in today's dynamic business environment.

Marketing Margin

It is the discrepancy between the price farmers receive and the price consumers pay. Inquiries about the margin size and the shift in marketing margins came from both producers and consumers. Furthermore, if a marketing margin increases, then the incidence of change on the farm and the retail prices should be considered (Williams & Kautz, 2014). The discrepancy between farm value and retail pricing is known as the marketing margin or farm-to retail price spread. It reflects payments for all fees associated with assembling, processing, transporting, and selling agricultural products (Bruce *et al*., 2001).

Marketing Margin in the Ethiopian Specialty Coffee Market

The concept of marketing margin, representing the difference between the price paid to producers and the retail price for consumers, holds particular significance in the context of Ethiopian specialty coffee. Producers and consumers alike are increasingly interested in

understanding the magnitude and distribution of this margin (Aregay & Tesema, 2023). This is because fluctuations in the marketing margin have a direct impact on both farm-gate prices received by producers and affordability for consumers (Melese & Hassan, 2019).

In the specialty coffee market, the marketing margin encompasses various costs beyond the farm-gate price, including pre- and post-harvest handling (sorting, drying, milling, packaging), processing and logistics (roasting, transportation, storage), and marketing and retail expenses incurred by roasters, distributors, and retailers like branding, advertising, and distribution costs (Bernard & Spielman, 2009).

Understanding the breakdown of the marketing margin and its variation across different segments of the specialty coffee value chain is crucial. This information can inform policy decisions aimed at improving transparency, enhancing price fairness, and ensuring both producer profitability and consumer price stability (Ponte, 2016).

Recent studies, such as the one by Aregay and Tesema (2023), have begun to address this knowledge gap by empirically analyzing the marketing margin for Ethiopian specialty coffee. Their findings highlight the need for further research on factors influencing the margin and potential interventions to ensure an equitable distribution of the value across the coffee value chain.

Market structure

Market structure refers to the key features of a market that influence how businesses compete and set prices (Robert, 1995). These features include the number and size of buyers and sellers in the market, the level of product differentiation, and the ease with which new businesses can enter the market.

One common way to assess market structure is through concentration ratios. These ratios measure the combined market share of a specific number of leading firms. Typically, the four-firm concentration ratio (CR4) is used, where a higher CR4 indicates a more concentrated market. For example, a CR4 of 50% or above suggests a strongly oligopolistic market, while a CR4 below 33% points towards a more competitive market (Kohls & Uhl, 1985).

While the CR4 is widely used, some studies, like Minten and Ermias in 2014, employ both the CR4 and the eight-firm concentration ratio (CR8) to gain a more comprehensive understanding of the market structure, especially in the context of Ethiopian coffee exports. Additionally, other factors, like the degree of supplier and buyer concentration and the level of product differentiation, also play a crucial role in shaping market structure and its impact on competitive dynamics and pricing behavior.

Market Performance

Market performance is not a coincidence; it's directly influenced by the interplay between market structure and business behavior within that structure (Robert, 1995). This interaction shapes factors like production volume, cost levels, and ultimately, pricing strategies. Similarly, Cramer and Jensen (1982) emphasize how structure and behavior impact the market's performance through their influence on pricing, production costs, volume, and even the quality of output.

To gauge the effectiveness of this interaction, researchers commonly analyze two primary measures: net return and marketing margin (Amha, 1994). These metrics provide valuable insights into the overall success of the market, reflecting how efficiently resources are allocated and value is distributed among various stakeholders.

Ethiopian coffee production and production

Ethiopia boasts a long and proud history of coffee production, with the majority of its coffee cultivated in the western and southwestern, southern, eastern, and central regions (Esayas *et al*., 2018). Interestingly, Ethiopian coffee production systems differ significantly from conventional specialty coffee production methods often employed in other regions (Asfaw *et al*., 2018).

This distinction lies in the unique agro-ecological features and traditional practices that shape Ethiopian coffee. Unlike meticulously managed and high-input specialty coffee farms, Ethiopia's coffee production is primarily small-scale and often integrated with natural forest ecosystems. This system, categorized into four main groups: forest coffee (FC), semi-managed forest coffee (SFC), garden coffee (GC), and plantation coffee, utilizes shade-grown and biodiverse approaches (Alem *et al*., 2017). This traditional system, while distinct from modern specialty coffee practices, contributes to the unique characteristics and flavors appreciated by discerning coffee consumers worldwide.

The nation's approximately 4 million small farmers grow coffee. There are far more farmers who grow and produce stimulant crops like coffee than farmers who grow fruits (CSA, 2018). Fifteen million individuals, or around 15% of the nation's workforce, are employed in the sector at various points along the value chain. Coffee is grown on small plots of land, which are typically less than half a hectare, for close to 95% of the world's supply (Michael, 2018).

Table 2: Area of production and productivity of coffee in Ethiopia from 2005–2021

Year	Area harvested (ha)	Production (tonnes)
2005	261175	171631
2006	295238	241482
2007	407147	273400
2008	391296	260239
2009	395003	265469
2010	498618	370569
2011	515882	376823
2012	528571	275530
2013	538466	392006
2014	561762	419980
2015	653910	457014
2016	700475	469091
2017	725961	449230
2018	764863	494574
2019	758523	482561
2020	856592	584790
2021	685294	456000

Source: FAOSTAT (2023).

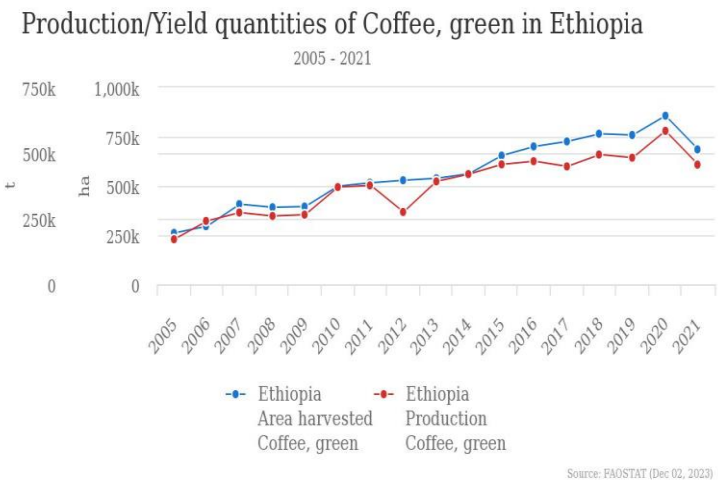

Figure 1: Line graph of the trend of coffee production in Ethiopia (Millions of tonnes) from 2005–2021.
Key: K = represents thousand
Source: FAOSTAT (2023).

Over the past two decades, Ethiopia's coffee production landscape has undergone a remarkable transformation, as captured by FAO data spanning 2005-2021. In 2005, the total area under coffee cultivation stood at 261,175 hectares, yielding 171,631 tonnes of coffee. The ensuing years witnessed a dynamic interplay of production trends, characterized by fluctuations in both the area under cultivation and total output until 2013. From 2014 onwards, a positive shift emerged, with both area and productivity exhibiting a gradual upward trajectory. By 2020, the total area dedicated to coffee production had expanded to 856,592 hectares, while total output reached an impressive 584,790 tonnes, further solidifying Ethiopia's position as a global coffee powerhouse. However, 2021 brought a temporary setback, with the area under cultivation retreating to 685,294 hectares and total production declining to 456,000 tonnes. Despite this minor fluctuation, Ethiopia's long-term prospects for coffee production remain remarkably positive.

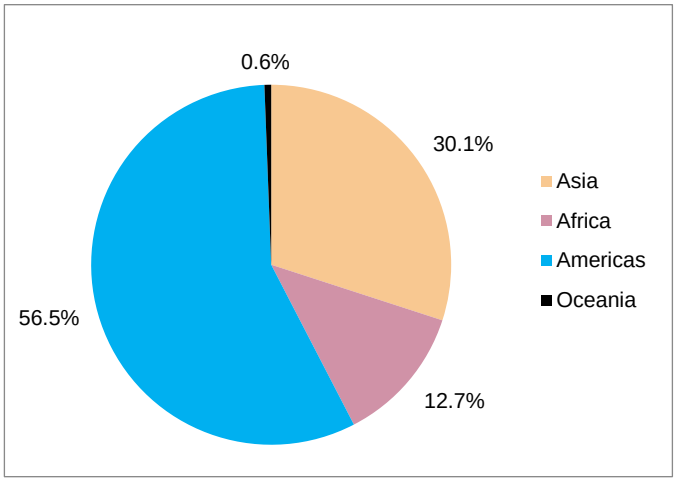

Figure 2: Pie chart illustrating the production share of coffee by region

Source: FAOSTAT (2023)

A comprehensive analysis of coffee production across continents, based on recent FAOSTAT data from 2005 to 2021, paints a vivid picture of global coffee cultivation. American countries stand at the forefront, accounting for an impressive 56.5% of global coffee production. Asia follows closely behind, contributing 30.1% to the world's coffee supply. Africa and Oceania round out the picture, with respective shares of 12.7% and 0.6% (FAOSTAT, 2023).

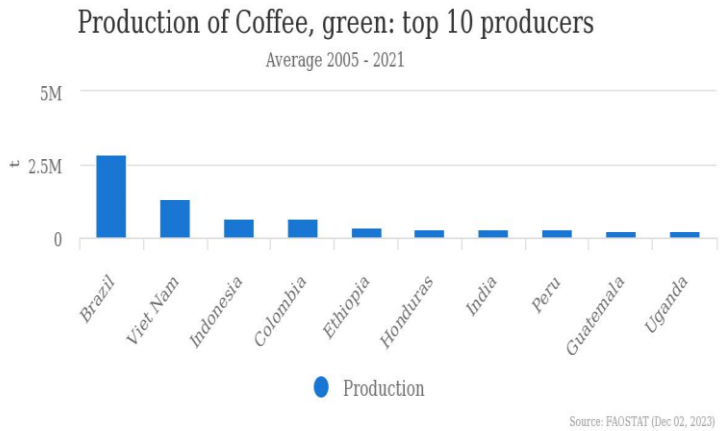

Figure 3: Bar chart showing the trend of the top ten coffee producers of the world (in Millions of tonnes) since the 2005–2021 year (FAOSTAT, 2023).

Delving into the world of coffee production, FAOSTAT statistics from 2023 reveal a compelling picture of global coffee cultivation. Brazil emerges as the world's undisputed coffee king, dominating the landscape with its vast production area and staggering output. Following suit, Vietnam, Indonesia, Colombia, Ethiopia, Honduras, India, Peru, Guatemala, and Uganda establish themselves as prominent coffee-producing nations, each contributing significantly to the global coffee supply.

Intriguingly, FAOSTAT's data nuances with that presented by Jima (2020), who cites Francom (2018) to assert Ethiopia's position as the sixth-largest coffee producer globally. This intriguing discrepancy highlights the dynamic nature of global coffee production and the potential for evolving estimates across various sources.

Specialty Coffee Production and Productivity Trends

The global specialty coffee market is experiencing a positive trend in both production and productivity. Fueled by a growing consumer base seeking high-quality, unique flavor profiles, and ethically sourced beans, specialty coffee producers are expanding their operations. This translates to an increase in the total volume of specialty coffee beans produced worldwide (International Coffee Organization, 2023).

Furthermore, advancements in agricultural practices are contributing to this growth. Improved varietals, specifically developed for their distinctive flavors and disease resistance, are being cultivated (Avelino *et al*., 2022). Additionally, optimized processing methods, such as meticulous fermentation techniques and precise drying procedures, are further enhancing the quality and consistency of the final product (Mussatto *et al*., 2021). Finally, a growing focus on sustainable practices, including soil health management and responsible water usage, is ensuring the long-term viability of specialty coffee production (Coffee and Climate Change, 2024). These combined efforts are leading to higher yields per unit of land, allowing specialty coffee producers to meet the rising demand while maintaining the exceptional quality that defines the market.

However, it's important to acknowledge that challenges remain. Climate change poses a significant threat to coffee-growing regions, with potential disruptions to weather patterns and increased pest pressure (Bunyaritfas *et al*., 2021). Additionally, ensuring fair compensation

reaches all stakeholders in the complex supply chain, from farmers to exporters, remains a crucial consideration for the sustainable growth of the specialty coffee market. Addressing these challenges will be essential for ensuring the continued success of specialty coffee production on a global scale.

Ethiopia is experiencing a surge in both production and quality within its specialty coffee sector. Driven by international appreciation for its unique flavor profiles and a focus on traceable, ethically sourced beans, Ethiopian coffee farmers are expanding their operations. This translates to an increase in the total volume of high-quality coffee produced in the country (Oromia Regional State Agricultural Bureau, 2023).

Furthermore, efforts are underway to improve agricultural practices specifically tailored to Ethiopia's diverse coffee landscapes. The introduction of disease-resistant, high-yielding coffee varietals developed by research institutions like the Ethiopian Institute of Agricultural Research (EIAR) and collaborative projects with international organizations (e.g., International Coffee Organization) are contributing to this growth (Tassew *et al*., 2022). Additionally, investment in post-harvest processing methods, including meticulous fermentation and drying techniques, is further enhancing the consistency and exceptional cup quality that Ethiopian coffee is known for (Yigezu *et al*., 2023). These advancements are allowing Ethiopian specialty coffee producers to meet the rising global demand while maintaining the distinctive characteristics that set their product apart.

Product differentiation in Ethiopia

Specialty coffee is credited as being created in Ethiopia, where there is greater market differentiation, due to its natural richness of indigenous coffee varietals, which number in the thousands and have been developed over millennia of natural and human cultivation. One could argue that Ethiopia has unique advantages (USAID, 2010).

Ethiopia has a rich history of coffee research, with the Jimma Agricultural Research Center (JARC) developing 42 commercial Arabica coffee varieties since the 1970s. These cultivars cater to the diverse agro-ecological conditions within the country, contributing to the current specialty coffee landscape (Fekadu *et al.,* 2008; Tadesse, 2014).

Ethiopia holds several unique advantages in the production of specialty coffee. Firstly, its rich genetic diversity, with thousands of indigenous coffee varieties shaped by centuries of natural and human cultivation, yields a vast array of complex and exceptional flavor profiles (Worku *et al*., 2018). Secondly, Ethiopia's diverse microclimates, altitudes, and traditional shade-grown practices contribute to distinct cup characteristics that appeal to discerning coffee enthusiasts (Aregay & Tesema*,* 2023). Moreover, Ethiopia's coffee legacy, intertwined with its cultural heritage and traditional knowledge systems, adds a compelling narrative and unique value proposition for specialty coffee buyers (Taye, 2021).

Contrary to many other countries that produce coffee, Ethiopian coffee types are distinguished by agroecological and regional conditions, form, acidity, body, flavor, aroma, and processing techniques. They are also typically auctioned by the origin from whence they come. Ethiopian coffee, in particular, is traded on the international market according to where it was produced (e.g., Sidama, Yirgachefe, Harar, Jimma, Nekemte, Teppi, Limu, and Bebeka). As Since 2008 (Hernandez *et al*., 2015), Ethiopia has held trademark rights for the specific quality of coffee represented by the Sidamo, Yirgacheffe, and Harar brands. Branding is also taken into account to distinguish the products. In Ethiopia, there are many differentiating factors in the coffee export market, including quality premiums are given for washing, grading, certification (organic, fair trade, and rainforest alliance), and unique regional features (Minten, and Ermias, 2014). According to numerous certification systems, distinctive good coffee is a differentiable product based on the point of manufacturing, grading, and trademark rights.

Speciality Coffee export

Ethiopia is Africa's leading producer, ranks ninth internationally in terms of total coffee bean exports, and produces and sells one of the world's best highland coffees (Gebreselassie, and Ludi, 2008; USDA, 2018). Total export revenue increased by 3% in 2018 compared to the same quarter in 2017 as a result of increases in the export earnings of coffee (19.1%), oilseeds (4.9%), leather and its products (27.7%), fruits and vegetables (16%), meat and its products (10.1%), flowers (8.1%), electricity (23.8%), and other exports (35.1%). Because of an increase in export volume of 16.5% and an increase in international price of 2.2%, coffee revenues in 2018 increased by 19.1% when compared to those in the same quarter of 2019. As a result, earnings from coffee increased to USD 215.6 million. Consequently, from 27.5% a year earlier, coffee's portion of overall merchandise export earnings climbed to 31.8%. Ethiopia earned $800,000,000 from coffee exports in 2020, which was more than 25% of all exports (USDA, 2021).

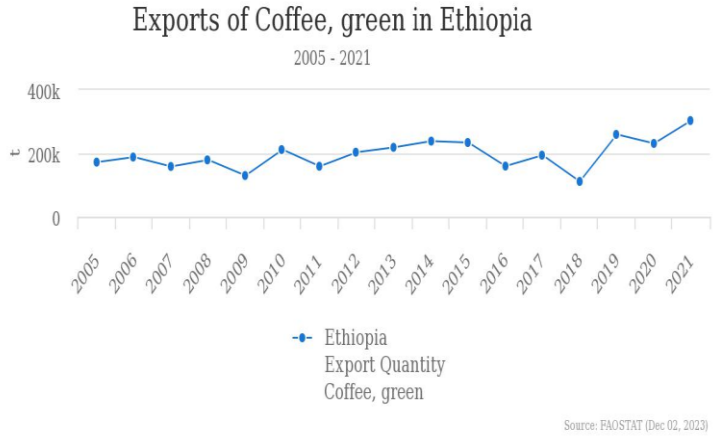

Figure 4: Line graph of the Ethiopian exports of coffee green (in Thousands of tonnes) from the year 2005–2023 (FAOSTAT, 2023).

Key: k = thousand, t = tonnes.

The intricacies of Ethiopia's coffee export trends over the past decades are eloquently captured in the above graph. While exports have generally followed an upward trajectory, they encountered a temporary setback in 2019, marked by an initial increase followed by a slight decline. This fluctuation can be attributed to the onset of the COVID-19 pandemic, which prompted the Ethiopian government to implement stringent lockdowns and enforce social distancing measures (Ethiopian Coffee Market, 2022). These restrictions led to the closure of restaurants, cafes, micro-roasters, and other out-of-home businesses, resulting in a diversion of coffee consumption from the on-trade to the retail sector. As demand shifted towards instant and ground coffees, retail sales experienced a boost. However, the pandemic's impact extended beyond domestic consumption, disrupting Ethiopia's import and export operations. For instance, coffee trade on the Ethiopian Coffee Exchange (ECX) plummeted by 30% in April 2020 compared to the same month in the preceding year (Ethiopian Coffee Market, 2022).

Despite these challenges, Ethiopia's coffee export share has demonstrated remarkable resilience, exhibiting a notable increase in 2023 (FAOSTAT, 2023). This resilience was further underscored in the 2021-2022 harvest season, when Ethiopia defied global climate disruptions to achieve a record-breaking export volume. While dry weather hampered the output of the 2021 harvest of Brazil and frost endangered the output potential of the next year, Ethiopia's coffee production thrived in both volume and revenue. The yield of 2021-2022

surpassed the export volumes of the previous season (2020-2021), with an anticipated 5 million bags of export by the end of February (Ethiopian coffee market, 2022). This record-breaking volume was accompanied by a surge in export revenue, further solidifying Ethiopia's position as a global coffee powerhouse.

Figure 5: Ethiopian annual export earnings from coffee (in Millions of USD) from the year 2018-19–2020-21.
Source: (Alemayehu, & Tadelle, 2022)

Over the past three years, Ethiopia's coffee industry has witnessed an extraordinary surge, with revenue skyrocketing from 750 Million USD to an astounding 950 Million USD. This remarkable growth trajectory can be attributed to a synergistic interplay of factors, including a commendable expansion of the total area under cultivation, from 764,863 hectares in 2018 to 856,592 hectares in 2020, and a corresponding increase in total production, climbing from 494,574 tonnes in 2018 to an impressive 584,790 tonnes in 2020 (Alemayehu, & Tadelle, 2022; FAOSTAT, 2022).

Fueling Ethiopia's burgeoning coffee industry is a confluence of favorable factors. The surge in domestic and global coffee demand, coupled with burgeoning private sector interest and significant investment potential, creates a fertile ground for Ethiopian coffee production to flourish. Moreover, robust regional and federal government support further bolsters the industry's prospects. Ethiopian coffee finds a warm reception in a multitude of nations, including Germany, France, Italy, Belgium, Sweden, Norway, Finland, Denmark, United Kingdom, Switzerland, Japan, Saudi Arabia, Canada, Taiwan, South Korea, Australia, and South Africa (Degaga, 2020). While the percentage of agricultural exports dipped marginally from 86% in 2013–14 to 84% in 2016–17, coffee exports as a percentage of all exports experienced a welcome uptick, rising from 30% in 2013–14 to 33% in 2016–17.

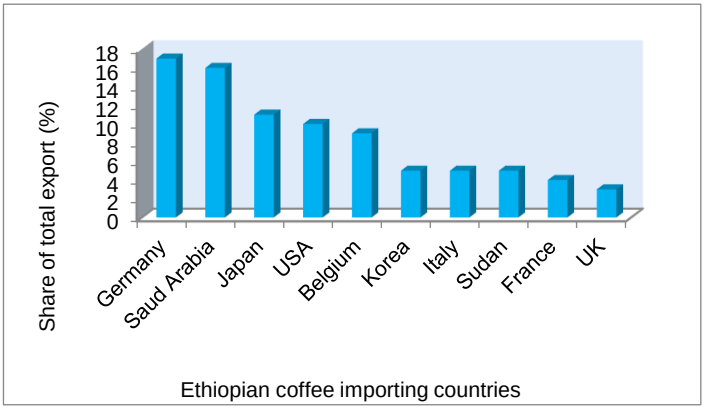

Figure 6: Bar chart of the Ethiopia's top ten coffee-importing countries in terms of percentage share Source: (Francom, 2018; Degaga, 2020).

Domestic consumption

Ethiopia is the top consumer of coffee, the leading coffee producer and exporter, as well as the leading country in Africa and the world in terms of domestic coffee consumption (USDA, 2018). Although it fell from a peak of 65% in 1987 to 25% in 2003, the consumption proportion of total production was substantially lower in the years immediately after the start of the reform. The country's increase in exports during that time as a result of the increase in exporters as a result of the liberalization of internal marketing might be blamed for the reform's relatively lower share of domestic consumption in the early years. However since 2004 (Boansi, and Crentsil, 2013), there has been an upward tendency. Similarly to this, Francom (2018) noted that as the country's population grows, coffee consumption is rising in Ethiopia, although slowly. A total of 6.4 million 60 kg bags were produced in 2015–16, of which 3.7 million were used domestically in Ethiopia (Moat *et al*., 2017).

The appearance of small roadside kiosks selling coffee to walkers and serving it traditionally is a recent trend in the consumption of coffee in Ethiopia's major cities. They have flourished in Ethiopia's major cities, becoming extremely well-liked among coffee drinkers who are fed up with the rising cost of coffee and the declining quality of the coffee being provided in cafes and coffee shops. The small roadside vendors' cost of providing coffee is far cheaper and more affordable than that of normal coffee shops because, in contrast to those establishments, they do not pay house rent or VAT (Asfaw, 2014).

Generally, the majority of coffee sold in the domestic market is geared toward export via the ECX, although shipments are rejected if they fail to meet the quality standards of ECX. However, the cost of coffee in a particular area is typically higher than the cost of arabica coffee abroad (Asfaw, 2014). Getachew (2011) claims that blending coffee with other grain crops, like barely, is becoming a popular practice in the nation (Degaga, 2020).

Market structure of coffee in Ethiopia

Individual coffee farmers make up the framework of the Ethiopian coffee marketing system on the production side, while cooperatives, unions, wholesalers/suppliers, and exporters make up the marketing side (Abiy, 2012; Kelifa, 2019). Four firm concentration ratios were used in the study by Shumeta *et al*. (2012) on the investigation of market chains of forest coffee in southwest Ethiopia to determine the level of market concentration for the regional coffee wholesalers in Gera and Shebe Districts of the Jimma Zone. Accordingly, the wholesaler's four-firm concentration ratios in Gera and Shebe Woredas were 40.85% and 29.65, respectively. This suggests that Gera's coffee market structure is more competitive than Shebe District.

Belete (2014) calculated the trader concentration ratio in the Yirgalem and Hawassa District coffee marketplaces. As a result, the main coffee market is distinguished by un-concentrated suppliers since a variety of farmers primarily provide the market with coffee, and the activities of other producers are unaffected by the actions of one producer. On the other hand, a small number of traders controlled the market; the top four traders had 65.3% of the coffee market. This results the local coffee market structure being classified as being substantially oligopolistic (Kohls, and Uhl 1985).

The four largest coffee collectors, or four -firm concentration ratios, were reported to be about 68.8% and 60.33%, respectively, in the Sheko and South Bench Woredas by Gachena and Kebebew (2014). This suggests that collectors handled the vast majority of the entire amount of the coffee that was purchased. Because no producer interferes with the operations of other producers, the market is un-concentrated at the producer level and is significantly oligopolistic at the collector level in Sheko and South Bench Woredas.

A study on the analysis of the coffee market chain in the Gewata District, Kaffa Zone, and Southwest Ethiopia was carried out by Gebre (2017). He discovered that the market dealers' estimated coffee concentration ratio was 40.86%. As a result, it suggests that the market structure for coffee in the research area is one of a weak oligopoly.

Gashaw (2018) conducted research on the organization, operation, and performance of the Jimma Zone coffee market. The four main suppliers in the Limmu Kossa, Gomma, Manna, and Limmu-Seka areas mobilized, respectively, 60.6%, 52.4%, 51.2%, and 58.9% of the total volume of the red cherry coffee purchased, according to the results of the four firm concentration ratios. For Limmu Kossa, Gomma, Manna, and Limmu-Seka, respectively, the dry cherry coffees were determined to be 55.7%, 38.6%, 36%, and 45.4%. According to this data, the market structure for red cherry coffee is classified as strongly oligopolistic, while that for dry cherry coffee, with the exception of Limmu Kossa, is weakly oligopolistic. As a result, it is possible to conclude that the local coffee market structures are oligopolistic (Kelifa, 2019). Between 2006 and 2013, Minten and Ermias (2014) determined the coffee export concentration ratio of the four and eight major enterprises in the Ethiopian coffee export market. As a result of the privatization of state farms (the Coffee Plantation and Development Enterprise's Bebeka, Teppi, and Limu coffee plantations, which were privatized in 2011–12, 2012–13, and 2014, respectively), the share of coffee exports from quango has decreased since the end of 2009, and the quantity of private exporters has increased from 100 in 2008 to 175 in 2012.

Before to 2008, the largest eight firm concentration ratios averaged around 60%; at the end of 2013, it was around 40%. Prior to 2008, the results of the four largest firms' concentration ratios were, on average, around 40% and 25% at the start of 2013 (Minten and Ermias, 2014). This suggests that over the past year, the market shares of the top four and eight exporters of coffee have dramatically declined. The World Bank, on the other hand, said that small businesses occupied 20% of the coffee industry, with sales ranging from US$100 to US$500 thousand each year, and that roughly 80% of coffee exports were made by the top exporters (selling more than 5 million USD annually), and reveals that the largest exporters dominate a large portion of the coffee export and the market share of small companies is too low (Kelifa, 2019).

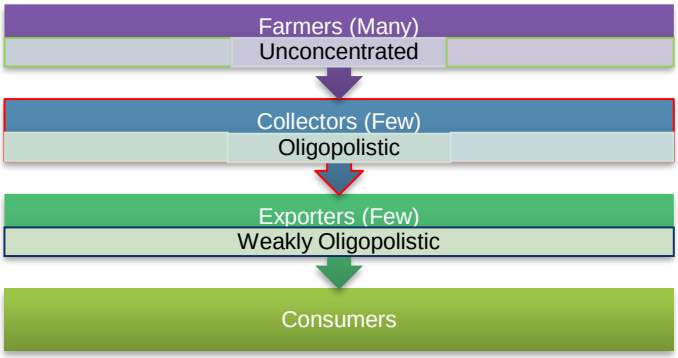

Diagram 1: Market Structure of Ethiopian Coffee

The Ethiopian coffee market structure is characterized by differentiation at the production level due to the presence of numerous smallholder farmers, but concentration at the collection and export levels (Daigram 1). Here's an illustration:

Production (Farmers) Level

Unconcentrated: Numerous smallholder farmers contribute to the market, with no single producer significantly impacting overall supply.

Collection Level

Oligopolistic: A small number of collectors control a large share of the coffee purchased from farmers. Studies have shown concentration ratios ranging from **29.65% to 68.8%** for the **four largest collectors** in different regions (Aregay & Tesema, 2023; Gachena & Kebebew, 2014).

Export Level

Weakly Oligopolistic: While the market has become less concentrated in recent years due to privatization, a small number of large exporters still control a significant portion of exports. The four-firm concentration ratio declined from 40% to 25% between 2008 and 2013, and the eight-firm concentration ratio decreased from 60% to 40% during the same period (Minten & Ermias, 2014). However, small exporters still hold a relatively low market share, with the top exporters dominating a large portion of coffee exports (World Bank, 2019).

Market performance of coffee in Ethiopia

Poor market structure, low agricultural output, and subpar quality control were all hindrances to success under the imperial system. Lack of market competition, smuggling, the collapse of the price of coffee globally, and the switch from coffee to khat production due to high taxes were all obstacles during the military administration. The export performance of the nation did not significantly improve between 1974 and 1980 under military rule, but a slight increase was seen between 1986 and 1991 (Boansi and Crentsil, 2013; Kelifa, 2019). Between 1995 and 2001, coffee export performance improved as a result of lower export and farm taxes, the elimination of farmers' quotas, and the removal of restrictions on the trading activities of private traders, which attracted exporters, intermediaries, and additional farmers into coffee production. After that, starting in 2001, the number of exporters and middlemen in the supply chain rose due to the authorization of cooperative unions' participation in direct exports and private exporters' participation in domestic coffee selling at market pricing. Due to rising transaction costs brought on by the price risk brought on by the extremely volatile nature of coffee prices and the involvement of various actors and processes in the supply chain, the country's export performance gradually declined between 2001 and 2010 (Boansi and Crentsil, 2013).

85 to 90 percent of the total amount of coffee exported is exchanged through exporters. Cooperative output can either be exported directly or through the EXC. About 5 to 10% of all coffee exports are made directly by cooperatives (Minten, and Ermias, 2014). Due to extensive government intervention, as well as plus exorbitant processing and marketing expenses, Historically, Ethiopian coffee growers have gotten a very small share of the green coffee export price. Prior to 1992, the Ethiopian Ministry of Coffee and Tea Development had complete control over both coffee production and marketing. Coffee had to be sold by producers at set times and prices. The great majority of the harvest was managed by the Ethiopian Coffee Marketing Corporation (ECMC). By imposing an implicit tax on farmers, the business dramatically expanded the difference between the producer's price and the price of coffee around the world.

Shumeta *et al.* (2012) discovered that exporters took the biggest gross margin, followed by the wholesalers in Addis, among the various market chains, which included producers, local assemblers, local wholesalers, wholesalers in Jimma, and wholesalers in Addis. Their findings demonstrate that, in contrast to other actors, producers did not benefit

from the market. The findings are in line with those of (Kelifa, 2019) who studied the Forest coffee market chains, were found in southwest Ethiopia, and it was stated that the farmers received a lower net profit than did other intermediaries. The actors in the chain employed net benefit analysis to evaluate and assess the market's performance. The producers received less benefit from the chain than the other actors and the intermediates made a higher average net profit than the producers did (Degaga, 2020).

The producers' share in Gebre's study (2017), combined with marketing intermediaries like rural collectors and private dealers, was 76.88%. On the other hand, the producers' margin share in the market, which consists only of producers and private traders, was 81.28%. These findings concur with those of Belete (2014), who discovered that coffee farmers would gain more from a market with two marketing agents' producers, and wholesalers than from one producer, coffee collectors, and wholesalers. This suggests that the producer receives a smaller portion of the marketing margin in a market with several marketing agents.

According to a report by Abiy (2016), the export market for coffee is provided by an enormous number of middlemen, which results in a lot of transaction costs, gaps in the flow of market information, expensive product costs, and delayed shipments. In line with Gashaw's research (2018), in both washed and unwashed coffee scenarios, the cooperative union receives the biggest percentage share of the profits, followed by the private exporter. In the instance of washed coffee, it revealed a very low profit share for coffee growers in comparison to that of other actors. In the case of unwashed coffee, the primary cooperative receives the smallest profit share, followed by suppliers. Additionally, the majority of all expenditures along the marketing chain are attributable to production costs at the producer level.

Data on Ethiopian coffee shipments from 2011 to 2015 were used by Abiy (2016), and his findings showed that the year 2013 had the maximum level of performance in terms of the amount of coffee exported, while the year 2012 had the lowest performance. This performance of coffee export included participation from all participants, including producers, cooperative unions, and exporters. He calculated each participant's percentage of the nation's coffee exports for the years 2011, 2012, 2013, 2014, and 2015 (in dollars). In this scenario, the producer receives the least portion of the exported coffee while the exporters receive the largest portion, followed by cooperatives. This suggests that by managing a sizable amount of exported coffee, the exporters control the Ethiopian coffee export market.

Marketing constraints of coffee in Ethiopia

Market imbalances affect the coffee production, and there has been a long history of corporate and state efforts to bring about equilibrium without long-lasting success (Pelupessy, 2007). Despite having a positive reputation as the origin of coffee, genetic diversity and a thriving the local coffee scene and straightforward chances for branding, a variety of meteorological and agroecological situations, distinctively unique qualities of coffee, and a favorable national agriculture ecosystem for coffee development, the country has so far fallen short of realizing its full potential (Degaga, 2020). The primary limitations of coffee marketing in Ethiopia are weak infrastructure, poor pre- and post-harvest handlings of coffee technologies in the country, absence of adequate credit arrangements for coffee marketing, lack of market extension services, and lack of marketing linkage between market participants and long coffee marketing chain both in washed and dry coffee.

Approximately 85% of coffee farmers recognized coffee price fluctuation as a major risk issue for their farms, and the impact of price volatility is a direct element in the growth of rural poverty in communities. Some smallholders are forced to abandon conventional forest coffee production methods in favor of more instantly profitable shade or profitablize systems, which can provide larger yields in the near term. On a longer time scale, however, this has a substantial impact on the degradation of coffee landscapes and the farmers' capacity to preserve natural resources and stable socioeconomic conditions. Similar to this, Asfaw (2014) noted that producers of coffee are subject to significant price fluctuations in the market. Poor market access, low pricing, a lack of market incentives and promotion splits, and farmer benefits are some other marketing challenges for specialty coffee in Ethiopia (Cramer and Jensen, 1982; Jose, 2012).

With little incentive to produce high-quality beans, many of the estimated 5 million Ethiopian coffee farmers paid little attention in improving the standard of their crops. This led to prices on the booming domestic market exceeding export prices, stimulating the former (Aglionby, 2017). The other constraints are a lack of awareness among coffee producers in the country to improve traceability and encouraging them to increase productivity and expand coffee farms. Under the old arrangements, which were introduced in 2008, Most of the coffee was sent to the ECX, blended, and then sold at auction. As a result, it lost a lot of its value because its source could not be determined, as traceability is a key requirement in the specialty industry, which is addressed by Arkebe Oqubay, a government minister, as he told the Financial Times and the issue was raised during the Specialty Coffee Expo held at Boston, April 13, 2022 (Aglionby, 2017; FBC, 2022).

Marketing opportunities of coffee in Ethiopia

A solid production base exists in the nation

Most Arabica coffee is farmed in the forested regions of the southwestern highlands of the Kaffa and Buno districts of Ethiopia, covering an area of around 400,000 hectares. The nation produces almost 200,000 metric tonnes of coffee annually, 95% of which is said to be organic and grown in forested areas. Green coffee beans make up the majority of Ethiopian coffee exports to other countries. This element gives Ethiopian coffee a significant competitive advantage in the global market. Coffee output increased from 7055 thousand 60 kg bags in 2017 to 7620 thousand 60 kg bags in 2021, according to the United States Department of Agriculture (Ethiopian coffee market, 2022).

Rising demand for instant coffee

Due to its convenience and ease of preparation compared to fresh coffee, the instant coffee category retained a sizable market share and was the market's primary driver. Consumers' hurried lifestyles are helping the market for quick food. The majority of retail channels have equipment for product distribution. The existence of international players has led to a highly fragmented instant coffee market. To stay in the market, businesses engage in competition with one another through alliances, joint ventures, and product releases. Nescafé Gold sachets, for instance, debuted in June 2019. Nescafe, Lavazza, Moccona, and Robert Timms are a few of the region's well-known instant coffee brands. For the past few years, Ethiopia's only minor distribution channel for instant coffee has been online commerce. However, due to how convenient it is for consumers, it is probably going to become more well-known in the market within the anticipated term (Ethiopian coffee market, 2022; Mordor Intelligence, 2023).

The Competitive Environment

Ethiopia's coffee industry is diverse and fiercely competitive, with both domestic and foreign companies working there. The active businesses are therefore introducing innovations in packaging and product offers to meet the rising demand from customers for coffee in order to maintain their positions in the market. Cooper's Cask Coffee Company, Starbucks Corporation, Nestle SA, Klatch Coffee, and Kalbe Global are a few of the major companies in the Ethiopian coffee market. To draw in more clients, major businesses are now concentrating on social media platforms, online marketing, and product branding. Additionally, prominent firms like Starbucks mainly concentrated on forming alliances and working together with other up-and-coming players; and launching new products (Ethiopian coffee market, 2022; International Trade Centre, 2022).

Specialty Coffee Expo – Boston (2022)

Fitsum Arega, a former Ethiopian ambassador to the United States, claimed that the "Specialty Coffee Expo - Boston (2022)" contributed to the promotion of Ethiopian coffee abroad. A crucial platform for the coffee industry is the Specialty Coffee Expo, which is the biggest coffee event in North America (FBC, 2022).

Growing of Ethiopian coffee market in China

Director General of the Ethiopian Coffee and Tea Authority Adugna Debela (PhD) stated, Ethiopia has noticed a growing potential in the booming Chinese coffee market, where it has become one of the eighth largest importers of Ethiopian coffee during the first ten months of the current (2021–2022) Ethiopian fiscal year that began on July 8, 2021(FBC, 2022). He said that "this year, China became eighth among the Ethiopian coffee importers, up from 33rd last year," attributing the achievement to the opening of new markets and rising coffee consumption among Chinese consumers (FBC, 2022).

According to data from the Ethiopian Coffee and Tea Authority, China purchased 5,879.34 tons of Ethiopian coffee during the last ten months, generating 30.4 million US dollars for the East African country, an increase of 31% over the same time last year. According to Debela, 60% of the nation's specialty coffee was sold at agreed-upon pricing, with the remaining 40% going to the New York auction market. Ethiopia is currently debating whether to sell Ethiopian specialty coffee in China at an agreed-upon price shortly (FBC, 2022; ENA, 2023).

The East African nation improved the performance of its coffee exports thanks to high global commodity prices, a reduced supply chain, new emerging markets like China, and better transparent trade (Ethiopia coffee market, 2022). Ethiopian coffee varietals are in high demand around the world because Arabica coffee, which is believed to have its origins in the nation, is famed for its rich coffee quality and flavor, which can range from winy to fruity and chocolate (CGTN, 2022).

CONCLUSION

Arabica coffee originated in Ethiopia plays a significant part in both the cultural and social lives of the Ethiopian population. By examining the current state of coffee production potential, its import and export trends, and the major importing countries of specialty coffee from Ethiopia, This review offers a broad overview of specialty coffee production and marketing, as well as marketing problems and opportunities in Ethiopia. Different research findings support the idea that Ethiopian coffee production is hampered by a lack of infrastructure, insufficient competitiveness, poor service accessibility, low value addition, and poor technological transfer and research. Price swings, poor access to the market, limited market promotion and incentive mechanisms, low cost, absence of adequate credit arrangements for coffee marketing, lack of market extension services, lack of marketing linkage between market participants, and a long coffee marketing chain both in washed and dry coffee are the major constraints accounting for this problem of specialty coffee marketing in Ethiopia. Furthermore, the coffee marketing performance statistics show that exporters handle a significant portion of the marketing margin, whereas producers capture a relatively little portion of the margin in comparison to the other marketing agents. The analysis also reveals that an increase in the number of marketing agents leads to a decrease in the producers' marketing gross margins. However, the country has several opportunities for enhancing the productivity and marketing of specialty coffee through developing market linkage, improving value addition and using recent technology of coffee production. Therefore, in order to improve, develop, and foster positive awareness and implementation of the specialty coffee marketing system, the government should have a policy.

Recommendation

Depending on the review, the following recommendations have been made. By granting additional licenses to merchants and closely observing their business practices, Government should step up the proportion of producers (farmers) in the final retail price. This will increase competition in the market. improving institutional and infrastructural facilities including roads, markets, and transit. Using the above depicted marketing opportunities of coffee effectively and efficiently to take active part in the growing demand of coffee in the world. The market should be made more competitive in order to allow producers to increase their profit margins. It is necessary to strengthen cooperative marketing representatives since they are essential in assisting producers with price setting. Given that it is believed to strengthen their negotiating power, coffee farmers should receive instruction on how to produce high-quality coffee. Developing and expanding enhanced coffee cultivars and other relevant agronomic practices to improve coffee production technologies. granting more dealers licenses and monitoring their operations.

ACKNOWLEDGEMENTS

The authors express their sincere gratitude to the anonymous reviewers for their constructive feedback and helpful suggestions. Their valuable insights significantly enhanced the clarity and impact of this article.

Conflict of Interest

The author(s) disclose no conflicts of interest that could potentially influence the objectivity of this review. This ensures the impartiality and credibility of the presented findings.

Funding

This work did not receive any specific grant from any external funding agencies.

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