MARKET ADAPTABILITY, INDUSTRIAL DIVERGENCE, AND THE POLITICS OF LIBERALIZATION IN THE KENYAN AND UGANDAN COFFEE INDUSTRIES

by

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1. ABSTRACT

This study explains market adaptability, industrial divergence, and liberalization in the Kenyan and Ugandan coffee industries by addressing two fundamental questions: is liberalization responsible for divergence in the coffee sectors of Kenya and Uganda and; moreover, why has Uganda liberalized while Kenya has not? It will be demonstrated that liberalization is a major factor responsible for industry divergence and that, from the colonial period to the present, socio-political variables have been the primary force driving the decision of the domestic bourgeoisie to liberalize in Uganda and the failure to do so in Kenya. It is argued that socio-political variables act, by influencing the domestic bourgeoisie, as change agents that determine Kenya and Uganda's path choice of *liberalization* and *continuation* of an illiberal status quo respectively. This study assumes that states have full knowledge of international market signals. Looking at the case of the domestic coffee industries in Kenya and Uganda, Kenya has opted for continuation of the illiberal status quo whereas Uganda has opted for liberalization. This particular *path choice* occurred because it was perceived as beneficial by the Ugandan domestic bourgeoisie to adapt to the global coffee economy by liberalizing domestic industry whereas the Kenyan domestic bourgeoisie perceived the maintenance of the status quo as beneficial, even at the expense of generating sub-optimal economic outcomes for the domestic coffee industry. The impetus behind both path choices is socio-political, involving the pursuit of defined elite interests in the context of a historical dialectic between competing foci of power.

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5. LIST OF ABBREVIATIONS

BCMCo	Bugisu Coffee Marketing Company
BCS	Bugisu Coffee Scheme
BCU	Bugisu Cooperative Union
BNA	Bugisu Native Administration
CBK	Coffee Board of Kenya
CMB	Coffee Marketing Board
CMBL	Coffee Marketing Board Limited
CPU	Coffee Planters' Union
CCD	Commission for Cooperative Development
ERP	Economic Recovery Programme
ECEE	Ethiopian Coffee Export Enterprise
ECMC	Ethiopian Coffee Marketing Corporation
ECPE	Ethiopian Coffee Purchasing Enterprise
EEC	European Economic Community
ICA	International Coffee Agreement
IMF	International Monetary Fund
KCGEA	Kenya Coffee Growers and Employers Association
KPCU	Kenya Planters Cooperative Union
NRM	National Resistance Movement
PCBs	Private Coffee Buyers
SMI	Supplier-Managed Inventory
USAID	United States Agency for International Development
VIEs	Vertically Integrated Exporters

6. DEDICATION

Dedicated to my parents, Thomas and Patricia, and my sister Janet, for their loving support in undertaking this project.

7. INTRODUCTION

During my first visit to the smallholder coffee farms along the slopes of Mount Kenya in February of 2005 I had the opportunity to speak with officials from cooperative societies and numerous smallholders about the challenges facing the coffee industry in Kenya. Upon arrival at the Embu Cooperative Society during a general meeting I learned of the losses, poverty, and overarching barriers to success faced by the Kenyan smallholder.[1] A month later during a business trip to Uganda I noticed a large government billboard asserting that “coffee is development,” displaying a woman surrounded by lush coffee plants. I wondered how it could be that “coffee is development” when the coffee farmers in Kenya simply could not make ends meet, and as a result the coffee sector in Kenya, and the livelihood of the smallholders, was steadily declining. Inquiring about the issue I quickly learned that Uganda’s coffee industry had adapted to the international coffee market by liberalizing and was experiencing rapid growth. In light of this discovery, I set out to answer two important questions: is liberalization responsible for divergence in the coffee sectors of Kenya and Uganda and; moreover, why has Uganda liberalized while Kenya has not?

The purpose of this dissertation is to generate a theoretical understanding of the divergence in the coffee industries of Kenya and Uganda. In addressing this issue I create Adaptability Theory, which postulates that socio-political variables act as change agents by influencing a rational elite, or the *domestic bourgeoisie* as it is referred to in this discourse, and therefore determine a state’s path choice of either *liberalization* or *continuation* of an illiberal status quo, assuming that states have full knowledge of international market signals. Looking at the case of the domestic coffee industries in Kenya and Uganda, Kenya has opted for continuation of the illiberal status quo whereas Uganda has opted for liberalization. This particular *path choice* occurred because it was perceived as beneficial by the

[1] Richard Damianopoulos, "Field Data Collected During a General Meeting with Coffee Farmers in Embu, Kenya.," (2005).

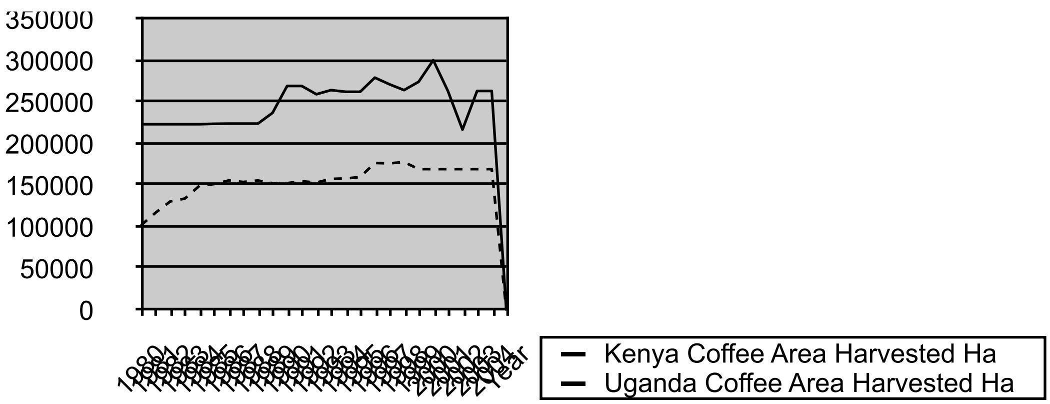
Ugandan domestic bourgeoisie to adapt to the global coffee economy by liberalizing domestic industry whereas the Kenyan domestic bourgeoisie perceived the maintenance of the status quo as beneficial, even at the expense of generating sub-optimal economic outcomes for the domestic coffee industry. The impetus behind both path choices is socio-political, involving the pursuit of defined elite interests in the context of a historical dialectic between competing foci of power. The domestic bourgeoisie itself is only an intervening variable. Adaptability Theory exposes that socio-political forces drive the domestic bourgeoisie, and it is these forces that propel the domestic bourgeoisie to liberalize the coffee sector or not. After identifying the issue of divergence in the coffee sectors of Kenya and Uganda Adaptability Theory is built and tested to address the fundamental questions: is liberalization responsible for divergence in the coffee sectors of Kenya and Uganda and; moreover, why has Uganda liberalized while Kenya has not? It will be argued that liberalization is a major factor responsible for industry divergence and that, from the colonial period to the present, socio-political variables have been the primary force driving the decision to liberalize in Uganda and the failure to do so in Kenya. This study also considers the relationship between liberalization and development, and in that context, the importance of finding a niche in the new global coffee economy for developing producer countries.

It is assumed in this study that states possess full knowledge of international market signals. It will be demonstrated that liberalization is an optimal economic decision given the current nature of the global coffee industry. To those that would argue that liberalization is not an economically optimal path choice, I refer to the success of domestic coffee industries that have been liberalized compared to the plethora of difficulties actors in illiberal coffee industries in East Africa face. Data to support this assertion is presented in the following section. During a visit to the coffee cooperatives and estates in Kenya in April 2005 smallholder farmers and estate owners alike voiced their frustrations with the overly complicated and bureaucratic forms of state intervention in the coffee industry. It is not unrealistic to assume that the state has sufficient capacity to understand the international coffee market in comparison with smallholder farmers and estate owners. Indeed, the state faces lower organization costs as it is already structured as a bureaucratic entity with the diplomatic and international channels necessary to understand the nature of changing markets completely open and accessible.

8. IDENTIFYING THE PROBLEM: DIVERGENCE IN THE COFFEE SECTORS IN KENYA AND UGANDA

This section introduces a *problematique* for this discourse through the presentation of key indicator data for the coffee industries in Kenya and Uganda. The data presented suggests that since 1980 the coffee industry in Kenya has been in a state of decline whereas Uganda's coffee sector has experienced success and industrial growth during the same period. Also of note is that the coffee industry in Uganda has been completely liberalized whereas Kenya's coffee sector remains the most illiberal in the region. In order to make this determination, the degree of involvement of the government and parastatal organizations in the sale and marketing structures of both the Kenyan and Ugandan coffee industries respectively has been used as a measure of liberalization. The particulars of this measurement will be illustrated later in this study; however, for the purposes of this section Uganda is conceptualized as a completely liberalized case study because there is no government involvement in the marketing and sale of coffee. In Kenya the marketing and sale of coffee is completely controlled by government and parastatal institutions. This section presents indicator data on coffee area harvested, yields, and production for Kenya and Uganda.

Figure 8.1[2] Coffee Area Harvested in Kenya and Uganda



Coffee area harvested refers to the totally area of land in hectares (Ha) that is being used for coffee cultivation and that is also harvested in a given harvest season. The coffee area harvested in Kenya has increased from 102,400 Ha in 1980 to 170,000 Ha in 2004. This represents a total increase of 67,700 Ha since 1980, an overall increase of 66 percent. In Uganda the coffee area harvested has also increased from 224,000 Ha in 1980 to 264,000 Ha in 2004. This represents a total increase of 40,000 Ha, or an increase of 18 percent since 1980.[3] Also of note is that while area harvested in Kenya has increased steadily since 1980 there have been varied fluctuations and a smaller overall increase in Uganda. This data appears to suggest that with increasing coffee area harvested in both Kenya and Uganda that coffee yields and coffee production should also have increased. However, as demonstrated in Figure 8.2 this is not the case.

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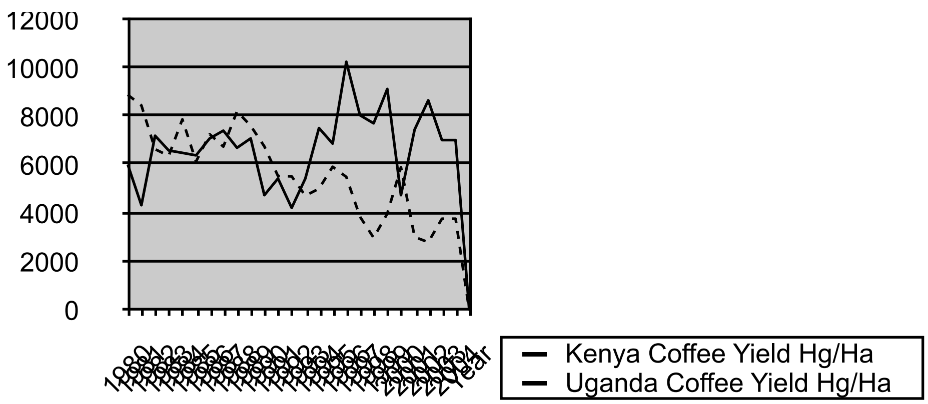
[2] FAO, *Faostat Database* (Food and Agriculture Organization of the United Nations, Last updated 29 December 2004 [cited June 24 2005]); available from http://faostat.fao.org/faostat/servlet.

[3] Ibid.([cited).

Figure 8.2[4] Coffee Yields in Kenya and Uganda

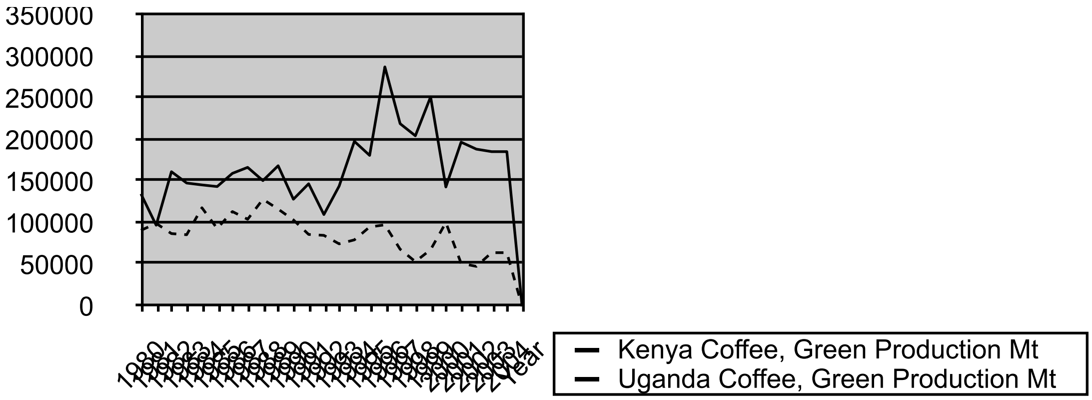


Coffee yields refers to the actual amount of coffee beans, also referred to as cherry, in hectograms (Hg) that is collected per hectare of coffee area harvested. Since 1980 coffee yields in Kenya have actually decreased from 8,919 Hg/Ha to 3,794 Hg/Ha. The data indicates a substantial total decrease of 5,125 Hg/Ha, or an overall decrease of 57 percent. During the same period coffee yields in neighbouring Uganda have increased from 6,036 Hg/Ha to 7,045 Hg/Ha. This is a total increase of 1,009 Hg/Ha or 17 percent.[5] Kenyan yields have remained in relatively steady decline since 1980 with a brief and temporary serge circa 2000. While Ugandan yields peaked circa 1995, they dropped sharply circa 2000 when Kenyan yields experienced an increase. As Uganda now yields significantly larger amounts per hectare than Kenya it is likely that this section in the graph was triggered by a crisis in Ugandan growing which made more room for Kenyan coffee in the global market. Ugandan yields have recovered and remain nearly 20 percent higher than they were in 1980. Coffee yields provide a key indicator of industry efficiency and success in Kenya and Uganda. Overall coffee production is another key indicator and can be seen in the figure below.

[4] Ibid.([cited).

[5] Ibid.([cited).

Figure 8.3[6] Green Coffee Production in Kenya and Uganda



Green Coffee production refers to the total volume of processed green coffee in Metric Tons (Mt) that is produced and available for sale each year. Processing involves drying the cherry and removing a layer of parchment and a protective skin to expose the green coffee bean. Figure 8.3 indicates that green coffee production in Kenya has decreased from 91,334 Mt in 1980 to 64,500 Mt in 2004. This is an overall decrease of 26,834 Mt or 30 percent. The steepest decline in Kenyan coffee yields comes between 1990 and 2004 where yields fell from 103,900 Mt to 64,500 Mt, a decline of 38 percent. While coffee production in Kenya has been in a state of decline since 1980, production over the same time period has risen in Uganda from 135,200 Mt to 186,000 Mt. This is a total increase of 58,800 Mt or 38 percent. Ugandan production has increased even more rapidly in the period between 1990 and 2004, a period of industry liberalization, where yields increased by 57,253 Mt or 44 percent.[7]

1. <u>INTERPRETING THE DATA</u>

The data presented in Figures 7.2 and 7.3 demonstrate that the coffee industry in Kenya is in a state of decline and stagnation whereas the coffee industry in Uganda is growing. This is evident in the divergence between the two countries in coffee yields and production. The coffee industry in Uganda experiences a boom around the year 1990 whereas during that same period the Kenyan coffee sector

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[6] Ibid.([cited).

[7] Ibid.([cited).

remains in steady decline. It is interesting to note that the Ugandan coffee boom coincides with an ambitious and complete liberalization campaign focused on the domestic coffee industry. During the same period there was no such liberalization in Kenya. Presently, Uganda has overtaken Kenya in terms of coffee yields and coffee production. Why has Uganda been able to aggressively and successfully exploit the international coffee market whereas Kenya has not? The remainder of this discourse is dedicated to addressing this *problematique*. It is also important to note what appears to be an anomaly, that although the two countries' coffee sectors are moving in the opposite direction the total coffee area harvested in both countries is increasing. Why is it that while both countries are harvesting more coffee area, the industry is in a state of decline in Kenya and the Ugandan sector is experiencing significant growth? This question will be addressed later in this discourse. It is first necessary to build a theoretical framework for understanding dynamic change in the Kenyan and Ugandan coffee industries.

9. ADAPTABILITY THEORY: CREATING A FRAMEWORK FOR UNDERSTANDING DYNAMIC CHANGE

The purpose of this section is to build a theory that explains why, under similar positions in the global marketplace, the coffee industry in Kenya has not liberalized and remains in perpetual decline while the industry in neighbouring Uganda has liberalized completely and is experiencing success. The underlying argument of this text is that the maintenance of the status quo and the decline of the Kenyan coffee industry are directly related to the failure of that industry to adapt to the global market by liberalizing marketing and sale structures. In contrast, the success of Uganda's coffee industry is directly related to the very full and complete degree to which its domestic coffee industry has been liberalized. This argument raises an overarching question: why, in the face of a global market that rewards liberalization, has Kenya been unwilling or unable to liberalize its coffee industry whereas Uganda has willingly and completely liberalized? Adaptability Theory provides an answer to this question by looking at how socio-political factors influence a powerful elite with access to the state apparatus, henceforth referred to as the *domestic bourgeoisie,* to either choose liberalization or continuation of the status quo.

1. WHAT IS ADAPTABILITY THEORY?

Adaptability Theory brings together neo-liberal theory and critical political economy to create an explanation for dynamic change and divergence in the coffee industries in Kenya and Uganda. In sum, it is socio-political factors that provide the catalyst for the liberalization process. Adaptability Theory necessarily assumes that states have sufficient knowledge of global market signals and that, in the case of the coffee industry in East Africa, liberalization is the economically optimal choice. In this context, liberalization of a domestic industry will only occur if the *foci of power* in the coffee industry, or *domestic bourgeoisie* in this situation, deem such a change to be *desirable* and *plausible*. Furthermore, liberalization requires that advocates have access to the legislative apparatus of the state. In contrast, continuation of the illiberal status quo occurs when the domestic bourgeoisie does not view a change to be desirable or plausible. Continuation also occurs when the forces advocating change are marginalized from the organizational and legislative apparatuses of the state. In the cases of Kenya and Uganda the domestic bourgeoisie is closely tied to the state apparatus and is able to exert a strong influence, both from a historical perspective and presently. In Kenya the domestic bourgeoisie was also the colonial government. Presently the domestic bourgeoisie is composed of senior bureaucrats and advisors that are tied formally and informally to members of parliament who constitute the legislative organs of the state. Similarly, the domestic bourgeoisie in Uganda was also the colonial government, but was tied indirectly to the peasant smallholders through co-opted chiefs and elders in the colonial administration. Presently, there is one party rule in Uganda, the domestic bourgeoisie is synonymous with the ruling party, and is composed largely of an Asian business class with a vested interest in liberalization.

Adaptability Theory identifies the emergence of counter-institutions and opposition to overarching structures of authority to assess the possibility and probability of liberalization or continuation *path choices*. The term *path choice* refers to the decision to liberalize or not. This path choice is a product of socio-political variables, not rational and utilitarian economic decision making. Through the study of historical dialectics it becomes possible to understand the power relations that drive the domestic bourgeoisie to make their path choice – the socio-political factors that create, sustain, or change overarching systems. Adaptability Theory is particularly relevant in explaining the case of the coffee industries in Kenya and Uganda. Whereas Uganda has clearly opted for liberalization and has taken on an ambitious and successful liberalization campaign, Kenya persistently chooses continuation at the price of obtaining sub-optimal economic outcomes for their estate and smallholder farmers. This divergence in path choice can be understood as the product of socio-political forces. It has historical roots in Kenya and Uganda and can be explained from the past to the present by the study of the domestic bourgeoisies in both countries and how they defend their socio-political interests using the institutions of the coffee industries.

2. BUILDING ADAPTABILITY THEORY: AN EXPLANATION OF THE DYNAMICS OF INDUSTRY LIBERALIZATION

In this age of neo-liberal economics the term liberalization, in the political economy context, has come to refer to the withdrawal of official state intervention in the market, or the formal separation of economic and political spheres. Jerzy Hausner *et al.* comment on the separation of political and economic spheres in their study of institutional dynamics and the transformation process in post-socialist states. Hausner *et al.* explain that intervention by the state in domestic industry during socialism in Eastern Europe was the norm because it offered the state massive extractive capacities. Essentially, states had the political capacity to enter into the economic sphere and extract rents. In this sense, socialist states acted as capitalist agents themselves. They used their political powers to enter into the economic sphere even, as history proves, when the result was great economic inefficiency and even stagnation. This sub-optimal policy persisted as a result of the socio-political power that drove socialism. In this case, the prevailing socio-political system and the national political elite that controlled and maintained the system was the engine that explained the persistence of sub-optimal economic policy. It was in the interest of these actors to preserve their positions, which were directly tied to the maintenance of the status quo. Thus socialism was sold as a socio-political virtue, not an economic utopia. The prevailing socio-political conditions during socialism allowed political actors to maintain the system. Considering the economic performance of socialist states in comparison to capitalist neighbours one must conclude that the maintenance of the system was not for economic reasons, at least not for the public at large. As the socio-political landscape changed, in part due to poor economic performance and growing discontent amongst an increasingly disenfranchised majority, socialism collapsed in Eastern Europe – albeit with the help of significant outside influence. These newly emerging democratic states now existed within a socio-political climate conducive to economic transformation. In Hausner's view, this fact "explains the urgency, if political decline and economic stagnation are to be reversed, of introducing the sort of institutional separation of economic and political orders which is typical of capitalism."[8] Similarly, East African states that were traditionally structured as command economies, such as Kenya and Uganda, are faced with the same sense of urgency, and the same institutional obstacles, in restoring economic efficiency in the era of global neo-liberalism.

Hausner *et al.*, in their study of post-socialist states, touch on a prominent theme in developing economies in Sub-Saharan Africa – the withdrawal of the state from the economic sphere. Since independence, in many developing countries such as Kenya, the state has extracted large revenues from involvement in domestic industry. In no case is this more evident than in Kenya's coffee sector.

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[8] Jerzy Hausner, Bob Jessop and Klaus Nielsen., *Strategic Choice and Path-Dependency in Post-Socialism: Institutional Dynamics in the Transformation Process* (Brookfield, Vermont: Edward Elgar Publishing Limited, 1995) 11.

However, in the context of the present neo-liberal global economic order states that fail to liberalize often face constraints in international trade and ultimately a loss of competitiveness for domestic industry. This opposite trend in the Kenyan and Ugandan coffee sectors is seen clearly in the data presented in the problematique. This has led some developing states, such as Uganda, to embark on ambitious campaigns of economic liberalization, often with the support of international financial institutions. However, in effectively separating the political and economic spheres Hausner highlights a critical contradiction: "state-mediated restructuring of the state itself as part of the process of establishing the political system appropriate to a market economy."[9] In other words, the idea that the state, as an organized entity with defined interests, even when it would be economically beneficial to large groups to do so, would willingly disengaged from the economic sphere should not be taken as a given. This is especially true in African states where a small elite group, or a *domestic bourgeoisie,* retains a high degree of control over the state, usually by way of institutionalized patronage networks. Adaptability Theory seeks to identify the domestic bourgeoisie - the foci of political power within a state - and the criteria which must necessarily be met for a policy change to occur.

In this context Adaptability Theory seeks to explain two pressing questions: What sort of socio-political environment is necessary for liberalization of industry to occur? What powers do political actors and institutions exert on the liberalization process and how are they exercised? While the criteria which must be met for states to liberalize must be identified to answer these questions, and this criteria is largely rational, the question of why states liberalize requires the use of a socio-political model that explains, in the context of global market signals that favour liberalization, why some states adapt to achieve optimal economic outcomes whereas others fail to adapt, and sub-optimal economic outcomes are perpetuated. This explanation, as will be demonstrated in the latter half of this section, is rooted in the politics of power, the persistence of institutions, and historical dialectics.

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[9] Ibid.

The rational theoretical foundations necessary to answer the question of how states liberalize are laid out in the works of Heller, Keefer, and McCubbins. The work of these scholars provides an explanation of why states choose to liberalize or not. In their book, *Political Structure and Economic Liberalization: Conditions and Cases from the Developing World*, Heller *et al.* lay out the necessary conditions under which governments may initiate liberalization and by which any attempt at liberalization is likely to succeed. Liberalization requires three necessary conditions. The first condition is *desirability*. For liberalization to succeed political leaders must consider reform to be desirable. The second condition for liberalization to occur is that it must be a *plausible alternative.* Interests and incentives play a critical role in the concept of desirability in that liberalization must appear to be an attractive alternative to the status quo of government intervention. The third necessary requirement for liberalization to take place is *control.* Advocates of liberalization must control the political resources to implement change. This requirement means that advocates of liberalization must have access to the institutional and legislative means to enact change. According to Heller *et al.*, "reformers have to control all the key institutions from the outset or, failing that, they must replace or form coalitions with those who have the institutional (or possibly organizational) wherewithal to block reform."[10]

Costly and inefficient economic policy may survive in a given state for political reasons - essentially because politicians are concerned about maintaining political power over policy. In this sense Heller *et al.* observe that "the politically charged issues, such as the incidence of benefits and losses from policy change, thus becomes vitally important. Indeed, the expected incidences of benefits and costs will be critical to the decision of whether to liberalize or not."[11] In the context of our case studies the introduction and success of a liberalization program is a function of cost-benefit analysis;

[10] William B Heller, Philip Keefer and Mathew D. McCubbins, "Political Structure and Economic Liberalization: Conditions and Cases from the Developing World," in *The Origins of Liberty: Political and Economic Liberalization in the Modern World*, ed. Paul W. Drake and Mathew D. McCubbins (Princeton, New Jersey: Princeton University Press, 1998), 147.

[11] Ibid., 149.

however, as this analysis is undertaken by political actors, the resulting calculations are likely to be based on political or personal gain as opposed to global market signals and economic indicators. Political actors, top officials, bureaucrats, and policy makers act rationally based on self-interest and are dependant on support from their constituents to maintain power. These important players have power and act within institutions that have significant control over state policy. The implications of this are twofold: firstly, political actors and top officials have a motive for failing to enact reforms that would benefit stakeholders in a sector of domestic industry if it is not conducive to their political and social interests and; secondly, institutions that are controlled or composed primarily of these individuals are likely to follow the same principal. This explains that politicians act to safeguard their interests, but does not explain the dynamic forces that shape and define interests. The second half of this section addresses the question of socio-political variables and their importance in defining the interests of political actors. It is first necessary to establish exactly how political actors and institutions may affect systemic change.

In constructing Adaptability Theory I draw on the example, formulated by Barbara Geddes, of reform to the recruitment procedures for bureaucratic jobs to illustrate how bureaucrats and institutions may affect government policy. Geddes notes that if reform threatens the interests of the top officials and bureaucrats in a given situation, in this case there is to be a change in the recruitment procedures for government bureaucratic jobs, then those involved in the present institutions have a good reason to oppose the change. Possible reasons that changes in the recruitment procedures for bureaucratic jobs may adversely affect the bureaucrats involved are that it could signify a loss of resources for politicians who were previously able to use these jobs as patronage rewards, or that the resources controlled by those appointed to jobs by politicians were used for political self interest. Other possible reasons may fall on the side of current bureaucrats such as a threat to job security, advancement, or future opportunities. At this point a distinct phenomena occurs: two factions emerge, one which supports a change to recruitment procedures and one that opposes such a change, and these factions begin to organize themselves and exert their power. Essentially, a contest emerges in which both sides compete over establishing the desirability and plausibility of reforms, and both sides act to influence the legislative apparatus. However, as Geddes notes, "those who oppose such changes are already organized in bureaucratic entities themselves, in parties, and in civil servants' unions, so that the costs of expressing their opposition are quite low relative to the costs of organizing new groups in order to represent the interests of those who would benefit from reform. The expected outcome for this class of possible reforms, then, is that, even if they are widely perceived as desirable, they tend not to occur."[12]

Geddes illustration supports a core assertion of Adaptability Theory: institutions are in an optimal position to affect liberalization, or the failure to do so, since they face low costs of organization as they are already structured to be a cohesive unit. Thus, state institutions are poised to exert a strong and even unequal influence in a liberalization campaign by virtue of the fact that they can organize more easily than interest groups, which face higher organization costs. Other interest groups, even when they represent a numerical majority of citizens, may find collective organization difficult due to a high degree of decentralization and the lack of a command structure. In Adaptability Theory this unequal distribution of bargaining power is know as the *bargaining dilemma*. Adaptability Theory uses the theme of the *bargaining dilemma* to explain inaction or failure on the part of the state and sub-state institutions to bring about liberalization even when global market signals and large sectors of domestic stakeholders favour a change.

The bargaining dilemma has significant explanatory power vis-à-vis the coffee sector in East Africa. The work of Persson and Tabellini supports the explanatory power of the bargaining dilemma, noting that ". . .political institutions are likely to affect the policy incentives for candidates in electoral

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[12] Barbara Geddes, *Politician's Dilemma: Building State Capacity in Latin America*, ed. Robert H et al. Bates, *California Series on Social Choice and Political Economy* (Los Angeles: University of California Press, 1994) 183.

campaigns as well as the policy incentives for incumbents engaged in legislative bargaining."[13] Institutions have a significant affect on government policy. Heller *et al.* comment on the relationship between institutions and policy outcomes noting that "institutions do create incentives for political leaders and thus shape and constrain their actions. In different contexts, institutions might make reform more feasible or might hinder it. Institutional structure can stack the deck in favor of reform and provide incentives for the leadership to enact liberalizing policies."[14] Thus, the study of institutions and how they affect policy offers an explanation for government failure to initiate liberalization campaigns that are actively sought by a certain group and can be seen as economically beneficial to domestic industry. As a caveat, Heller *et al.* note that "while some institutional structures may hinder policy change by making the attainment of decisive political control more difficult, other structures may make reform more likely by providing incentives for leaders to abandon the status quo. Therefore, it is important to consider political institutions when we assess a developing nation's potential for successful reform."[15]

To this point I have introduced Adaptability Theory and provided a framework for understanding the basic requirements for liberalization to occur. I will now revert back to look at the political criteria necessary for reform in more depth. The first condition for reform is that it must be desirable: ". . .for political leaders to choose to reform their economies, the net expected utility from the proposed policy change – the risk-weighted benefits minus the risk-weighted costs – must exceed the expected net value of retaining the illiberal status quo."[16] Thus, in order to reform the coffee sector in Kenya political actors and top representatives must see personal utility for reforms to succeed. Heller *et al.* note that

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[13] Torsten and Guido Tabellini Persson, *Political Economics: Explaining Economic Policy* (Cambridge, Massachusetts: Massachusetts Institute of Technology, 2000) 202.

[14] Heller, "Political Structure and Economic Liberalization: Conditions and Cases from the Developing World," 147.

[15] Ibid., 178.

[16] Ibid., 150.

"government ownership and regulation of the means of production. . .secures the benefits of production for certain constituents – for example, the military, labor, or the landed elite."[17] It will be argued that if for the purposes of political utility liberalization is deemed to be undesirable, even when the failure to liberalize carries adverse economic consequences, it is unlikely that there will be a change in the status quo.

The concept of the status quo, or the maintenance of an illiberal order with adverse economic consequences, deserves further explanation. The choice to refuse liberalization is also referred to as a continuation path choice in this discourse. This is because the choice not to liberalize in an illiberal system implies that the system should continue in an illiberal manner. Continuation simply means not to liberalize, or to continue the status quo of a given system. Heller *et al.* note that there are four circumstances under which the relative values of the status quo may change. The first circumstance is in the case of new political leadership. Political leaders represent their constituencies, and with a change of leadership the constituent interests at stake are likely to change as well. This could cause a shift in the value of the status quo towards reform. The second circumstance is coalition realignment. The government is dependent on a support base to maintain power. When the preferences of the government's support base change this may induce a change in government policy. The status quo may also change for external reasons, or in times of economic fluctuations or economic crisis, such as high external debt, rapid inflation, or economic recession. If the economic policy in place is seen as a hindrance to economic performance then the value of reform or change to the status quo increases vis-à-vis the government. The status quo may also change for internal reasons such as the accumulated impact of government policy on domestic industry. State ownership of industry can lead to expropriation of industry cash flow and eventually to depreciation of industry assets which can have adverse economic consequences. Thus, internal policy changes can also diminish the value of the status

[17] Ibid.

quo. In this case, politicians may see privatization or liberalization as a viable response.[18] In a perfect environment these factors would act as dynamic change catalysts and liberalization of the coffee industry in Kenya would have taken place many years ago. However, in the case of Kenya a strong degree of state control to the determent of the domestic coffee industry persists – this is because socio-political factors and historical dialectics have intervened to prevent liberalization from occurring. The dictionary definition of the term *dialectic* refers to "a contradiction of ideas that serves as the determining factor in their interaction."[19] The merit of Adaptability Theory is that it identifies dialectics and offers a socio-political explanation for the failure to liberalize, based on contradictions in class, power relations, and social claims.

The second condition for liberalization to occur is knowledge. Heller *et al.* argue that "knowledge is important for two reasons: first, no leader will propose policy change without the belief that the change will lead to better outcomes; second, policies designed in the absence of sufficient knowledge might lead to unintended consequences."[20] For the purposes of this discourse it is assumed that the Kenyan state, as well as Uganda and other East African states that will be used in comparison, possess the tools and expertise to understand international market signals. Essentially, these states have sufficient knowledge to be able to maximize economic outcomes through policy reforms. Therefore, in the case of the coffee sector in Kenya and Uganda, if either state fails to adapt to the global market this is not the result of a lack of knowledge but a result of domestic political factors, industry related institutions, and the bargaining dilemma. This does not mean that bureaucratic failure does not occur, it simply means that knowledge of international market signals must be assumed over the long term so that the influence of socio-political variables can be tested as the catalysts that drive change.

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[18] Ibid., 151.

[19] *Ask.Com* (2005 [cited October 18 2005]); available from http://webk.ask.com/dc?q=meaning+of+dialectic&qsrc=8.

[20] Heller, "Political Structure and Economic Liberalization: Conditions and Cases from the Developing World," 152.

The third factor in the liberalization process is the feasibility of reform. In order for policy reforms to take place advocates of reform must possess the necessary means to bring about policy change. Heller *et al.* assert that "reformers must control the agenda sufficiently to make proposals. If reformers do control the agenda, they must further control the veto gates necessary to legislate changes to policy. If those conditions are met, the next question is whether they have the economic and political capital to pay the costs that reform might necessitate in popularity as well as in tangible side payments to the reform's potential opponents."[21] Heller *et al.* illustrate the importance of tracking power from the grassroots to the higher levels of political decision making to understand why liberalization, as a possible reform, may or may not be accepted. The importance of tracking power relations through the in-depth study of institutions of the state is central to this argument. By looking at institutions, their historical origins, the structure, design, and governance, it is possible to identify the foci of power or the presence of a domestic bourgeoisie and their corresponding interests. This analysis will be used to explain why, in the context of sufficient knowledge, states either adapt or fail to adapt to international markets. In all cases, the reason for liberalization or continuation is necessarily socio-political.

Geddes work reveals that when the costs of liberalization are widely perceived to be equal it becomes more likely that liberalization will occur. However, when the costs of liberalization appear to be unequal those who stand to lose the most, or those who benefit the most from the maintenance of the status quo, will oppose liberalization and fight to maintain the old order. According to Geddes it logically follows that "the probability of the passage of reform will be higher where the distribution of costs is more equal."[22] Liberalization often depends on the ability of advocates to convince or co-opt individuals or political parties to support change. Thus, in the case of the coffee sector, advocates of liberalization must possess substantial ability both to introduce legislation and convince others of the

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[21] Ibid., 157.

[22] Geddes, *Politician's Dilemma: Building State Capacity in Latin America* 184.

utility of supporting it. However, when coffee is a major source of rents for the Kenyan government it may be difficult to enact liberalization, even if the benefits that would occur to farmers and industry stakeholders were seen to be substantially more than under the present system. This suggests that the Kenyan government or the elite institutions of the Kenyan coffee industry are able to benefit by continuing their involvement in the domestic coffee sector. Through the lenses of Adaptability Theory it follows that in the case of Uganda, the former institutions that controlled the coffee industry were not able to meaningfully benefit from government intervention, or that power relations changed in favour of a new domestic bourgeoisie. This leads to the hypothesis that it was beneficial to those that controlled the Ugandan coffee industry to liberalize, or that liberalization was beneficial to a large sector of Ugandans who had the means and access to the legislative power of the state to bring about liberalization.

Heller *et al.* develop the notion that liberalization depends on a political environment where policy makers see reforms as desirable, plausible alternatives; and moreover, liberalization is only possible if advocates have substantial influence vis-à-vis the legislative apparatus of the state. It necessarily follows that states, when facing the question of reforming domestic industries in the pursuit of optimal economic outcomes, will have a different capacity to bring about liberalization depending on where power and access to the legislative apparatus lies in the domestic system. When viewed through the lenses of Adaptability Theory, this capacity can be seen as a product of the domestic political systems in place in a given state and the institutional structures of power that govern the industry in question. Thus, in the context of the coffee industries in Kenya and Uganda, while global market signals may indicate that liberal reforms are essential for small national coffee industries to compete in the global market, without a domestic bourgeoisie that views liberalization as desirable and plausible any structural transformation is unlikely to take place.

In the view of Heller *et al.* matters of liberalization are seen to be viable only if they result in a positive cost-benefit calculation for those who control the legislative apparatus. Access to the legislative apparatus with a degree of support substantial enough to prevent vetoes is a necessary condition for reforms to take place. It is essential to consider the cost-benefit function in relation to securing a political coalition for liberalization. Thus, the work of Heller *et al.* provides an explanation for why liberalization does or does not occur; however, this explanation lacks a consideration of the precise socio-political forces that drive liberalization. The purpose of creating Adaptability Theory is to build on the work of Heller *et al.* to create a coherent framework for understanding how socio-political variables drive this rational approach towards liberalization or continuation. A rational choice approach may explain the path states must take to liberalize, but it does not explain the forces that drive change, and hence is insufficient in explaining dynamic change between countries.

3. ADAPTABILITY THEORY AND SOCIO-POLITICAL VARIABLES

Up to this point I have introduced the rational choice aspect of Adaptability Theory - a theory that explains why states or institutions of a state choose liberalization or continuation in the face of clear international market signals. However, in explaining why states liberalize domestic industry the rational choice approach does not go far enough because it lacks a consideration of the power relations that underlie and drive these choices. It is therefore important, when explaining liberalization and continuation path choices, to situate the institutions and actors that make these choices within a socio-political context. Understanding that the domestic bourgeoisie influences the state either towards or away from liberalization provides half of the answer. However, the domestic bourgeoisie is only an intervening variable. Adaptability Theory thus goes beyond the work of Heller *et al.* to explain what drives the domestic bourgeoisie: the socio-political realities of their situation, both historical and present-day. Socio-political variables are important factors in building a theory to explain why states and institutions, when they have the capacity to adapt to achieve optimal economic outcomes, opt for continuation of the status quo. Hence, this argument places great significance on the importance of social claims and their relation to political systems. If the economic system runs on non-economic motives, then the institutions that control and regulate the domestic industry, the coffee industry in the case of this study, are set up to act on non-economic motives as well.

The idea that the domestic bourgeoisie controls the political apparatus as opposed to the majority, especially within the context of African 'democracies', deserves further attention. In the context of any democracy a dominant political class, those that have been elected to serve the public at large, have direct control over the legislative apparatus while the public's control over policy is vested in these individuals, who can be periodically removed depending on their performance. It is this political class that has direct control of the legislative apparatus that must be convinced that liberalization is desirable and plausible vis-à-vis their own interests for any change to occur. This is especially true in African democracies where the accountability of elected officials is less pronounced and less checked. In this sense the Marxist tradition is a precursor to our discussion of liberalization, but, more specifically, the theory of critical political economy, with its focus on the role of institutions in shaping global systems, provides a foundation for the further construction of Adaptability Theory.[23]

Critical political economy builds on the Marxian conception of a dialectic to identify the social underpinnings of the neo-liberal economic order and situates this system within the context of changing social forces. Robert Cox notes that critical political economy is concerned with the origins of institutions and whether or not they may be in the process of changing. Thus critical theory, according to Cox, is a theory of history because it is "concerned not just with the past but with a continuous process of historical change."[24] According to Cox individuals or groups either move with or resist what

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[23] For more on Marxism and especially the notions of the bourgeoisie, class conflict, dialectics, and the relative autonomy of the state see Karl Marx, Friedrich Engels, and L. M. Findlay, *The Communist Manifesto*, *Broadview Editions* (Peterborough, Ont.: Broadview Press, 2004).

[24] Robert W. Cox, "Social Forces, States and World Orders: Beyond International Relations Theory.," in *Neorealism and Its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1985), 208.

he refers to as a "prevailing historical structure," or in other words a hegemonic structure.[25] When a group successfully resists a hegemonic structure a rival structure emerges. In this sense, the Marxian notion of a dialectic, or a historical discourse between the bourgeoisie and proletariat is not only reflected in the structure and governance of systems it is also a key determinant. This demonstrates the importance of the study of institutions and social forces in explaining liberalization, or change, in an overarching system, versus the continuation path choice of maintaining an illiberal status quo. Cox notes that institutions reflect the overarching structure of power relations at the time they were created and tend to perpetuate their structure. According to Cox "institutions are particular amalgams of ideas and material power which in turn influence the development of ideas and material capabilities."[26]

When assessing the emergence of a neo-liberal economic order and the reason why sub-state institutions may opt for liberalization or continuation it is important to recognize that the emergence of global capitalism generated new social forces, and with these new forces emerged new structures of power relations. As Cox points out, the power of outsiders became increasingly significant in the domestic context of many less developed, or periphery, states. These outsiders exercised power through involvement in the colonial administration, by virtue of their foreign capital in the local economy, and through business enterprises. Cox cites as examples the presence of the Chinese in Southeast Asia, the Indians in East Africa, and the Lebanese in West Africa.[27] The appearance of outsiders and their participation in the domestic economy of periphery states created a unique upper class with a defined interest in controlling labour. It is therefore critical to recognize the importance of class relations in evaluating institutional change and the liberalization path choice. Thus, Adaptability Theory seeks to locate the centres of power, i.e. the domestic bourgeoisie, that result in the maintenance of a particular

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[25] Ibid., 216.

[26] Ibid., 219.

[27] Ibid., 227.

historical structure and also to identify the dialectic that occurs when social forces oppose a system. This assessment yields an understanding of the possibility of a transformation occurring in the future, or in the case of this discourse, the plausibility of liberalization or the maintenance of the illiberal status quo.

Identifying the distribution of socio-political power within a system is key to explaining why systemic change occurs. This identification, in turn, is linked to the ability of critical theory to explain change by drawing on class distinctions. Adaptability Theory refers to the centre of power, or the dominant class that controls policy in a given area in the domestic context, as the domestic bourgeoisie. The domestic bourgeoisie consists of an elite group of individuals that possess access to the legislative apparatus which is necessary for implementing liberalization programs. This domestic bourgeoisie also has its own class interests, which rest on maintaining their privileged position in society, in other words, their social assets. Cox confirms the existence of a domestic bourgeoisie in critical theory, noting that "national and industrial corporative structures can raise protectionist or restrictive obstacles to the adjustments required for adaptation of national economies to the world economy in a hegemonic system."[28]

It logically follows from the critical theory discourse that as long as the domestic bourgeoisie retains power vis-à-vis the legislative apparatus they will retain the power to choose liberalization or continuation. This represents, in effect, a class structure based on underlying power relations controlled and maintained by institutions. Why would the domestic bourgeoisie ever choose continuation? The answer to this question, through the lenses of Adaptability Theory, is to protect their social assets. This drive to protect social assets causes the domestic bourgeoisie to act rationally based on socio-political factors, not for the greater economic good, to choose liberalization or refuse it. Further along in this discourse a historical account of Kenya's domestic bourgeoisie will demonstrate this point: historically

[28] Ibid., 232.

the domestic bourgeoisie in Kenya has opted for continuation of the illiberal status quo to preserve their social assets. This atmosphere persist today. Thus, any real move towards liberalization of the coffee industry in Kenya must either supplant the domestic bourgeoisie or convince the domestic bourgeoisie that liberalization is in the best interest of preserving their social assets. Conversely, in the case of Uganda the domestic bourgeoisie was supplanted several times since the colonial era as a result of successive socio-political shifts, nevertheless each new domestic bourgeoisie acted to preserve their social assets, and the present domestic bourgeoisie has chosen liberalization precisely for the same reason the Kenyan domestic bourgeoisie refused it – to preserve social assets and pursue elite interests.

Adaptability Theory derives another important concept from critical political economy – the notion that the behaviour of the state as a whole is derived from the changing behaviour of its many components. In this view the state is not seen as acting autonomously from the domestic bourgeoisie, or the location of power that exerts the greatest influence over policy. The domestic bourgeoisie is conceptualized as those foci of power that are present in institutional structures, exert defined interests, and directly influence state policy vis-à-vis liberalization. The legislative apparatus of the state is seen to be associated with the clearly defined interests of the domestic bourgeoisie. This assertion can be justified in the African context for the reason that, as discussed already, accountability of elected officials is not as pronounced as in Western democracies. Moreover, many African countries inherited and maintained old colonial systems of bias and subordination. It logically follows that any policy shift indicates either that the domestic bourgeoisie has changed in nature (perhaps through a new political alliance or greater alignment to foreign capital) or, been supplanted, or that a policy change is in the best socio-political interest of the domestic bourgeoisie. Another consequence of Adaptability Theory is that continuation of the illiberal status quo, or in the case of Kenya, the endurance of costly and inefficient economic policy, will persist if a change in the status quo is not consistent with the social claims of the domestic bourgeoisie.

There are three possibilities in Adaptability Theory that drive the liberalization path choice: the domestic bourgeoisie may opt for continuation of the illiberal status quo as it has in Kenya, the domestic bourgeoisie may be supplanted as it has been several times since colonialism in Uganda, or the domestic bourgeoisie may retain power within a stable system, but may be swayed. It is important to explore briefly how the domestic bourgeoisie may be swayed. Stephen Gill and David Law provide the basis for this understanding in their 1989 article entitled *Global Hegemony and the Structural Power of Capital.* The work of Gill and Law views capital as a social relation – i.e. the contrast between those that have access, control, and ownership of financial and physical assets compared to the rest of society which is composed largely of dependent labour. In this context, Gill and Law note that "capital as a social relation depends on the power of the state to define, shape, and participate in a regime of accumulation."[29] This assertion has important implications for understanding how the domestic bourgeoisie may be swayed: the interests of the domestic bourgeoisie could be tied to the structural power of global capital.

The allegiance of the domestic bourgeoisie may tend towards either national or international capital.[30] Tending towards either direction will, in turn, orient the interests of the domestic bourgeoisie accordingly based on the power associated with the development of national capital or allegiance with international capital. Power, in this context, is conceptualized as the ties between the domestic bourgeoisie and capital, divisions within the bourgeoisie, and the balance of forces that sustain the system. This concern is particularly relevant in developing countries such as Kenya and Uganda. Drawing from the example of India cited by Gill and Law, in many developing countries the post-independence period was accompanied by a suspicion of foreign capital and a determination to develop

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[29] Stephen R. and David Law Gill, "Global Hegemony and the Structural Power of Capital," *International Studies Quarterly* 33, no. 4 (1989): 479-80.

[30] Ibid.: 490.

national capital.[31] Thus, the degree to which the domestic bourgeoisie tends toward either international capital or national capital for development can be defined as an important criteria for tracking power in domestic institutional arrangements and will necessarily vary across countries for social and historical purposes. In the case of Kenya, for historical reasons that will be discussed later in this discourse, the domestic bourgeoisie has aligned itself with foreign capital and must therefore guarantee that they can control the coffee industry to secure this allegiance and their own elite positions. Historically Uganda was dependent on foreign capital for development as well, however, under the present circumstances in Uganda there has been a tendency towards the development of national capital as liberalization has allowed local capitalists to play a significant role in the industry.

Mark Rupert notes that political struggles are important because they define world orders, or the structure of hegemonic systems.[32] This is true of any political struggle, whether its primary objectives are realized or not. Political struggles, in this sense, either reinforce the status quo by creating a polarized environment where competing goals are reproduced and sustained in an ideological struggle or they result in mass reform movements and new structures and systems. Therefore, identifying political struggles when and where they occur is essential to mapping out the socio-political power factors that effect the path choice of the domestic bourgeoisie. In the case of Kenya an emerging movement towards liberalization has been and is presently stifled whereas Uganda offers a case in point of a mass movement towards liberalization that was realized. Political struggles for control of the government have also been a major factor in supplanting the domestic bourgeoisie in Uganda.

In relation to the Kenyan and Ugandan coffee industry case studies Rupert comments that in the American context ". . .the militance of rank and file workers resisting their subordination to the new powers of management was, by the period immediately following World War II, isolated from the

[31] Ibid.: 491.

[32] Mark Rupert, *Producing Hegemony: The Politics of Mass Production and American Global Power* (New York: Cambridge University Press, 1995) 85.

organizational apparatus which might have allowed workers collectively to confront corporate capital."[33] In the case of the United States an emerging movement was never realized because it was isolated from the apparatus that would allow change to take place. This is consistent with the work of Heller *et al.* – access to the legislative apparatus is key to bringing about structural transformation. In this sense, critical theory provides an important conceptual tool for identifying and mapping the dialectic, or the struggle for power between competing groups in the Kenyan and Ugandan coffee industries, which ultimately produced a type of hegemonic consensus - in the Ugandan case for liberalization, in Kenya for continuation of the status quo. Both cases are similar in the sense that in both contexts there were winners and losers. This provides a foundation for mapping the distribution of power among the political elite, and identifying the domestic bourgeoisie and their interests at a given point in the constant influx of socio-political variables.

Up to this point I have laid out a theoretical framework I call Adaptability Theory for the purpose of explaining why liberalization of the coffee industry failed to occur in Kenya while it occurred in Uganda. This theoretical account draws from the work of Heller *et al.* to provide a rational choice explanation of why liberalization does or does not occur: the domestic bourgeoisie views liberalization as either desirable and plausible or it does not. If the domestic bourgeoisie has control of the legislative apparatus, either by way of coalition, alliances, or bias in the system, it will initiate change, or not, based on these factors. However, the purpose of building a theory is to go further by generating a consideration of the factors that drive the domestic bourgeoisie to make the choices they do. Although a rational choice approach provides an explanation of the political channels necessary for liberalization, it does not consider the socio-political variables that create and sustain these channels in the form of institutions; moreover, it does not consider the origins of the interests that drive the domestic bourgeoisie. In this sense, the rational choice approach of Heller *et al.* explains the process by which

[33] Ibid. 103.

outcomes are achieved, but the question of exactly what drives this process remains. Adaptability Theory provides an explanation for this question by drawing from critical theory a concern for socio-political variables, historical dialectics, and the influence of institutions. In this sense, Adaptability Theory traces the forces that drive change to their origin, while accepting that these forces motivate rational agents, the domestic bourgeoisie, to act within in the context of powerful institutions. The domestic bourgeoisie may be swayed depending on their orientation towards either national or international capital. The domestic bourgeoisie may also be supplanted, as has occurred in Uganda. In this case a systemic change has occurred, however the domestic bourgeoisie remains a powerful change agent as long as they retain a powerful posture vis-à-vis the state apparatus.

10. TESTING ADAPTABILITY THEORY: CASES, HYPOTHESIS, AND METHODOLOGY

1. TESTING ADAPTABILITY THEORY IN KENYAN AND UGANDAN COFFEE SECTORS

To test Adaptability Theory the cases of the coffee industry in Kenya and Uganda have been selected. The reason for choosing these cases is that they appear to exemplify the concept of path choice. In Kenya a highly interventionist coffee industry has persisted since the colonial era. The coffee industry in Kenya appears to be an example of a continuation path choice, or the choice not to liberalize and maintain the status quo. As the data presented earlier indicates, the Kenyan coffee industry has been in steady decline since 1980. Amidst many voices from the grassroots level to the estate level that are calling for reform, the industry has continually opted to maintain a command-like structure which has resulted in economically sub-optimal realizations. In contrast, Uganda has dismantled its former state monopoly system and successfully and completely liberalized its domestic coffee industry. Industry indicator data demonstrates that Uganda has experienced unprecedented growth and success since 1980.

Yields and production have steadily increased in Uganda, while there is evidence that this increase has contributed to overall economic development. Uganda appears to exemplify a liberalization path choice.

Adaptability Theory has been built to explain why the coffee industry in Kenya has not liberalized while in Uganda the industry has been fully liberalized. As both countries are subject to the same international market realities, the decision to liberalize necessarily comes from the domestic realm. In the case of Kenya, in order to explain liberalization it is necessary to identify the domestic bourgeoisie and their interests. Once the domestic bourgeoisie has been identified, liberalization must correspond to their interests – i.e. it is viewed as desirable and plausible. Moreover, it must also be demonstrated that the domestic bourgeoisie has access to the legislative apparatus of the state. However, the demonstration of these factors, in and of themselves, may reveal that the necessary channels of liberalization are not open, but it does not explain why. In order to answer this question I look at socio-political variables and historical dialectics that correspond directly to the social claims of the domestic bourgeoisie – this is what defines the interests of this group. By exposing the factors that define the interests of and drive the domestic bourgeoisie, and through the study of how these socio-political variables play out in institutions, the real driving force behind the continuation of the status quo in Kenya's coffee industry, the decision not to liberalize, is revealed. It is the desire of the domestic bourgeoisie to maintain their privileges that drives the decision not to liberalize.

In the case of Kenya, the creation of a domestic bourgeoisie was evident when white settlers took control of Kenya's coffee producing highlands, and the native African was relegated to the role of provider of cheap labour on white European settler, or *mzungu* in Kiswahili, plantations. It is this factor that fuelled the Mau Mau rebellion and the campaign to reclaim lands lost to the colonial government, amidst an official state of emergency that was declared in the colony, which eventually resulted in Kenya's independence in 1963. In the newly independent Kenya a new domestic bourgeoisie inherited the colonial state with all its systematized inequalities, and the remnants of a system that was designed to preserve British control during the state of emergency. It will be demonstrated in this paper, the same institutions responsible for regulation of Kenya's coffee industry today were originally designed by European settlers to regulate and restrain African smallholder coffee producers. These institutions were set up with the primary motive of maintaining the privileged social position and social claims of the *mzungu* even at the expense of generating sub-optimal economic outcomes.

The colonial mentality endures today in Kenya's coffee industry, even though an African bourgeoisie has supplanted the white settlers. This offers a historical explanation of why the same institutions today have chosen not to liberalize in the context of global market signals that tend towards liberalization and increasing the ability of the smallholder to access benefits from changes in the global marketplace – these institutions were and are designed to control and restrain the smallholder and maintain the privileged positions of those in charge. This demonstrates the ability of institutions to perpetuate themselves, or take on a life of their own, as it appears that even 40 years after independence, these same institutions exist as a strong force; moreover, the domestic bourgeoisie has the incentive to maintain these institutions as they allow them to retain positions of privilege and control in Kenya's coffee sector. The domestic bourgeoisie could reform the institutions of Kenya's coffee industry, but as long as maintaining these institutions is in their best socio-political interest, and as long as this group maintains legislative access, any transformation or move towards liberalization is unlikely to occur. Furthermore, rivalries between competing institutions in Kenya's coffee industry and poor governance have sustained an unrepresentative domestic bourgeoisie and marginalized advocates of liberalization by restricting access to the legislative apparatus.

In order to explain Uganda's decision to liberalize their coffee sector, as in the case of Kenya, a domestic bourgeoisie must be identified and their interests defined. It is also necessary to demonstrate that the domestic bourgeoisie in Uganda has a history of close ties to the legislative apparatus. As with the Kenya hypothesis, making these identifications only explains how liberalization occurred, not why.

In order to explain why liberalization occurred it is necessary to identify the interests of Uganda's domestic bourgeoisie. This involves consideration of the changing socio-political conditions that have affected this group, the struggle for political power, alliances with the peasants, as well as the dialectic between the domestic bourgeoisie and other stakeholders in the Ugandan coffee industry. In the case of Uganda Cox's discussion of counter movements is relevant. From colonial times to the present the domestic bourgeoisie in Uganda has been challenged and supplanted by counter movements. The old colonial domestic bourgeoisie was supplanted with the Obote and Amin dictatorships, Obote returned to power after Amin and was eventually overthrown by Uganda's current President Yoweri Museveni. With the onset of each new regime the old domestic bourgeoisie lost access to the state, was supplanted, and was replaced with a new domestic bourgeoisie that sustained their privileges through access to the legislative apparatus. The domestic bourgeoisie has remained the primary change agent in the case of Uganda, however historically one group has not been able to maintain access to the state. This has resulted in the domestic bourgeoisie being supplanted several times, and the onset of each new political system and social reality has defined the interests of the domestic bourgeoisie of the day.

The colonial system of governance in Uganda was structured in such a way that the domestic bourgeoisie relied heavily on peasant smallholders for the maintenance of their social assets, or privileged positions. During this period the domestic bourgeoisie was responsive to peasant demands. However, changing socio-political conditions eventually resulted in the separation and subordination of the peasants to the domestic bourgeoisie. This was followed by years of dictatorship under Milton Obote and Idi Amin that devastated Uganda's coffee industry, and destroyed the instruments of state control. During this time many smallholders began trading coffee independently on the black market, creating an awareness of markets that are not controlled by the state. Under the present leadership of Ugandan President Yoweri Museveni Uganda has embarked on an ambitious development campaign to improve the economy after years of poor governance and devastation. The nature of the one party system in Uganda and its allegiance to the domestic bourgeoisie has made liberalization of the coffee industry a desirable and plausible alternative in Uganda. The strong ties between the new Ugandan domestic bourgeoisie and international capital have also played an important role in bringing about complete industry liberalization. Smallholder labour remains subordinated to the domestic bourgeoisie in Uganda, although a viable case can be made that the success of the Ugandan coffee industry has had a positive effect on development at the community level. However, in Uganda the political will to restrain the smallholder changed from the period of dictatorship, in terms of desirability, plausibility, and access to the legislative power of the state, along with the supplantation of an authoritarian domestic bourgeoisie and the expulsion or extermination of the old domestic bourgeoisie, to allow for liberalization and a divergence from the old status quo. The absence of institutional rivalries and a movement for liberalization that was favoured by and led by the new domestic bourgeoisie meant that there were low organizational costs associated with Uganda's industry transformation and thus provides another explanatory factor. In view of this, it logically follows that power relations in Uganda, which once had a control structure similar to that in place in Kenya's coffee industry, have shifted to allow for a change in the status quo. This shift occurred when Museveni's National Resistance Movement government took hold of power. Conversely, the foci of power in Kenya was structured in such a way that maintained the status quo, even at the expense of sub-optimal outcomes for the industry in general. This represents the notion of the bargaining dilemma, or the degree to which organized institutions have an advantage in pursuing their interests. As the maintenance of a single domestic bourgeoisie since independence has not occurred in Uganda, as it has in Kenya, the organizational costs of challenging the status quo through a liberalization campaign have been less pronounced.

Some sceptics may be compelled to argue that maintenance of the status quo in Kenya and liberalization in Uganda were both rational economic choices that were initiated for overall economic utility, and that socio-political factors were not the primary motivation for adopting either path choice.

It is already clear by the industry indicator data presented in the problematique section that continuation has not been a utility maximizing choice in Kenya whereas there is a visible correlation between the introduction of liberalization and industry success in Uganda. Such an argument would also require a state that is relatively autonomous from the domestic bourgeoisie. This notion will be dispelled in both the Kenyan and Ugandan cases later in this discourse.

2. METHODOLOGY

This study will examine the coffee industries in Kenya and Uganda through the lenses of Adaptability Theory. The nature of the international coffee market will be explored and it will be argued that market signals in the post International Coffee Agreement (ICA) era indicate that liberalization is necessary for small domestic producers to remain competitive. The issues of decreasing crop yields and subsistence farming will be addressed within the context of the data presented in this study. The development of the coffee sectors in Kenya and Uganda will be examined from a historical perspective to the present-day to locate the foci of power, define the nature and interests of the domestic bourgeoisie, examine a historical dialectic between the domestic bourgeoisie and other stakeholders in the coffee industry, and identify the socio-political variables that influence the domestic bourgeoisie to opt for continuation and liberalization path choices respectively. Adaptability Theory will be applied to the cases of Kenya and Uganda to answer an important question: How did the socio-political environment in Kenya prevent liberalization while the socio-political conditions in Uganda allowed liberalization to occur? To answer this question the criteria for liberalization will be applied to both Kenya and Uganda to explain how liberalization was introduced or failed to be introduced. Although this element of analysis addresses the question of how, the question of why remains unclear. To address this question Adaptability Theory will be used to identify the interests of the domestic bourgeoisie and demonstrate that they are a product of the prevailing socio-political environment. These variables are viewed as change agents that propelled the domestic bourgeoisie to opt for continuation of the illiberal status quo in Kenya and liberalization in Uganda. An historical dialectic will be identified between the domestic bourgeoisie and other stakeholders in the coffee industries of Kenya and Uganda for the purpose of understanding the distribution of power and how prevailing socio-political circumstances affect this distribution through institutions.

11. UNDERSTANDING THE INTERNATIONAL COFFEE MARKET

The importance of coffee as a global commodity and its potential for development in countries like Kenya and Uganda is underscored by the fact that coffee is the second most traded commodity in the world, second only to oil. The purpose of this section is to generate an understanding of the evolution and current conditions of the international coffee market. In order to look at liberalization and continuation path choices in a useful and informative manner, these choices must be situated within an understanding of the changing international coffee market. In addition to explaining the international conditions that affect Kenya and Uganda, an underlying argument of this section is that current market conditions favour market liberalization. The main argument of this discourse is not to advocate, but to explain, liberalization; however, based on current global market realities I admittedly ascribe some value to domestic market liberalization. This normative element, however, does not obscure or affect my explanation of the causes of liberalization.

1. EVOLUTION AND CHARACTERISTICS OF THE INTERNATIONAL COFFEE MARKET

Historically, Brazil and Columbia have been the world's major suppliers of coffee; however, beginning in the 1990s an aggressive industrial development program in Vietnam has propelled the country to the status of coffee giant. Vietnam now sits in the number two position in world production, surpassing Columbia. The rapid emergence of new players such as Vietnam demonstrates the extremely competitive and rapidly changing nature of the international coffee market. Another important characteristic of the global coffee market is low elasticity of supply and demand. In the short term elasticity is low because it takes at least 2 full years for a tree to be ready for production. Thus, the only way of increasing supply immediately is to increase the use of inputs. Increasing production area does not have an immediate effect, as has been demonstrated. Any increase from the planting of trees takes time to be realized by the market. This can lead to over supply and the fall of coffee prices in the long term. Demand elasticity is also low and this leads to a high degree of price variability in the global market. When there is a shortage of supply this can result in higher coffee prices even while consumption remains constant. The global coffee industry is also characterized as a 'mature market.' This means that there is a positive correlation between increasing income and coffee consumption; however, consumption stabilizes at top income levels. This has led major roasters to invest in production technology to increase the value added elements of coffee and to explore the possibility of expansion into new markets where there is greater potential to increase consumption.[34] The global coffee market is completely atomized and liberalized. The dominance of major roasters and the presence of marketing agents have created a complex value chain that often results in the growers receiving extremely poor profits to actually sustaining losses.

A liberalized international coffee market was not always the case. In the past the major consuming and producing countries were involved in the International Coffee Agreement (ICA). This agreement, beginning in 1962, sought to regulate and control the global market by setting a target price for coffee and enforcing country production quotas. When world prices rose over the set price quotas were expanded and when prices dropped quotas were lowered. In the case of an extreme increase in world prices quotas would be removed all together until the price stabilized. The purpose of the ICA was to maintain stability in coffee prices and ensure a high price for producing countries. Although the

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[34] Stefano Ponte, "The 'Latte Revolution'? Regulation, Markets and Consumption in the Global Coffee Chain," *World Development* 30, no. 7 (2002): 1104.

ICA was relatively successful in maintaining stable world prices, the problem of free-riding, increasing trade with non-member countries, and disputes over quotas eventually killed the agreement.[35]

According to Stefano Ponte "the end of the ICA regime meant that the bureaucracy that was needed to monitor exports and ensure compliance with quota restrictions was no longer needed. This, coupled with the general switch in economic thinking in the 1980s and 1990s away from public intervention in markets, led to the dismantling of coffee boards, institutes and other quasi-governmental bodies that regulated export sales."[36] For all intensive purposes, these institutions were no longer essential to the functioning of domestic industry, yet these institutions persist today in Kenya even though they are not designed to function effectively in the new global market. It will be argued later in this paper that this provides an explanation of why the institutions of Kenya's coffee industry are unwilling or unable to respond to international market signals. This factor also justifies a consideration of socio-political variables as agents responsible for the persistence of institutions that have lost their primary reason for existence.

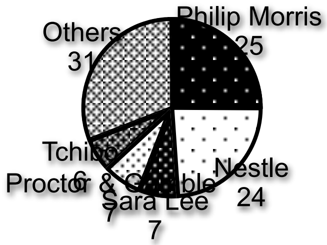
After the fall of the ICA the nature of the global market changed and these changes remain the defining elements of the global industry today. The market has become more concentrated with the increased dominance of large multinational traders and an even higher level of concentration of roasters. The top five roasting companies control 69 percent of the total global market for roasting, while the top two companies control 49 percent. Figure 11.1 illustrates the market concentration of major roasters.

Figure 11.1[37] Concentration of the Roasting Market

[35] Ibid.: 1104-05.

[36] Ibid.: 1107.

[37] The data displayed in this figure has been taken from Ibid.: 1108.



The dominance of major roasters based in consuming countries as well as large trading firms indicates that consuming countries have come to dominate the world market at the expense of producing countries. Prices have fallen and the market is more volatile than during the ICA period.[38] Another prominent feature of the present global coffee industry is that the majority of income generated in the coffee value chain occurs entirely in consuming countries. Citing a study conducted by Talbot, Ponte illustrates this point:

> …in the 1970s, an average of 20% of total income was retained by producers, while the average proportion retained in consuming countries was almost 53%. Between 1980-81 and 1988-89, producers still controlled almost 20% of total income; 55% was retained in consuming countries. After the collapse of the ICA in 1989, the situation changed dramatically. Between 1989-90 and 1994-95, the proportion of total income gained by producers dropped to 13%; the proportion retained in consuming countries surged to 78%.[39]

This evidence reinforces the dominance of consuming countries in the present global market. Other defining features of the international market are falling levels of coffee stock held by producing countries and increased transactions in coffee futures contracts. The new global market is also characterized by oversupply due to the introduction of new farming technology in many coffee-producing countries. This factor has contributed to the overall decline in world prices.[40]

In the context of the current global market and the concentration of major roasters new trends in coffee consumption are emerging. Because roasters control the coffee market profit margins in coffee for supermarkets have remained relatively low. Some supermarket chains even sell coffee at a loss -

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[38] Ibid.: 1105-08.

[39] Ibid.: 11076. For a detailed analysis see J.M. Talbot, "Where Does Your Coffee Dollar Go? The Division of Income and Surplus Along the Coffee Commodity Chain.," *Studies in Comparative International Development* 32, no. 1.

[40] Ponte, "The 'Latte Revolution'? Regulation, Markets and Consumption in the Global Coffee Chain," 1105.

simply because it is in demand and buyers expect it to be carried in stores – under the belief that stocking it will attract volume and promote the sale of other more profitable supermarket products. Coffee is also sold at warehouses and discount outlets, further reducing profit margins.[41] With the concentration of major roasters that control the coffee commodity chain many coffee products have lost a regional or local focus. In this context new 'conscious' or 'ethical' consumption trends have emerged in the area of specialty coffee, organic, and fair trade. These products offer a value added possibility by opening up new niche markets for producers who wish to target the specialty consumer. Some countries have been quick to optimize their domestic industries to allow for access to these markets, other command-like coffee economies such as Kenya's have been unable to access these markets largely due to the failure to liberalize.

The overall governance system of the global coffee market has changed dramatically in the post-ICA era. During the ICA era the system was driven neither by producing or consuming countries. Governments mediated entry barriers to the industry and the ICA regulated international trade. In the present era the coffee commodity chain has become buyer driven. Roasters now control the international market. Roasters set requirements for coffees to be made into blends and this, in essence, is a means of setting entry barriers to the industry. Roasters also set the terms of supply. The concept of Supplier-Managed Inventory (SMI) "allows roasters to minimize costs by transferring the working capital costs of inventory holding to trading houses."[42] Also, the proliferation of new technology has allowed roasters to reduce dependence on origin coffees by making blending easier. SMI gives the roasters an advantage in trade because it guarantees them a constant supply of origin types.[43]

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[41] Ibid.: 1110.

[42] Ibid.: 1109.

[43] Ibid.: 1112.

The institutional framework of the global coffee industry has also changed significantly in the post-ICA period. A relatively stable market environment under the ICA characterized the global industry. In the post-ICA era the voice of producing countries has diminished, political negotiation has replaced the ICA quota system, and buyers establish the conventions of the global economy in a buyer-driven system. The majority of income generated in the coffee value chain goes to producing countries, primarily to roasters. Ponte points out that the structure of this system may adversely affect the collective bargaining power of smallholders. This is because it is difficult for smallholders to consolidate to compete with international trading firms. According to Ponte, with the withdrawal of the state from marketing in many East African countries smallholders have lost a political forum for negotiation.[44] It is true that it is more difficult for smallholders to consolidate to compete with larger firms; however, this is unavoidable in the context of a liberal, roaster dominated global market. Smallholders must find new and innovative ways to organizes themselves in the global market and form direct relationships with buyers and consumers. In East African countries state intervention in the coffee industry has largely inhibited this.

Over the last forty years the international coffee market has changed from being a state-run controlled economy to a liberalized economy where private firms, and notably the roasters, exercise control. The coffee market is considered mature, meaning that coffee consumption has peaked and stabilized in Western countries, the primary coffee consumers. The entrance of new players on the producing side, the introduction of new technologies to help roasters reduce dependency on origin coffees and improve blends, and the presence of a complicated value chain structure are all factors that have marginalized coffee producers. In light of this, producer prices have hit record lows; however, there exists significant potential for producers to change this as new niche markets involving specialty, organic, and fair trade coffees have opened up. In the context of the liberalized character of the

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[44] Ibid.: 1116.

international coffee market, state intervention and the persistence of elaborate forms of state control and bureaucracy in some producing countries, such as Kenya, is no longer necessary or efficient. This poses an important question: why does government intervention and bureaucracy persist in Kenya when it has lost its primary economic function? This is because these structures serve other non-economic functions that are socio-political in nature. The question of these socio-political variables will be addressed later in this study. Uganda is a case in point of the merits of liberalization. Through an ambitious liberalization campaign Uganda has increased its production and taken a greater share of the world coffee market. Liberalization of a domestic coffee industry gives producers the chance to form direct trading relationships with buyers, to increase their revenues by surpassing agents of the state, and to access specialty niche markets such as organic and fair trade. In a liberalized domestic economy coffee producers are free to negotiate directly with buyers, to develop a name and reputation based on their producing region, and to make decisions based on their own best interests. They also have increased incentives to improve coffee quality. The ultimate goal, in adapting to an international market through liberalization, is to raise producers prices making coffee a profitable and lucrative enterprise for smallholders once again.

One method of achieving this goal is for international donors and other stakeholders to focus on increasing the consumption of ‘conscious’ or ‘ethical’ coffees including fair trade, bird friendly, and organic coffee. Such projects would provide farmers with the opportunity to collect a higher portion of the income generated in the value chain. Creating a niche market for ‘ethical’ coffee adds value because there is a growing market of consumers who are willing to pay a premium for these specialty coffees. It is important to note that many smallholders in Kenya are already producing organic coffee because the fall of world market prices and the decline of the Kenyan industry has left them without access to credit that would allow them to buy chemicals to spray their crops.[45] However, many of these farmers lack education on the value of organic coffee and the certification process. Farmers and cooperatives must exploit their position on the periphery by cultivating and education consumers on the social dimensions of coffee. The state has been unwilling and unable to do this in Kenya, effectively harming the domestic coffee sector. In light of this, the state should withdraw from the coffee industry and give smallholders and estate owners the opportunity to negotiate their own livelihoods directly with buyers. NGOs are in a prime position to facilitate such a transformation. By teaching consumers about different qualities of coffee it will stimulate demand for high quality coffees that fetch higher prices. NGOs and other organizations can also ensure that value is transferred to the producers through the promotion of direct buying and fair trade.[46] In Kenya, the state marketing board should allow the farmers to negotiate their own contracts, and be guided by the needs of the buyers, not the impositions of the state.

2. THE IMPACT OF LIBERALIZATION IN THE NEW INTERNATIONAL COFFEE MARKET

Other East African coffee producing countries have experienced varying degrees of liberalization. While Uganda has experienced complete liberalization, Ethiopia and Tanzania have experienced incomplete or impartial liberalization and economic outcomes have corresponded accordingly. Incomplete or impartial liberalization demonstrates that a dialectic or struggle is currently occurring within the domestic bourgeoisie, it is in the process of being swayed, and policy is beginning to reflect these changes. I will briefly turn to a description of the liberalization process in other East African countries and an analysis of the corresponding economic outcomes. This analysis will demonstrate that liberalization corresponds to industrial success. Until 1992 the state-run Ethiopian Coffee Marketing Corporation (ECMC) regulated the coffee market in Ethiopia. In the year 1990/1991

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[45] This observation by Ponte is confirmed by fieldwork conducted in Kenya. Damianopoulos, "Field Data Collected During a General Meeting with Coffee Farmers in Embu, Kenya.." Farmers surveyed at the general meeting indicated that they had not used pesticides on their crops for several years due to lack of funds and/or credit.

[46] Ponte, "The 'Latte Revolution'? Regulation, Markets and Consumption in the Global Coffee Chain," 1116-17.

the ECMC oversaw 86 percent of purchase transactions, and growers had to deliver annual quotas at a fixed price. Under liberalization the ECMC was divided into two structures – the Ethiopian Coffee Purchasing Enterprise (ECPE) to handle the purchasing of coffee and the Ethiopian Coffee Export Enterprise (ECEE) to oversee exports. These companies went into direct competition with the private sector. Presently, local traders who market coffee at daily auctions to exporters mediate the coffee market in Ethiopia. Private traders now account for 75 per cent of total exports, an increase from 10 per cent in 1992. By law exporters must buy through the auction system, and local traders must act between the farmer and the exporter, they cannot become exporters themselves. The positive aspect of this system is that it encourages local industry development through the involvement of local traders and increases competition at the farmgate, which could lead to a reduction in pre-auction marketing costs. From a negative standpoint, local traders bear a substantial price risk and do not have access to futures markets due to the high cost involved.[47]

During the last five years a second window of buying, or direct sales, was introduced in Ethiopia. This allows cooperatives to compete directly with private exporters by bypassing the auction system and exporting directly to overseas buyers. This project was funded by overseas donors and has had direct results in increasing the efficiency and bargaining power of cooperative societies vis-à-vis the global market. Direct sales presently account for a relatively small volume of total Ethiopian coffee sales to the effect of 2,000 to 3,000 tons per year. This figure represents 2 to 3 percent of total sales per annum. Fair trade and specialty coffees have emerged under the new system in relatively small quantities. Cooperative societies are still building capacity to export these products successfully.[48] In the case of Ethiopia, an incentive structure to promote quality and other value added elements has emerged and

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[47] Ekaterina Krivonos, "The Impact of Coffee Market Reforms on Producer Prices and Price Transmission," in *Policy Research Working Paper*, ed. Makhtar Diop (Nairobi: World Bank, Development Research Group, July 2004), 29.

[48] Agrisystems, "Assessment of the Value-Adding Opportunities in the Kenyan Coffee Industry," ed. Agriconsortium (Bucks, UK: Kenya European Commission, 2004), 146.

continues to develop. Such a structure is absent from the Kenyan coffee sector and effectively prevents the development of lucrative fair trade and specialty niche industries in Kenya. Ethiopia provides an example of a partially liberalized coffee economy. The case of Ethiopia has been introduced to add depth to the comparative analysis that will demonstrate the correlation between liberalization and industrial success. The explanation for partial liberalization in Ethiopia can be generated through socio-political analysis derived from Adaptability Theory: partial liberalization may be an indicator of a dialectic occurring between competing foci of power over the benefits of liberalization, or an indicator that an illiberal domestic bourgeoisie is in the process of being swayed.

Tanzania operates on a system similar to the one in place in Ethiopia. Liberalization measures were enacted in 1994/1995 that allowed Private Coffee Buyers (PCBs) to buy direct from cooperatives. However, all coffee is still required to be auctioned before export, which means that ownership of coffee changes at the point of sale to PCBs, instead of at the point of sale at the auction. This system helps PCBs cover price risk because they can sell coffee prior to the auction. This system also has several positive points in that the auction ensures the best price for those that do not sell direct, PCBs can unload access coffee or unusable grades at the auction, and the collection of levies and monitoring by the Coffee Board are made easier because all coffee has to pass through the auction system. There are also several distinct disadvantages of this system. For one, PCBs take ownership of the coffee earlier making it hard for other bidders to compete because the owners of the coffee always have the option to outbid at the auction. Moreover, as is the case in Kenya, the auction poses a major bureaucratic obstacle to the effective and efficient export of coffee for many groups by delaying the export of coffee and increasing the costs of financing. For coffee sold prior to the auction all risk is borne by the cooperative society, and this can prove to be detrimental to cooperatives because they must take on risk for the coffee from the time it is purchased from the farmers to the time of sale.[49]

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[49] Ibid., 146-47.

Liberalization has been highly beneficial to the coffee industry in Tanzania: "Liberalization in the Tanzanian coffee market has been followed by a drop in marketing margins of over 50% and increases in producer prices both in absolute terms and as a share of the world price."[50] Vertically Integrated Exporters (VIEs) have contributed to positive economic developments, which have rendered the auction system irrelevant in the new market. The institutional force through which the auction system persists has actually been harmful to the industry. Temu *et al.* find that VIEs may be using the auction system to collude to keep prices low.[51] This demonstrates the importance of a full degree of liberalization for economic success. The persistence of old and irrelevant systems and institutions that are not compatible with the prevailing business climate in the global coffee industry hinder growth and economic development. After liberalization in Tanzania the market share of private traders increased form zero to 67 percent. The trade share handled by government organizations and cooperatives fell from 94 percent to 33 percent during that same period. However, recently there has been a reversal of the liberalization trend. In 2000/2001 the Tanzanian government revoked the buying licenses of private traders in an effort to ensure that government loans to cooperatives got repaid. The ban was extended to the 2001/2002 growing year.[52] Tanzania is an example of a case where a degree of liberalization was enacted and then reversed by the government. This reversal can be explained using Adaptability Theory: the domestic bourgeoisie, in this case the government, chose to initiate the reversal because of their interest in collecting revenue that was owed to them and clearly had the legislative power to do so.

Uganda has successfully implemented a full and complete liberalization campaign in recent years that covers all aspect of the domestic coffee industry. Until 1992 the Ugandan coffee sector was under complete government control. The industry was governed by a state Coffee Marketing Board (CMB)

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[50] Anna A. Temu, Alex Winter-Nelson, and Philip Garcia, "Market Liberalisation, Vertical Integration and Price Behaviour in Tanzania's Coffee Auction," *Development Policy Review* 19, no. 2 (2001): 208.

[51] Ibid.: 209.

[52] Krivonos, "The Impact of Coffee Market Reforms on Producer Prices and Price Transmission," 30.

and coffee was collected from growers by official state cooperative societies. The farmgate price for coffee was fixed by the state. The liberalization process in Uganda began when the CMB lost its monopoly over exports and private traders and cooperative societies were allowed to begin direct sales. In 1991 the Uganda Coffee Development Authority was created to conduct research, promote quality control, and increase the market for Ugandan coffee. The same year administered prices were replaced with prices that were indicative of the world coffee market. In 1992 the coffee export tax was removed; however, this tax was reintroduced in 1994 as a stabilization tax. The same year the CMB began its withdrawal from the export business; however, full withdrawal of the CMB from exports did not occur until 1997. Months after the CMB began its retreat there were 18 private companies registered as exporters. By 1994-1995 this number had increased to 117. This increase was followed by a sharp decline and by 2000/2001 there were only 22 exporters. At the same time as the decrease the top companies share of exports increased from 71 percent in 1994/1995 to 87 percent in 2000/2001.[53] The case of Uganda provides an example of complete liberalization of the coffee sector. The relationship between liberalization and the rapid growth experienced in the Ugandan coffee sector will be analyzed later in this discourse along with an explanation, based on Adaptability Theory, for why Uganda was able to initiate liberalization.

Data presented on Uganda, Ethiopia, and Tanzania has demonstrated that liberalization has been full and complete in Uganda whereas Ethiopia and Tanzania have experienced incomplete and instable liberalization programs. As discussed earlier in this study, the coffee industry in Kenya remains highly illiberal. This study now compares producer prices and the world price of coffee across this spectra of countries with varying degrees of liberalization and the resulting analysis indicates that liberalization corresponds to optimal economic outcomes.

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[53] Ibid., 31-31.

Figure 11.2[54] Producer Prices Compared to World Composite Price

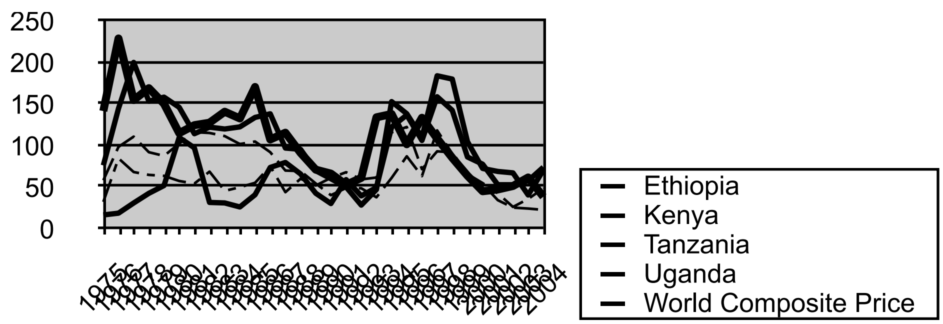

Figure 11.2 illustrates changes in producer's prices in Ethiopia, Kenyan, Tanzania, and Uganda since 1975 relative to the world composite price of coffee. Historically Kenya enjoyed a high producer price in comparison to neighbouring producing countries. However, in recent years neighbouring countries have reduced this differential significantly. In addition, Kenya only produces Arabica coffee that is of a higher quality than robust – a coffee produced in many neighbouring countries. Hence, Arabica coffees fetch higher prices on the world market. What is significant is that neighbouring countries that do produce a combination of high quality Arabica and lower grade Robusta have succeeded in practically eliminating the producer price differential between their domestic sectors and the Kenyan sector – Uganda being the most successful and the only completely liberalized case. This indicates the failure of the Kenyan government to adapt to a new and changing world market, even as its neighbours are able to respond and adapt to world market signals that tend towards liberalization. This data also indicates a positive relationship between liberalization and the health of the coffee industry at the smallholder level.

Ekaterina Krivonos has developed an economic model that demonstrates the relationship between coffee sector liberalization in producing countries and increased share of producer prices in the world price of coffee. As already demonstrated in the discussion of the structures of Kenya's coffee sector, coffee reforms in Kenya remain limited, especially in comparison to neighbouring countries.

[54] Data taken from International Coffee Organization (ICO), (International Coffee Organization, 2005 [cited July 20 2005 2005]); available from http://www.ico.org/asp/display7.asp.

Under the present Coffee Act the Kenyan government retains substantial power over marketing, the sector is heavily regulated by the state, and there is a mandatory auction system through which all coffee must be sold. The Coffee Board of Kenya (CBK) and the Kenya Planters Cooperative Union (KPCU) remain highly influential, even though competing organizations such as the Kenya Coffee Growers and Employers Association (KCGEA) have called for their complete dissolution and demanded the introduction of a system of direct sales.[55] Krivonos notes that the impact of liberalization in Kenya is limited because reforms to the coffee sector are incomplete. Factors in Kenya that detract from greater integration and higher producer prices are government involvement in the market, a lack of private sector trading, government set floor prices that remain at a minimum, upward movements in world market prices that are subsequently not passed on to the growers, and that collusive behaviour of traders at the mandatory auction can hamper the positive effects of liberalization on producer prices.[56] Liberalization would solve many of these problems and therefore provides a viable path to reverse the steady trend of decline experienced in the Kenyan coffee industry.

At this point I will turn to an examination of other East African countries that have experienced varying degrees of liberalization to highlight the benefits liberalization has vis-à-vis domestic industry. The highest degree of liberalization has taken place in Uganda where there has been complete withdrawal of the state from marketing, which is now conducted by private traders. The abolishment of minimum prices and lower export taxes has helped producers take home a higher price. In addition, the introduction of clear and simple procedures for firm registration and licensing has removed bureaucratic obstacles to industry success. Tanzania has experienced a lesser degree of liberalization compared to Uganda. In Tanzania coffee is marketed by cooperative societies that maintain close ties to the state-run Coffee Board. Licensing procedures for coffee traders remained overly restrictive until 2000/2001 when

[55] Krivonos, "The Impact of Coffee Market Reforms on Producer Prices and Price Transmission," 13.

[56] Ibid., 14.

the Coffee Board completely revoked the licences of private traders. In Ethiopia the internal market has been liberalized while the government retains some control over producer prices. In Ethiopia minimum export differentials are set daily, but there is no government imposed floor price.[57]

Figure 11.3[58] Producer Prices Before and After Liberalization

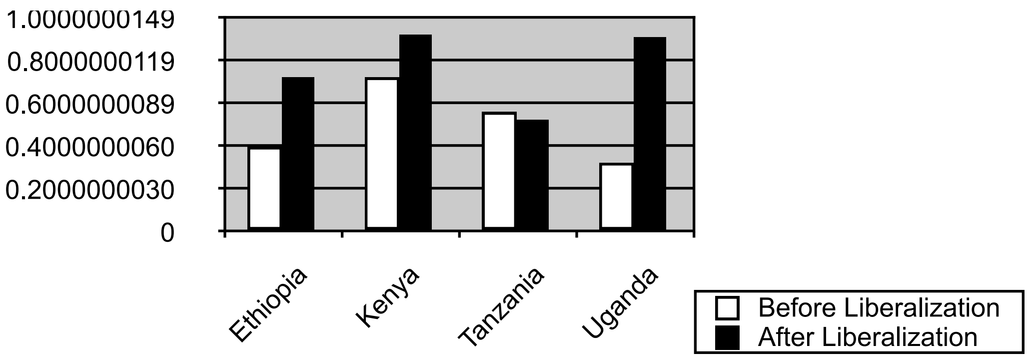

Figure 11.3 indicates producer prices before and after liberalization. Krivonos determines that short-term price transmission remained unchanged or improved in Ethiopia and Tanzania, and the speed of adjustment increased from zero to .2. Tanzania, however, was the only country where the target share of producer prices in world prices did not increase, but actually decreased from .56 to .53.[59] One factor that may explain this is the reversal of liberalization in Tanzania, where the state revoked the marketing licenses of private traders. This policy may have actually reversed the positive effects of liberalization. In Uganda the target share of the world market price increased from .32 to .91 and in Ethiopia there was an increase from .40 to .73. In Ethiopia, Tanzania, and Uganda the degree of adjustment after six months increased from less than half to 90 per cent.[60] Even the introduction of some very small liberalization measures under the new Coffee Act in Kenya has had a positive effect on producer prices.

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[57] Ibid., 6.

[58] Data taken from Ibid., 25.

[59] Ibid., 11.

[60] Ibid., 11-12.

The impact of varying degrees of liberalization in Ethiopia, Tanzania, and Uganda has been significant; however, reforms have the greatest impact in countries where the liberalization process was full and complete. Uganda provides one such example. Uganda's ambitious liberalization campaign covers the entire market chain from purchasing to export. Traders are free to negotiate their own contracts and payments are passed quickly to growers. This has resulted in the tripling of Uganda's target producer price and an improved and immediate transmission in world market prices. In Tanzania cooperatives were controlled by the state Coffee Board prior to liberalization and continue to control a large share of trade. A mandatory auction system controlled by the Coffee Board, a complicated taxation system, and a high sales tax, which has continued to increase in recent years, are factors that negatively impact the effectiveness of reforms. In Tanzania, where state regulation of the coffee industry remains prominent even after liberalization measures have been enacted, there was no increase in the target share of growers price.[61]

The data presented in this section demonstrates a positive correlation between market liberalization and increases in producer prices in producing countries. As discussed earlier, the ability of producers to receive a fair return on their coffee is a major factor in determining the health of the coffee industry in countries like Kenya and Uganda. In Kenya, due to an illiberal system, smallholders have turned away from coffee in favour of other cash crops and subsistence growing. This is a major factor responsible for the overall decline of the Kenyan coffee industry. In Uganda liberalization measures have increased producer prices and this corresponds with industrial growth and success. In this context, liberalization can be viewed as a favourable economic outcome and logical economic decision. It is thus for socio-political reasons that liberalization in Kenya and other countries has been refused.

[61] Ibid., 13.

3. THE COFFEE BOOM AND THE CASE OF UGANDA

The purpose of this section is to assess the overall impact of liberalization in Uganda on development. Lindsay Chant *et al.* explore the relationship between the 1994/1995 coffee boom and local development in Uganda. Chant *et al.* finds that the coffee boom has a small effect on medium term growth and poverty reduction; however, the magnitude of this effect was stifled by serious aid dependency. In 1994/1995 world coffee prices reached a peak. The boom period thus took place between 1991/1992 and 1994/1995. During this time period there was an increase in the export price by 211 percent, from USD $0.83 per kg to USD $2.58 per kg. The actual producer price increased even more, from UGS 359 per kg to UGS 1,732 per kg, an increase of 382 percent.[62]

It is argued that the effects of the boom had a strong impact on the Ugandan economy because liberalization was full and complete. Uganda experienced rapid economic growth between 1994 and 2000. Uganda had an annual growth rate of 4.16, GDP per capita increased from 277 to 348, and the poverty rate fell from 50.2 percent to 35.2 percent.[63] This is in large part due to the investment of windfall profits by smallholder farmers. Chant *et al.* attribute the investment of windfall profit from the boom as one of the main reasons that spurred development and economic growth. Chant *et al.* note the most important factor in allowing the farmers to invest windfall profits:

> Deregulation of the export sector. The NRM government inherited from Amin and Obote an export sector in which parastatals ruled supreme, whose function was essentially to fuel the government's need of foreign exchange by buying coffee for export at administered prices, rarely adjusted for inflation. Encouraged by World Bank conditionality, the Coffee Marketing Board was privatized and other private exporters, including multinationals, were allowed to enter the market. As a result, the share of the border price accruing to farmers, only 18% in coffee season 1990/1991, shot up and within a couple of years reached a level of 77% and fluctuated between 70 and 80% thereafter. Naturally, the incentives to invest for coffee farmers were therefore much higher at the time of the coffee boom than they had been previously.[64]

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[62] Lindsay Chant, Scott McDonald, and Arjan Verschoor, "The Role of the 1994-1995 Coffee Boom in Uganda's Recovery," (Department of Economics, The University of Sheffield, 1994-1995), 4.

[63] Ibid., 2.

[64] Ibid., 7.

Thus, it has been argued that the coffee boom rewarded reform measures and that the boom spurred growth and poverty reduction in the 1990s. The boom may have also helped the Ugandan economy reduce its overall dependency on coffee.[65] Chant *et al.* tests the relationship between the coffee boom and Uganda's economic recovery using the CGE model, which is developed from the Sheffield Standard Model 3, and a single country GTSP model.[66] The results of this test reveal, according to Chant, "… economies that are not only commodity-dependent but also aid-dependent, such as Uganda, are prevented from benefiting fully from a commodity boom. The ensuing currency appreciation erodes the value of a given amount of foreign aid, thereby increases the need for higher taxes, which in their turn reduce the scope for private sector investment and savings."[67] Chant *et al.* conclude that:

> The Ugandan government, through its structural reform of the economy, provided a climate that encouraged coffee growers to invest a substantial part of the windfall profits that the coffee boom gave rise to. However, its SAP commitment to not let the current account deficit and its budget deficit worsen, combined with its huge dependence on foreign aid, means that domestic taxation is linked directly to movements of the exchange rate. Since a commodity boom ceteris paribus increases the demand for domestic currency, (with the current account deficit fixed) the exchange rate appreciates, the purchasing power of foreign aid decreases, and (with the budget deficit fixed) taxes will rise. Governments of primary-commodity dependent economies who finance part of their budget with foreign aid and are strictly committed to macro-economic stability and therefore fated to tax away part of the windfall profit that a boom gives rise to, and therefore suppress an investment response, unless SAP conditions are relaxed or donors adhere to a financing rule that maintains recipient purchasing power of their aid disbursements.[68]

Thus, the boom had tremendous potential to contribute to economic development in the long term had it not been for a dependence on foreign aid. Deregulation allowed farmers the opportunity to invest windfall profit. Thus, there is a case to be made for the importance of liberalization to development; however, other factors such as foreign aid dependency must also be addressed to

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[65] Ibid.

[66] For the Sheffield Standard Model 3 computer program see Sheffield Standard Model.. For the single country GTAP computer program model see A Single Country Gtap Model.

[67] Chant, "The Role of the 1994-1995 Coffee Boom in Uganda's Recovery," 16.

[68] Ibid., 19.

effectively promote development. It is the task of governments and international donors to ensure that the structures are in place not only to promote investment from local groups but also to ensure that boom periods are harnessed for the promotion of overall development.

4. ADAPTING TO THE NEW GLOBAL COFFEE ECONOMY: VALUE ADDED AND THE IMPORTANCE OF FINDING A NICHE

The purpose of this section is to evaluate the future possibilities and prospects for development of the coffee industries in Uganda and Kenya in the context of the new global coffee market. Liangzhi You notes that the Ugandan coffee industry is facing a serious challenge, as are the industries in Ethiopia, Kenya, and Tanzania, as world coffee prices hit a record 40-year low in 2001. This price slump is due to oversupply, the expansion of world coffee production (especially Robusta), and the low to stable growth in world consumption of 1 per cent. The fall of world coffee prices has resulted in a drop in the farmgate price for Robusta from UGS 647 to UGS 263 per kg between 1999 and 2001. By December 2002 this figure had fallen below UGS 200. Arabica farmgate prices have also fallen from UGS 1,830 per kg in 1999 to UGS 1,200 per kg in 2001.[69]

In the context of lower world prices and a new layout of the global coffee industry Liu notes that countries like Uganda and Kenya must develop a niche market to remain competitive and generate higher revenues. The growth in the world market for specialty and ethical coffees gives countries like Uganda and Kenya the opportunity to increase growth in the domestic coffee sector.[70] The coffee industry in Uganda has been liberalized so it is able to access these niche markets by developing direct relationships with buyers in producing countries – this is one of the main benefits of liberalization. A direct relationship between buyers and growers is the future of the global coffee industry. In contrast to Uganda, the industry in Kenya has not been sufficiently liberalized and hence accessing niche markets

[69] Liangzhi and Simon Bolwig You, "Alternative Growth Scenarios for Ugandan Coffee to 2020," (Washington: International Food Policy Research Institute, 2003), 2-5.

[70] Ibid., 7.

such as the market for fair trade is impossible because the illiberal system prevents smallholders from selling directly to consumers. The Kenyan coffee sector is completely unable to find a niche in the new global economy of coffee due to the failure to liberalize old, inefficient, and unnecessary command structures such as the auction system.

The average premium for ethical and sustainable coffees in North America is $USD 0.59 per pound for organic coffee, USD $0.62 for fair trade, and USD $0.53 for shade grown. This niche market has the potential to increase the export price of coffee in Uganda, as in other countries willing to adopt the necessary reforms to exploit this market. The price for fair trade coffee is between 72 and 489 percent higher than conventional coffee. This means that accessing this market could increase the farmgate price between 80 to 747 percent.[71] Such an increase in Uganda would significantly impact the wages of smallholders, improve livelihoods, and promote local economic development and development of the coffee sector in general. The Ugandan government has realized this and is currently exploiting this lucrative market, to the benefit of big business and smallholders alike.

Uganda is now Africa’s top producer of organic coffee having certified over 21,000 smallholders as producers of organic coffee, the vast majority of certified producers in East Africa. Regionally, there are only 26,000 certified organic smallholders in total. Uganda has also acted to set up a domestic certification body to handle the certification of all Ugandan organic coffee production.[72] Uganda is poised to continue to take advantage of these relatively new and lucrative niche markets because it has enacted coffee reforms aimed at liberalizing the industry; Kenya, however is unable to access these markets under the current system which prevents the formation of direct relationships and discourages value added and quality production. Thus, Kenya’s inability to respond to the changing nature of the

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[71] Ibid., 8.

[72] Wairagala Wakabi, "Country to Host Organic Coffee Conference," *East African* 2004.

global coffee industry by adapting to niche markets is limiting the potential for development and economic growth of the Kenyan coffee sector.

This section has examined the changing nature of the international coffee market and established the merits of liberalization. However, the question of why Uganda has adapted to the international market through liberalization whereas Kenya has not remains to be addressed. It has also been demonstrated that Kenya's command structure in the coffee sector is an historical relic that is no longer relevant to the international coffee economy, and lacks efficiency. In contrast, Uganda has adapted to the international market through liberalization and has revived its domestic coffee sector, surpassing Kenya in yields and production. The socio-political reasons for the persistence of the illiberal status quo in Kenya and liberalization in Uganda will be examined. However, first the issue of subsistence farming and its effect of coffee area harvested will be examined.

12. INCREASING HARVEST AREA, POPULATION PRESSURE, AND INTENSIFICATION: THE POLITICAL ECONOMY OF SUBSISTENCE

This section seeks to address the relationship between a moderate yet steady increase in coffee area harvested in the context of declining yields and coffee production in Kenya. In contrast, coffee area harvested in Uganda has fluctuated in the past but appears presently to be steady, with only a slight increase occurring over the long term, and coffee yields and production showing rapid growth. At first this data appears confusing, as one might argue that as coffee area harvested in Kenya increases coffee yields and production should also increase. Similarly, one may argue that the relatively steady rate of coffee area harvested in Uganda would suggest that yields and production should not be increasing so rapidly. In fact, the large increase of coffee area harvested in Kenya is a sign of industrial decline in the coffee sector, when coupled with increasing population pressure. Uganda, which faces similar population pressure, demonstrates industrial health in the coffee sector, as area harvested remains steady with only a moderate increase over time. The degree to which smallholder farmers turn to subsistence farming during times of economic downturn offers an explanation for this phenomena.

There are two possible theoretical explanations for growth in agricultural production: changing subsistence needs and market demand. A study conducted by Bryan Dorsay notes that there is a correlation between increasing population pressure in Sub-Saharan Africa and increasing agricultural productivity that results in subsistence and commodity based production.[73] With a focus on the coffee producing district of Kirinyaga in Kenya, Dorsey demonstrates that smallholders who are primarily involved in coffee production have become highly diversified. Diversification refers to "the number of food and cash crops currently under production on a farm."[74] The need to produce some food for consumption and some food for sale on the global market results in intensification. Intensification signifies "increased farm output, or an increase in the amount of land under production and yields per hectare."[75]

There are several ways for smallholders to diversify their farms such as growing many crops at once, growing different crops in different locations at one time, or by growing different crops over successive periods of time. Ruthenberg and Jahnke note that subsistence production is usually diversified while a study conducted by the National Research Council suggests that alternative agriculture is characterized by diversification rather than planting one or only a few crops.[76] Goldman also supports Dorsay's work in a study of the Kigumo district of Kenya. Kigumo is similar to Kirinyaga in that it is a major coffee producing area with a high population density and well-developed

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[73] Bryan Dorsey, "Agricultural Intensification, Diversification, and Commercial Production among Smallholder Coffee Growers in Central Kenya," *Economic Geography* (1999): 178.

[74] Ibid.: 179.

[75] Ibid.: 180.

[76] Ibid.: 182.. See also H. Ruthenberg, and H. E. Jahnke, *Innovative Policy for Small Farmers in the Tropics: The Economics of Technical Innovations for Agricultural Development* (Oxford: Clarendon Press, 1985). For National Research Council findings see J. L. and D. L. Karlen Hatfield, *Sustainable Agricultural Systems* (Boca Raton, FLA: Lewis Publishers, 1994).

infrastructure. Goldman's study reveals a relationship between the coffee economy and the distribution and use of fertilizers and pesticides. In Kigumo district half the farmers in a random sample purchased fertilizers used for maize and other crops while the remaining fertilizer was use for coffee production.[77] This data reveals that diversification and subsistence reduces the amount of land available for coffee cultivation on a small farm.

Intercropping is a prominent feature of diversification, and refers to the "planting [of] two or more crop types together in one plot."[78] Intercropping is beneficial to smallholders as a risk reducing practice in that it reduces the spread of plant disease, reduces the risk of pest infestation, stabilizes production and increases income, and improves the efficiency of labour and resource use. Diversification and intercropping are prevalent in Kenya as they help smallholders avoid over reliance on one cash crop.[79] In addition to reducing the physical space available on a farm for coffee cultivation intercropping leads to nutrient competition between coffee and other crops that can adversely affect coffee yields.

Another important aspect of Dorsey's study is the finding that increasing population pressure leads to agricultural intensification; however, it does not necessarily lead to economic efficiency. Figure 12.1 presents data on farm size, land use, and coffee production in the Kirinyaga district of Kenya.

Table 12.1[80] Farm Size and Coffee Production in Kirinyaga District

	1981	**1987**	**1995**
Average farm size in hectares	2	1.9	1.2
Percentage of land under cultivation	66	68	90

[77] Dorsey, "Agricultural Intensification, Diversification, and Commercial Production among Smallholder Coffee Growers in Central Kenya," 181. For further details on the presence of diversification and intensification in Kigumo district see A. Goldman, "Agricultural Innovation in Three Areas of Kenya: Neo-Boserupian Theories and Regional Characterization," *Economic Geography*, no. 69 (1993).

[78] Dorsey, "Agricultural Intensification, Diversification, and Commercial Production among Smallholder Coffee Growers in Central Kenya," 183.

[79] Ibid.

[80] Ibid.: 186.

Average hectares under coffee production	0.24	0.45	0.5
Average coffee yields in kilograms/hectare	799	800	800
Average hectares under pasture	0.7	N/A	0.16

This data shows a decrease in farm size and grazing land while at the same time a rapid increase in the hectarage under coffee cultivation; however, coffee production remains practically unchanged. As the number of households in Kenya's densely populated Kirinyaga district increases the land available for coffee production will decrease as the already limited growing area is further divided among families that must meet subsistence needs. Data acquired from a field visit to the Kenya Coffee Board confirms that intercropping is responsible for declining coffee production even as coffee area harvested increases:

> . . .there are reasons to believe that coffee area in the small-scale and large-scale farms could have declined particularly in the last ten years due to uprooting and subdivision of land among family members and shareholders. Small-scale coffee could also have expanded in some parts such as the Rift Valley whereas in the same areas, many large farms have either been subdivided or coffee tress have been totally uprooted.[81]

Population pressure and the subdivision of farming land can reduce coffee yields while so called 'coffee harvest areas' are increasing because as a crop becomes unprofitable farmers turn to subsistence production or the growth of other cash crops on land that has been designated for coffee. A typical smallholder farm in Kirinyaga has 0.48 Ha under coffee production and a total of 0.72 Ha for other cash crops including maize and beans, dwellings, subsistence growing, and livestock. On average there are eight different crops growing on a farm that produces coffee.[82] As small farms increase the amount of land used for subsistence and dwellings, the planting of other cash crops increases on coffee land. Thus, there is a direct correlation between declining coffee yields and the proliferation of small farms. The data also indicates an increase in intensification and subsistence farming in Kenya. Moreover, in times of economic downturn subsistence is intensified. This is a sign that coffee has become unprofitable for

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[81] Kenya Coffee Board (KCB), "Planted Area," (Nairobi, Kenya: Kenya Coffee Board (KCB), 2004). This document was obtained from a Government official on a field visit to the Kenya Coffee Board. March 2005.

[82] Dorsey, "Agricultural Intensification, Diversification, and Commercial Production among Smallholder Coffee Growers in Central Kenya," 188.

smallholders. Thus, when yields and production are declining while coffee area harvested is increasing it suggests an increase in subsistence growing due to poor market conditions in the coffee industry. This is the case in Kenya.

As this analysis has demonstrated, increasing area harvested in the context of declining yields and production is an indicator of industrial decline in Kenya. In the case of Uganda a steady rate of coffee area harvested in the context of rapidly increasing yields and production is an indicator of industrial health. Stephen Bunker argues that historically Ugandan smallholders have turned to subsistence farming when the state has not provided favourable market conditions for selling. Ugandan peasants have used their ability to turn to subsistence growing to gain leverage in negotiations with the state.[83] It is important to note that subsistence is a viable option for Ugandan farmers in times of economic downturn, but the data presented suggests that subsistence in not widespread on coffee land in Uganda presently. As this data indicates, coffee land in Uganda is being used for growing coffee as opposed to subsistence use. This section has demonstrated the linkage between subsistence farming and industrial decline in Kenya's coffee sector. In this context, data presented on Uganda reveals that the lack of indicators that suggest subsistence is occurring on coffee land is a sign of a healthy domestic coffee sector.

Up to this point this study has generated an understanding of the liberalized nature of the international coffee market and examined indicator data that suggests that Uganda has adapted to the international market and is experiencing success while Kenya, in choosing to maintain an illiberal status quo, is experiencing decline. Why was Uganda's coffee sector liberalized, and subsequently successful in the new international coffee market, while Kenya remains unable and unwilling to adapt, thus

[83] Stephen G. Bunker, *Peasants against the State : The Politics of Market Control in Bugisu, Uganda, 1900-1983* (Urbana: University of Illinois Press, 1987).

perpetuating industrial decline? The remainder of this discourse is dedicated to answering this fundamental question.

13. KENYA'S DOMESTIC BOURGEOISIE AND THE MAINTENANCE OF THE ILLIBERAL STATUS QUO

This section is dedicated to answering a central question of this study: Why has Kenya been unwilling and unable to liberalize its domestic coffee sector? In order to answer this question Adaptability Theory will be used to i) identify the existence, evolution, and interests of the domestic bourgeoisie in Kenya, ii) explore historical dialectics between the domestic bourgeoisie and other stakeholders that influence the current institutional structure of Kenya's coffee industry, iii) identify the socio-political forces that drive the domestic bourgeoisie to choose continuation of the illiberal status quo in Kenya by looking at structures and institutions of the Kenyan coffee industry and links to foreign capital, and iv) demonstrate how the domestic bourgeoisie used institutions to entrench and maintain an illiberal status quo in Kenya's coffee sector for the purposes of pursuing their socio-political interests. This section will also illustrate the relationship between institutions and the domestic bourgeoisie. Institutions, in the case of Kenya, have been used as a tool by the domestic bourgeoisie for maintaining power and privilege. The history of government in Kenya, as in many African countries, is one of patronage, plundering, and the pursuit of privilege. The colonial system in Kenya was structured so that the British colonizers could control and exploit the resources of the colony. Institutions were erected to systematize this principal. Upon independence in Kenya an African class that became the new domestic bourgeoisie inherited these institutions. They used these institutions and their authoritarian structure to enhance their own power and privileges. This was not immediately challenged in Kenyan society, as it was an historical norm. Rather, multiple factions emerged to compete for access to the resources of the state and control of the institutional channels that guarded these resources.

1. COLONIALISM, COFFEE, AND THE POLITICS OF PRIVILEGE

Any analysis of the present day coffee industry in Kenya must consider the history and origins of the system under colonialism. Roman Catholic missionaries first introduced Arabica coffee in Kenya in 1894 from neighbouring German East Africa. The arrival of the Uganda Railways line to Nairobi in 1899 brought with it an influx of European settlers who purchased coffee seedlings from the missionaries and began the first large scale coffee plantations.[84] These early white settlers occupied privileged positions in Kenyan society and either composed or were linked to the colonial government. This group can be identified as an early domestic bourgeoisie in Kenya, and they were interested in building the coffee industry. By the year 1910 the coffee sector had grown into one of Kenya's major export industries.

With the arrival of the *mzungu* (white settlers from Europe) the extension of the Uganda railway, and the proliferation of coffee plantations there emerged a clear political economy of coffee in the Kenya colony. The extension of the Uganda railway line was a costly undertaking and government officials, all members of the domestic bourgeoisie by virtue of their position and power, wanted to ensure that the line was able to pay for itself. Thus, the government encouraged European settlement under the belief that this would accelerate economic development. At the time native Africans were not seen as being able to adapt to a market system and promote economic development on their own. With the arrival of European settlers, the engine that was to drive the colonial economy, expectations of a new political economy were created – Europeans wanted cheap labour from Africans to support their plantation enterprises.[85] Thus, the domestic bourgeoisie, composed of European settlers who not only had access to the legislative apparatus of the colonial government, but were in fact themselves the government developed an interest in cheap African labour. The British Government's development

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[84] Alan Rufus Waters, "Change and Evolution in the Structure of the Kenya Coffee Industry," *African Affairs* 71, no. 283 (1972): 164.

[85] Ibid.: 164-65.

policy, under the notion that settlers were the engine that would drive economic development, gave the domestic bourgeoisie official backing for their endeavour. The stage was set for the emergence of a capitalist domestic bourgeoisie that benefited from cheap African labour on African land that had been appropriated and settled.

With the rapid growth of the Kenyan coffee industry from 1910 onwards new structures and institutions were quick to form. In 1917 the Coffee Planters' Union (CPU), which represented the interests of large planters, became active as one of the first industry lobby groups. When exports of Kenyan coffee were restricted in 1916 due to the U-boat campaign in the North Atlantic the CPU lobbied for preferential treatment of Kenyan coffee. The activities of the CPU represent the first attempt at industry control. It is important to note that these activities were carried out entirely by the domestic bourgeoisie while Africans were simply providers of cheap labour and did not play an active role in lobbying.[86]

As the domestic industry continued to grow a coffee marketing structure began to emerge. Top grades of Kenyan coffee were sent to London and sold at the Mincing Lane Market where they received top prices. Medium and lower grades were sold by auction in Nairobi to marketing agents who shipped Kenyan coffee all over the world. The Great Depression of the 1930s saw a fall in coffee prices and a subsequent decline in coffee production. In response to the economic crisis government controls were introduced to facilitate a return to prosperity. The Coffee act of 1933 established the Coffee Board of Kenya (CBK), which was to be the sole regulator and promoter of Kenyan coffee. The CBK was established as a government agency that was to represent the interests of planters to the government itself. The domestic bourgeoisie who produced Kenya's coffee on their plantations gave up their power as independent planters in favour of setting up a consolidated and strong centralized industry that could act as a cohesive unit. However, the new centralized structure of the industry had an important

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[86] Ibid.: 165.

implication for future producers: now that the industry was acting as a whole a good economic decision would spread the financial benefits across the entire group; however, the effects of a poor decision or misread of market signals would also be greater.[87] The decision to consolidate was logical at the time as the coffee growing domestic bourgeoisie had a common interest in maintaining their social positions in Kenya, and continuing to profit from the coffee business by keeping the native Kenyan out of the market and on the plantation as a provider of cheap labour.

There was no longer room for individuals to act in the marketplace based on their own read of market signals. The domestic bourgeoisie willingly forfeited economic autonomy because they thought that signals indicating the need for economic change would threaten their privileged position in society. The primary motive of the new paternalistic system in Kenya was to preserve the social and cultural norm - the privileged position of the domestic bourgeoisie - even at the risk of hurting overall economic growth in Kenya by restricting the native Kenyan to labour on plantations.[88] This is evident in the decision of the domestic bourgeoisie to abandon autonomy in favour of collective power; moreover, this collective action was intensified during the official state of emergency to defend the interests of the domestic bourgeoisie from the Mau Mau threat. The institutions that govern the Kenyan coffee industry today are relics of the colonial past. The primary purpose of these institutions was to preserve the social assets of the domestic bourgeoisie during challenging times. Thus, the same institutions that are not responsive to market signals that may benefit the Kenyan farmer today were actually designed to relegate the native Kenyan to the role of labour and restrict market access to the white domestic bourgeoisie. These institutions were not destroyed or reformed after independence because they were essentially abandoned by the old colonial domestic bourgeoisie and immediately filled by a new African domestic bourgeoisie with a vested interest in creating personal wealth and privilege. In order to truly

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[87] Ibid.: 165-67.

[88] Ibid.

become a domestic bourgeoisie, this African class needed to control the resources of the state, including the spoils of the lucrative coffee sector, and the old colonial institutions were structured precisely to further these interests. The domestic bourgeoisie had changed, but their socio-political interests remained the same – ensuring privilege and maintaining power.

Adaptability Theory can be used to explain the emergence of institutions such as the CBK that were designed to protect the social claims of the *mzungu* and restrain the smallholder Kenyan farmer. When viewed through the lenses of Adaptability Theory, the institutions of the Kenyan coffee sector were designed to protect social claims, not to seek out and respond to global market signals for the creation of optimal economic outcomes and overall prosperity in the colony. The same institutions endure today, the Kenyan coffee industry is in a state of decline, and smallholder farmers whose livelihood depends on the industry are amongst the most impoverished people in the world. In a historical sense, it is not that these institutions have been ineffective; rather, they have been extremely effective at what they were intended to do – restrain and restrict the native farmer thus protecting the position of the domestic bourgeoisie plantation owners. It is for this reason that the institutions of the Kenyan coffee sector require serious reform or all together dismantling for Kenya to become competitive in the liberalized global coffee industry today.

The degree to which the domestic bourgeoisie banded together to preserve their social status intensified under the declaration of an official state of emergency in Kenya between 1952-1958. During this period the rebellion know as Mau Mau waged a full-scale campaign against the colonial government to drive the white domestic bourgeoisie out of Kenya and reclaim the land and political control that had been lost by native Kenyans. Britain responded by taking authoritarian measures to detain nearly 1.5 million Kikuyu (a native Kenyan tribe) in an elaborate and centralized pipeline detention system.[89]

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[89] For a detailed account of Britain's detention system in place in Kenya see an excellent revisionist account of the official state of emergency by Caroline Elkins, *Britain's Gulag: The Brutal End of Empire in Kenya* (London: Jonathan Cape, 2005).

During the official emergency in 1953 the assistant director of agriculture, R.J.M. Swynnerton, drew up a five-year agricultural development plan of which coffee was a major component. In the context of the Mau Mau rebellion and state of emergency in the colony the purpose of the Swynnerton Plan was to contain African demands for land in areas populated by members of the domestic bourgeoisie. The plan called for the expansion of coffee planting in Central and Eastern provinces, which was to be restricted to a specific number of trees for authorized persons only – the domestic bourgeoisie.[90] The Swynnerton plan demonstrates that when the social assets and interests of the domestic bourgeoisie in maintaining power and privilege were threatened by the Mau Mau rebellion they sought political and economic means of defending their interests. This resulted in the creation of an authoritarian political structure and highly controlled economy to quell the uprising and protect the privileged positions of the domestic bourgeoisie. This also demonstrates one reference point of an historical dialectic between the domestic bourgeoisie and those that have been marginalized – the domestic bourgeoisie fought to protect their interests in a climate of perceived socio-political emergency by authoritarian means.

Despite British efforts to fight Mau Mau, the liberation struggle proved to be successful and independence was achieved in 1963. After independence Kenyan smallholders were introduced to the coffee business. Smallholders were organized into cooperative societies, which quickly transformed into large and bureaucratic political institutions where senior executives left farming communities and issued orders from Nairobi. From the beginning cooperatives suffered from poor governance and were rife with problems such as a lack of trained staff and members, failure to keep records, tribal rivalries, large numbers of small and inefficient societies, the failure to pay competitive salaries to senior officials, difficulties in preventing scandals, no measurement standards to compare cooperative performance, and most of all no viable alternative if members feel they are being overcharged for cooperative services.

[90] Kenya Coffee Board (KCB), "The Proposed Policy Changes in the Coffee Industry," in *3rd Draft Coffee Sessional paper* (Nairobi, Kenya: 2000). This document was obtained in the files of the Kenya Coffee Board on a field visit which occurred during March 2005.

Patronage, clientelism, and big man little boy networks were systemic and widespread within cooperatives. This prompted a law that requires that 80 percent of the mill price of coffee must be paid out to smallholders by a cooperative society.[91] Despite these problems, cooperatives remain the main form of organization for smallholders in Kenya today and not surprisingly, considering the history of the system, smallholders remain isolated from the institutions that govern the coffee industry and the legislative apparatus. Although cooperatives are the primary form of smallholder organization in Kenya today, they have not emerged as the peak institution in Kenya's coffee sector for two reason: they are plagued by corruption, lack of resources, and inefficiencies; and they are subordinated to government institutions such as the Coffee Board of Kenya which must issue licences before their coffee can be sold at action. Cooperatives in Kenya have provided the domestic bourgeoisie with a way of organizing and controlling the smallholder, and ensuring that their labour is readily available and their product prices low. This political function of cooperative societies resembles the colonial restrictions that were placed on smallholders to ensure that they could not operate autonomously in the coffee industry.

It has been demonstrated in this section that the command structure of the coffee industry in Kenya and the institutions that govern the smallholder coffee sector such as the CBK emerged in the context of crisis and were designed primarily to control and restrain the smallholder and maintain the primacy of the domestic bourgeoisie and their interests in Kenyan society. The institutions of the Kenyan coffee industry thus play an important non-economic function - they are vehicles for the protection of social status. This is relevant to the question of why the same colonial institutions that control and regulate the industry today have opted for continuation of the illiberal status quo. This is because these institutions have been, since their creation, rooted primarily in the realm of protecting social stature as opposed to maximizing economic benefits to smallholders. Although the domestic bourgeoisie has changed, their interests remain the same. A new African domestic bourgeoisie that has

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[91] Waters, "Change and Evolution in the Structure of the Kenya Coffee Industry," 170-72.

inherited the institutions of the coffee industry, which are rooted in restraining the smallholder and protecting and perpetuating the privileges of the elite, has supplanted the old colonial domestic bourgeoisie. This new domestic bourgeoisie finds liberalization neither desirable nor plausible given that the nature of their new positions and privileges depends on maintenance of the illiberal status quo, just as the interests of the colonial domestic bourgeoisie necessitated the creation of an illiberal command structure. In this context, the institutions that govern the Kenyan coffee industry must be reformed or dissolved completely to improve industry competitiveness and the lot of smallholders in the global marketplace. Liberalization offers a viable means of achieving this goal; however, it is an unlikely outcome as long as the domestic bourgeoisie in Kenya today retains real legislative power.

2. INSTITUTIONS AND STRUCTURE IN KENYA'S COFFEE INDUSTRY: DEFINING THE INTERESTS OF THE DOMESTIC BOURGEOISIE

The purpose of this section is to i) explore the present institutions and structures of the Kenyan coffee industry, ii) identify historical dialectics and institutional rivalries, and iii) explain how these dialectics, structures, and institutions prevent liberalization from occurring. I will follow coffee through the institutional channels from the grower to the point that it is sold on the international market to highlight the illiberal nature of Kenya's marketing structure and the institutions that control it. I will also identify the struggle over the resources of Kenya's coffee industry and the institutions and groups that are involved in it – this is considered to be the principal of dialectic. This study will go on to look at the present effects of this dialectic, the resulting distribution of power, and how this has prevented liberalization for occurring. The domestic bourgeoisie in Kenya's coffee industry is understood to be senior officials and bureaucrats at the Coffee Board of Kenya (CBK) and Kenya Planters' Cooperative Union (KPCU), exporters, and senior officials that control Kenya's auction system. All of these agents have preferential access to the legislative arm of government. This section necessarily involves generating an understanding of an overly complex set of bureaucratic institutions whose functions are not always clear and consistently changing. The reader should keep in mind that although the description of these structures may seem cumbersome it is something that every smallholder in Kenya deals with on a daily basis.

In 2000-2001 co-operatives accounted for 55.5 percent of coffee production in Kenya. The other 44.5 percent of Kenyan coffee was produced on small estates.[92] The livelihoods of most smallholder farmers are dependent on the successful operation of the coffee industry and their cooperative societies. The industry is governed by the Coffee Act, which sets out regulations and an institutional framework for operation. In 2001 a new Coffee Act was introduced which called for a degree of liberalization of the marketing system, the reduction of marketing margins, and the maintenance of the auction system as the only means of marketing coffee. Although there has been some restructuring of the system, it remains highly illiberal in nature under the new Coffee Act, which took full effect in 2002.

Under the new Coffee Act the CBK has been restructured. The new structure of the Board consists of 8 members elected by cooperative societies, 3 representatives of plantations, 1 coffee trade representative, and the Permanent Secretary of the Ministry of Agriculture. Under the old act the Minister of Agriculture appointed Board members. There were 3 representatives from each of the cooperative society, estate, and trade groups and 5 government representatives. Thus, a degree of democratization has been introduced to the CBK. Another change is that the CBK is no longer the sole marketer of Kenyan coffee. This role has now been given to marketing agents who receive proceeds from the auction and distribute them to growers. Under the new Coffee Act significant downsizing of the CBK has taken place – the permanent staff of the CBK have been cut from 800 to 81. Even under this drastic reduction of permanent staff the board retains its role as industry regulator and is in a position of influence vis-à-vis the legislative arm of government. The CBK remains active in the

[92] Agrisystems, "Assessment of the Value-Adding Opportunities in the Kenyan Coffee Industry," 59.. This document was obtained on a field visit to the Kenya Coffee Board (KCB), Nairobi, March 2004.

promotion of production, processing, and marketing.[93] The fact that the CBK can still operate, even with a reduced function, under the scale of staff reduction that has taken place raises serious questions about the past functions and utility of the CBK.

Under the present Coffee Act the marketing function, previously the domain of the CBK, has been transferred to marketing agents. In addition to marketing the coffee for growers, marketing agents play several other roles in Kenya's coffee industry including collecting and preparing milled coffee for auction, insuring that coffee is properly warehoused and warranted, providing representative samples to buyers, collecting payments from buyers and distributing them to growers, and setting reserve prices for the auction. In this sense, marketing agents play the role of logistic managers more than marketers. Marketing agents receive a fixed fee of US $50 per tonne of coffee sold. The problem with this system is that with the fixed fee there is no incentive to negotiate higher prices as marketing agents are ensured to be paid regardless of the price the grower gets.[94]

This structural contradiction not only has an adverse effect on producer prices, it may also deteriorate the quality of Kenyan coffee being produced, and hence the overall revenues of the industry, as it generates a lack of incentive to produce higher quality coffees that require more inputs when there is no incentive for the marketing agents to negotiate a higher price. Thus, the marketing agents, by virtue of the design of the system, are concerned about quantity, not quality. This drives buyers of high quality and specialty coffee away from Kenya even though there is enormous potential for the Kenyan coffee sector to engage these niche markets. A liberalized marketing structure would allow growers to negotiate directly with buyers, and develop higher quality coffees for new and emerging markets. This, however, would render marketing agents unnecessary to many growers. As marketing agents have closer ties to officials at the CBK, which represents both the state and the domestic bourgeoisie that is

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[93] Ibid., 123-25.

[94] Ibid., 82-83.

involved in the Kenyan coffee sector, it is unlikely that their monopoly over selling will be challenged in the near future.

The Kenya Planters' Cooperative Union (KPCU) is another important institution in the Kenyan coffee sector. The KPCU is 'owned' by coffee producers and governed by a board of directors; however, in reality it functions in isolation from the growers and is controlled by the domestic bourgeoisie. Board members are nominated and represent 15 different electoral districts. Prior to the current Coffee Act the KPCU served as a miller and service provider to growers. Under the present Coffee Act KPCU functions have expanded to include the control of growers coffee from collection of cherry to auction, export, and even roasting. The success of the KPCU in these areas remains to be seen, as the KPCU is not an experienced coffee trader.[95] The shift of roles and responsibilities from the CBK to the KPCU is an indicator of internal competition and rivalries within the Kenyan coffee sector, among various factions vying for access to the resources of this sector. Essentially, there has been a move by powerful actors in the KPCU to supplant the domestic bourgeoisie from the CBK and take on more control themselves. The CBK and the KPCU are engaged in a dialectic over control of industry resources. The primary objective for each institution has been to maintain power and avoid the sort of dismantling the CBK has recently experienced. Whereas the CBK has been unsuccessful, the KPCU is now poised to become the main player in Kenya's coffee sector – clearly the KPCU is the winner in this struggle for control and the CBK the loser. When this sort of competition for institutional survival ensues it can have an adverse effect on overall economic outcomes. It also explains why institutions may be more focused on responding to internal political signals such as power shifts in government than responding to external market signals. The result of this institutional rivalry over the resources of the coffee sector is that smallholder farmers have been marginalized and rendered powerless to control their

[95] Ibid., 83-84.

own destinies and; moreover, liberalization again appears unlikely as it would render both the KPCU and the CBK unnecessary.

Exporters make up another important component of Kenya's coffee industry. In 2002/2003 there were 36 active exporters in Kenya. Kenya's top 5 exporters accounted for 51 percent of coffee sales through the auction system. Some critics may argue that exporters provide a valuable service to Kenyan smallholders by providing market access as exporters buy coffee at the auction and market it around the world. In this view, these agents also have expertise in valuing grades of coffee, identifying the appropriate market for sale, and knowing which coffees can be blended with one another. Thus, as the argument goes, exporters may provide a price floor to growers by buying coffee when the price is low and selling it at a later date for a profit.[96] This activity, however, also has adverse effects on the smallholder if it consistently results in lower producer prices. This raises an important question: at what point does the trade off between lower producer prices and stability become a real hindrance to farmers? This question may prove difficult to answer because the idea of achieving higher prices is dependent on many variables that influence the world market. However, perpetuating the lowest common dominator in economic outcomes to provide stability can prove to be a costly strategy as well. Such a system removes the incentive to produce higher quality and 'value added' coffees and has led smallholders to turn away from coffee, as has already been demonstrated, to explore cash crops with higher potential returns. Exporters are licensed by the KPCU under the current system and thus enjoy a privileged relationship with the domestic bourgeoisie. All producers, regardless of size, must go through exporters via the auction system to access the international market. Thus, exporters do not view complete liberalization as desirable or plausible as it would render their jobs unnecessary, and they have a greater degree of access to the legislative channels than producers. Under these circumstances liberalization is

[96] Ibid., 86.

not seen as a favourable choice by the domestic bourgeoisie and is an unlikely option for the future if the distribution of power remains the same.

The most controversial institution in the Kenyan coffee industry is the auction system. Stemming from the industry's colonial past, the auction system has several distinct elements. It has been argued that one advantage of the auction system is that it is completely transparent in that all present at a coffee auction see the prices being offered. Others, however, argue that the auction is under priced because it allows exporters to form cartels and keep coffee prices low. It would certainly be in the interests of marketing agents to keep the prices low, because they receive a fixed rate for what they sell regardless of the price they pay. In this atmosphere both quality of Kenyan coffee and the ability to fetch a premium price has been diminished. The auction reserve price for coffee, the minimum acceptable price for growers, is determined by marketing agents. The reserve price is based on the grade and quality of the coffee submitted for auction and there is some room for the grower to offer input in determining this price. A major advantage of establishing a minimum price is to avoid argument between the grower and marketing agents about whether a certain offer should be accepted or not. Coffee that does not hit the reserve price in the auction is noted and the last bidder is then given the chance to make counter offers after the auction. Marketing agents then have the opportunity to set a new, lower reserve price or accept the auction bid. In 33 different auctions between January and September 2003, 140,000 bags of coffee, 15 percent off coffee offered for sale that year, was held back to be offered again later. This indicates that sellers were attempting to force the market up instead of following it – effectively causing buyers to turn away from Kenyan coffee. This sort of marketing behaviour has an adverse effect on the Kenyan coffee industry by strengthening the move towards substitutability of coffee for other cash crops at the farm level.[97] Maintaining the auction system, the most bureaucratic and illiberal element of the Kenyan coffee sector, has united the domestic bourgeoisie

[97] Ibid., 87-88.

under a common cause. All three elements of the domestic bourgeoisie in the coffee sector, the CBK, KPCU, and exporting agents favour the maintenance of the auction system because their privileged positions, and their jobs, in Kenya's coffee sector depend on it. It is for this reason that the auction system is maintained and liberalization prevented by the domestic bourgeoisie in Kenya.

Up to this point this study has defined the existence and interests of the domestic bourgeoisie in Kenya and explained, citing historical dialectics which are evident in institutional contradictions such as the struggle for power between the CBK and the KPCU, how socio-political factors have defined the interests of the domestic bourgeoisie and influenced this group to choose not to liberalize Kenya's coffee sector. This section will also demonstrate how the domestic bourgeoisie used institutions to entrench and maintain an illiberal status quo in Kenya's coffee sector for the purposes of pursuing their socio-political interests – in this case, an interest in accumulation through the attraction of foreign capital.

State regulation, competing and often contradictory institutions with ties to the state, and overly complex bureaucracy are the hallmarks of the Kenyan coffee industry. Robert Bates confirms that there is a limited role for competitive markets in Kenyan agriculture because of the prominent role played by bureaucracies and public agencies in the areas of production, processing, and sales. Commenting on the role of foreign capital in Kenya's agricultural sectors, Bates notes that both 'suppliers' and 'demanders' of capital want to insure investments, reduce risk, and have an incentive to construct a non-market way of doing so. Bates cites the example of settlement schemes as a case in point. The purpose of settlement schemes in Kenya was to reduce risk to capital investment by providing assurance for lenders through production programs that guarantee a target income. Thus, in pursuing this strategy the state imposed rules and regulations pertaining to farm plans according to size, elevation, climate, the position of farm buildings, the layout of farm lands, crops to be grown, proportions of land for each crop, rotations to be followed, and inputs to be used. The government department that administered the settlement schemes hired staff to fill positions such as settlement officers, cooperative officers, extension officers, and farm managers. This entrenched a new form of bureaucracy into rural society in Kenya. Prescribing farming practices, monitoring, and enforcement became a norm of rural life. These non-market controls became a prominent feature of rural industry and were spurred by the forces of foreign capital. State-run bureaucracy had been implemented in an environment were markets would normally prevail.[98]

The domestic bourgeoisie consciously constructed an elaborate bureaucracy in Kenya's coffee sector to protect and advance their socio-political interests. This is evident by looking at the ties between the domestic bourgeoisie and foreign capital. The subsidization of capital, especially foreign capital, is in the best interest of domestic bourgeoisie because they reap the benefits of attracting foreign investment. At the same time, the principal of economies of scale affects the organization of the coffee sector in Kenya. The domestic bourgeoisie seeks to attract large-scale investors; consequently, large-scale investors need to produce large volumes in order to reduce unit costs and maximize profits. Growing different cash crops imposes different demands on farm management. For example, in the case of coffee extreme care in planting is required. Each tree must be pruned annually to increase yields and lower the costs of pest control. Coffee also requires timely harvesting and rapid delivery, as it does not store well. In comparison, a cash crop like wheat, for example, is much easier to produce and therefore easier to grow on a large-scale.[99] In order to attract foreign capital the domestic bourgeoisie institutionalized a form of state control that would allow them to effectively control coffee production in Kenya's main producing regions.

In Kenya's coffee industry scale economies are in place for production and processing. This results in what is referred to as modern agriculture, where large farms are joined with large factories, creating a situation where economic conflict between organizations turns into bargaining. The existence of different economies of scale creates different social spheres for producers and processors. According

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[98] Robert H. Bates, *Beyond the Miracle of the Market : The Political Economy of Agrarian Development in Kenya* (Cambridge ; New York: Cambridge University Press, 1989) 75.

[99] Ibid. 78-79.

to Bates, the distribution of scale economies determines the social structure and the political dynamics of Kenya's coffee industry.[100] Institutions have emerged in Kenya's coffee sector to reduce risk to capital, lower information costs, and reduce market failure as a result of economies of scale. Thus, institutions in Kenya's coffee sector exist to safeguard the interests of the owners of the means of production, the domestic bourgeoisie, and foreign investors. This institutional structure in Kenya results in the creation of local political networks. For example, in terms of the state-prescribed use of farm inputs, powerful national figures, members of the domestic bourgeoisie, issue licenses to import these inputs or influence appointment to the board of directors of firms that supply them. This results in the creation of patronage networks for the procurement of fertilizers, farm equipment, and chemicals. Such a patronage network is established and driven by the institutions of the state.[101]

Bates concurs that this analysis is consistent with Kenya's historical pattern of development. From the time of independence there was a strong tendency in Kenya towards the accumulation of wealth for the domestic bourgeoisie as opposed to the distribution of wealth throughout society. As discussed earlier, this tendency has its roots in the colonial period. In comparison with neighbouring Uganda, the path of development has been much different, tending towards the distribution of wealth. In Uganda state power was seized by less favoured groups from the grain growing regions of the north. These groups used the state apparatus to transfer and redistribute resources from the fertile south, which accumulated wealth through the export crop industry. Similarly, in Tanzania a coalition of urban consumers and rural peasants used the power of the state to distribute resources from surrounding highland regions. Both the case of Uganda and Tanzania are different than that of Kenya. In Uganda and Tanzania the governments were committed to enhancing the consumption capabilities of the impoverished and disenfranchised by taxing those more endowed. In stark contrast, in Kenya there

[100] Ibid. 80.

[101] Ibid. 88.

emerged what Bates refers to as an 'elite gentry', which can be understood in the context of this discourse as the domestic bourgeoisie, which controlled the resources of the state for their own benefit. The result is what Bates refers to as 'Kenya's conservative commitment' – a plan to establish institutions to attract foreign capital and bind it to cheap Kenyan labour. Thus, in Kenya's coffee sector, non-market institutions have been entrenched to promote the economic objectives of the domestic bourgeoisie and foreign capital at the expense of smallholder farmers and other elements of Kenyan labour.[102] This offers a viable explanation of why the structures of Kenya's coffee sector have not been liberalized. These institutions already have an allegiance to the domestic bourgeoisie and their interest in foreign capital. This allegiance has a historical basis in colonial economic policy, and has since its inception been detrimental to the interests of the smallholder farmers in Kenya.

This section has demonstrated how the domestic bourgeoisie, in the context of their interest in attracting foreign capital, maintained illiberal colonial institutions and an elaborate bureaucracy to allow outside investors the opportunity to exploit economies of scale. The domestic bourgeoisie stands to benefit from this allowance, as they would likely be compensated for providing international investors with an ideal atmosphere for doing business. Under a liberalized system, the domestic bourgeoisie would loose the power to control smallholders, which would result in significantly less leverage vis-à-vis foreign capital. Thus, liberalization would have two important implications for the domestic bourgeoisie: they would no longer control smallholder production and as a result, they would no longer benefit from serving as an intermediary between foreign capital and the producers because the producers would be able to bypass them and deal directly with foreign capital. It is therefore not surprising that the structures created by the domestic bourgeoisie to administer the coffee sector are illiberal in nature and tend to perpetuate a system that is conducive to their interest in accumulation. The maintenance of the strategic socio-political positions of the domestic bourgeoisie depends on their control of the coffee

[102] Ibid. 88-150.

sector, and state institutions have given the domestic bourgeoisie a viable means of exercising control at the domestic level.

In order for Kenya to adapt to the international coffee market by liberalizing the domestic bourgeoisie must view liberalization as desirable and plausible, and have the legislative power to initiate such a transformation. All three elements of the domestic bourgeoisie that are involved in Kenya's coffee industry, the CBK, the KPCU, and the exporters, do not view liberalization as desirable or plausible because it threatens their social assets, or their privileged positions in the coffee sector. These actors have greater access to the legislative apparatus of the state than smallholders and estate owners, and are therefore able to refuse liberalization in favour of maintaining the illiberal status quo. It has been demonstrated that this decision has adverse effects on producer prices and the livelihoods of growers in general. From an historical perspective, the maintenance of socio-political power and privilege has been the driving force behind the illiberal structure of the coffee industry in Kenya. This has created an historical dialectic, evident in the contradiction between the international coffee market and the institutions of Kenya's coffee industry, which reveals how the domestic bourgeoisie protects its social power at the expense of the producers. This dialectic plays out in the current institutions of Kenya's coffee industry, the CBK, the KPCU, and also the exporters, as they consistently opt for continuation of an illiberal status quo to protect their social assets – their power, jobs, and privileges - as members of the domestic bourgeoisie.

3. THE KENYA CASE STUDY AND ADAPTABILITY THEORY

This section has demonstrated the emergence, during colonialism, of a domestic bourgeoisie in Kenya with a vested interest in controlling indigenous labour. This colonial bourgeoisie set up Kenya's coffee industry in a manner that would ensure the continuation of their powers and position in Kenyan society. After independence this bourgeoisie was replaced with a new indigenous bourgeoisie that inherited the institutions of Kenya's coffee industry and the privileges and powers of the old bourgeoisie. The post-colonial domestic bourgeoisie reproduced and solidified the old colonial structures of Kenya's coffee industry to maintain their inherited positions of privilege. This domestic bourgeoisie views liberalization as neither desirable nor plausible and has access to the legislative apparatus of the state, which allows them to enforce the illiberal status quo. Socio-political factors that helped this domestic bourgeoisie to maintain the illiberal status quo include the structures and institutions of the Kenyan coffee industry and links to foreign capital. As long as the domestic bourgeoisie maintains access to the legislative apparatus of the state and remains capable of defending their position as custodians of the Kenyan coffee industry through socio-political means liberalization is unlikely to occur in Kenya's coffee sector. This poses serious difficulties for Kenyan smallholders who, already marginalized in the coffee industry, are increasingly turning to other cash crops with more real earnings potential. In light of these conditions and under the present system, the decline of Kenya's coffee industry is likely to continue.

14. COLONIALISM, SOCIAL CHANGE, AND THE POLITICS OF LIBERALIZATION IN UGANDA

The purpose of this section is to demonstrate the utility of Adaptability Theory in explaining liberalization and divergence in the coffee industries of Kenya and Uganda by generating a comparison with the case of Uganda, a fully liberalized coffee economy. As occurred in the previous section on Kenya, Adaptability Theory will be used to i) identify the existence, evolution, and interests of the domestic bourgeoisie in Uganda, ii) explore historical dialectics between the domestic bourgeoisie and other stakeholders that influenced Uganda's ability to liberalize, and iii) identify the socio-political forces that caused the domestic bourgeoisie to choose liberalization by looking at historical structures and institutions of the various regimes in Uganda. Central to this discourse is the argument that, as had been demonstrated already, the divergence between the coffee industries of Kenya and Uganda is related to the failure of Kenya to adapt to the international coffee market by liberalizing and the success of Uganda in liberalizing to adapt to this market. This section begins with the question: Why did Uganda adapt while Kenya could not? By using Adaptability Theory to address this question it will be argued that the domestic bourgeoisie in Uganda came to view liberalization as desirable and plausible; moreover, they had access to the legislative organs of the state necessary to initiate such a transformation. In the case of Uganda, historical dialectics between the domestic bourgeoisie and the peasants as well as changing socio-political conditions from the time of colonialism to the present were the driving force behind Uganda's decision to liberalize. The domestic bourgeoisie in Uganda has always corresponded to the ruling party, and as a result the domestic bourgeoisie has been supplanted several times over the tumultuous political history of Uganda since colonialism.

1. ADAPTABILITY THEORY AND THE EARLY DIALECTIC: SMALLHOLDER FARMERS AND THE DOMESTIC BOURGEOISIE

Smallholder peasants in Uganda had a unique leverage vis-à-vis the colonial regime that their counterparts in Kenya did not have. As most of the coffee produced in Uganda was on smallholder land, the state and national economy was dependant on the smallholder for revenue. This accorded a degree of power to the smallholder: these farmers had a veto option which would allow them to retreat into subsistence production if the state acted to appropriate a disproportionate amount of their labour or products. Stephen Bunker argues that this economic veto gave local smallholders an important bargaining apparatus vis-à-vis the state. It follows that the state was vulnerable to threats to its revenue so it responded by making concessions to smallholders. This system was furthered by the colonial style of governance in Uganda, which, as opposed to the *mzungu* controlled authoritarian state in Kenya, co-opted local leaders essentially giving these individuals a degree of autonomy by allowing for an organizational structure and the resources to mobilize smallholders to threaten to withdraw from production. According to Bunker, the state devolved market control because popular resistance would have reduced revenues even more. Thus, the intention of the domestic bourgeoisie in co-opting local leaders was to balance the state and the peasants while maximizing their economic gain.[103] In Uganda the colonial state was dependant on an African staffed system for revenue and thus had to make concessions to the smallholders. Bunker illustrates this point in his study on the Bugisu Cooperative Union (BCU) in Uganda. In Kenya the smallholder was subordinated to the domestic bourgeoisie, and relegated to the role of provider of cheap labour. Thus, in comparison to Kenya, Bunker identifies a major difference in the case of Uganda: "the potential self-sufficiency of a freehold peasant economy, from which the state extracts most of its revenues, and the relative autonomy of a decentralized administrative structure profoundly rooted in autochthonous social organization combine to offset the central powers of the state and limit the potential for class formation and differentiation."[104] Although there was a domestic bourgeoisie in colonial Uganda that had access to the legislative apparatus of the state, smallholders were tied to this bourgeoisie through co-opted officials who effectively negotiated for concessions.

Bunker's study on the Bugisu region of Uganda is useful in considering the politics of smallholder production because Bugisu is a major coffee producing area of Uganda. The Bugisu region is home to the Bagisu people of Uganda. This region occupies the western slopes of Mr. Elgon, which provides the soil, rain, and elevation required to produce top quality coffee. By the 1950s Bugisu supplied over 10 percent of the total value of coffee exports in Uganda, which amounted to over half of Uganda's foreign revenue earnings. Although there were over half a million Bagisu living in the area these people were not well represented in national ministerial positions or the civil service – they were, in fact, removed from the domestic bourgeoisie class. However, during the colonial period the Bagisu were important players and exercised significant leverage vis-à-vis the domestic bourgeoisie for market

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[103] Bunker, *Peasants against the State : The Politics of Market Control in Bugisu, Uganda, 1900-1983* 5-7.

[104] Ibid. 19.

control.[105] There was a clear dialectic between the Bagisu and the domestic bourgeoisie: the fact that the interests of both groups were mutually dependent created a system where the Bagisu emerged as major players in the coffee sector with no representation in the domestic bourgeoisie. This occurred because it was in the interests of the domestic bourgeoisie to co-opt the Bagisu for the purposes of efficiency and administration. As long as making concessions to the Bagisu resulted in the realization of the domestic bourgeoisie's interest in accumulation, and as long as the Bagisu did not encroach upon the power and privilege of the domestic bourgeoisie, this system was highly effective. However, it will be illustrated in the next section that as the socio-political interests of the domestic bourgeoisie evolved their alignment with the Bagisu also changed.

2. COLONIALISM AND COFFEE: INTERESTS AND NEGOTIATED OUTCOMES IN UGANDA

In Uganda the colonial state co-opted local authorities for the purposes of introducing coffee. This helped the colonial government, also the domestic bourgeoisie at the time, to reduce administrative costs and social disorder but left the state completely dependent on local authorities that were, in turn, dependent on popular support. Thus, local groups gained a bargaining lever with the state through the mobilization of a smallholder threat to reduce production. However, the domestic bourgeoisie maintained control of access to bureaucratic positions and could therefore pit chiefs and civil servants against popular representatives and leaders. This illustrates how the colonial state left local power bases in tact.[106] In the case of Kenya the opposite occurred: local power bases were crushed and locals were not incorporated into the economic system, they were subordinated by the system. This may have been the case in Uganda as well if the smallholders had not been able to gain a bargaining lever vis-à-vis the state.

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[105] Ibid. 22-23.

[106] Ibid. 21-22.

The British saw coffee as central to the development of Uganda. Coffee was first introduced by the British in Bugisu in 1912 for the purposes of generating tax revenues and promoting commerce. The British believed so strongly in the development potential of coffee that they imposed fines on smallholders that did not grow it. In Kenya, coffee growing was restricted to *mzungu* plantations and Africans were only to be involved in the industry to provide cheap labour. This illustrates differences in the interests of the domestic bourgeoisies in the two colonies. The system of indirect rule in Bugisu gave local smallholders a foundation for political mobilization against the domestic bourgeoisie. Colonial administrative boundaries were linked to lineage organization that reinforced local solidarity, chiefs were incorporated directly into the colonial system and these chiefs then created informal positions and roles in their districts, and the establishment of districts created an ethnic consciousness. Political organization among the Bagisu was enhanced by colonial dependence on local authorities to continue to expand and oversee coffee growing operations.[107]

The creation of colonial districts and the introduction of coffee as a cash crop resulted in the emergence of new and powerful families of chiefs. These families came to control all peasant agriculture. Essentially, these families represent the beginnings of a new domestic bourgeoisie in the coffee sector that would bargain in alliance with the colonial domestic bourgeoisie, eventually supplanting the power of chiefs. As coffee growing in Bugisu expanded rapidly the Bugisu Native Administration (BNA) was set up. This institution was intended to be an inexpensive means of administration and was controlled by chiefs and their families. The BNA was responsible for promoting the cultivation of coffee and in 1925 got involved in marketing. In 1931 the colonial government allowed the BNA to buy coffee on a regular basis and set up the Bugisu Coffee Scheme (BCS), which was to be transferred to farmers as a marketing cooperative. In 1932 the colonial government passed the Native Produce Marketing Ordinance, which gave the BCS the exclusive right to purchase the majority

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[107] Ibid. 37.

of Bugisu coffee, and by 1936 the BCS achieved exclusive buying rights for the entire district. This new institutional hierarchy diminished the power of chiefs by allowing other civil servants to ascend to power that had specialized knowledge of the system and came to make a better link between the domestic bourgeoisie and the smallholders.[108] From the beginning, smallholders played an active role and had a degree of autonomy in Uganda's coffee sector. The smallholder even had a local grassroots institution that negotiated directly with the state. The opposite is true in Kenya where, operating under the politics of emergency, the domestic bourgeoisie restricted native participation in the sector with the exception of manual labour.

The system of governance of the coffee industry in colonial Uganda eventually came to be a problem for the British. This is because in 1938 the Bugisu Coffee Marketing Company (BCMCo) was created to oversee the collection, processing, and marketing of coffee. BCMCo paid coffee prices set by the BCS to farmers, received commission on all it sold, and further profits went to the BCS, to be held in trust for the Bagisu. The year 1946 saw violence and the uprooting of coffee trees as the Bagisu challenged the authority of BCMCo. Threatened with reduced revenues, the domestic bourgeoisie and the colonial state agreed to give the Bagisu control of production, processing, and sales. In 1946 the Commission for Cooperative Development (CCD) was created to promote the establishment of primary growers cooperative societies. The CCD was controlled by Europeans but also employed and worked closely with the Bagisu. Bagisu leaders viewed institutions like the BCS and BCMCo negatively. These institutions were accused of slowing the pace of Africanization and appropriating too much of Bagisu generated revenue. The BCS strongly resisted the devolution of authority to cooperatives; however, with support from the CCD Bagisu leaders pressured for greater control and autonomy and in 1954 Bagisu leaders took over the BCS and created the Bugisu Cooperatives Union.[109] This demonstrates that

[108] Ibid.

[109] Ibid. 52-56.

the colonial government in Uganda transformed a threatening protest movement into formal local-level institutions subject to rules and regulations from the national level. In Kenya, the colonial administration crushed, rather than incorporated, mass movements during the state of national emergency. Clearly, the domestic bourgeoisies' in the two colonies had different interests. In Uganda, the domestic bourgeoisie was interested in generating revenue through an efficient and cheap local structure and was willing to negotiate with the smallholders to maintain this system. In Kenya, the domestic bourgeoisie wanted exclusive access to the coffee industry, and by way of policy sought and ensured the subordination of the native farmer.

The African Local Governance Ordinance of 1955 provided for direct elections of local officials and gave strength to popularly elected BCU officers. These newly elected politicians took power from civil servants and chiefs. These politicians were dependent on direct popular support for their positions and pushed for higher crop prices, tax reductions, the relaxation of complex quality control structures, and increased social services. The new politicians embodied constituent interests and presented demands within the legislative arena of the state.[110] Through popular elections the Bagisu gained direct access to the legislative apparatus of the state. The historical dialectic over control between the Bagisu and the domestic bourgeoisie was a balancing act until 1946 and the Cooperative Societies Ordinance Act. This act gave the state extensive supervisory powers and subordinated Bagisu leaders to the control of the state. The BCU took control of collection, processing, marketing and price setting functions. Struggles for greater BCU autonomy and counter responses by the state dominated the political economy of coffee in Uganda until the Idi Amin coup of 1971.[111] In this manner historical dialectics, negotiations, and the struggle for control played out between the domestic bourgeoisie and smallholders as long as local institutions were able to successfully hold a bargaining lever. This early dialectic stands

[110] Ibid. 56-59.

[111] Ibid. 61-65.

in contrast to the situation in neighbouring Kenya, where there was no possibility of negotiations and the smallholder was denied any autonomy in the industry.

3. COFFEE AND THE POLITICS OF DICTATORSHIP: THE IDI AMIN PERIOD

Adaptability Theory views the domestic bourgeoisie, driven by their interest in protecting their socio-political powers and privileges, as a change agent in a stable system. This was certainly the case in Kenya. This brief section explores what happens when the domestic bourgeoisie is supplanted, as occurred in Uganda. The work of Cox on systemic change is particularly relevant to explaining what happens when the domestic bourgeoisie is supplanted. A military coup led by the brutal dictator Idi Amin took place in 1971. This coup killed the possibility of local autonomy and drove the smallholder into complete withdrawal.[112] As a new domestic bourgeoisie emerged, or the socio-political landscape changed, the state was able to withdraw from direct negotiations with local institutions and the smallholder lost a degree of autonomy. After seizing power Amin declared an economic war in 1972 and evicted the Asian community, who composed a dominant business class and were viewed by the present government as foreigners. The Asian business class, an important element of the domestic bourgeoisie, was completely removed from the political scene in Uganda. Amin's government was brutal, oppressive, and reduced the state apparatus to an authoritarian command structure. As the result of illiberal policies by 1980 real GDP per capita was only 62 percent of that in 1971, the industrial sector had collapsed completely, and crop subsidies had been ended. In 1980, after 500 000 deaths, Amin was defeated and former dictator Milton Obote returned to power.[113] In the context of the coffee sector, by 1977 all gains from the Brazilian crop loss due to frost had been lost. The government taxed cooperatives heavily and imported goods became scarce as the Ugandan Schilling depreciated in value.

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[112] Ibid.

[113] John De Coninck, "The State, Civil Society and Development Policy in Uganda: Where Are We Coming From?," in *Unpacking Policy: Knowledge, Actors and Spaces in Poverty Reduction in Uganda and Nigeria*, ed. Karen Brock et al (Brighton, UK: Fountain Publishers, 2004), 55.

Producers could no longer obtain spare parts for their machines and smallholders withdrew from coffee production into subsistence. During the Amin period the pricing policies of the state caused the smallholder to withdraw from the coffee economy, destroyed cooperatives, and contributed to the unnecessary and elaborate expansion of state marketing boards as official corruption flourished. Thus, this demonstrates how the peasants used their exit option against the state.[114]

As the socio-political atmosphere changed from a colonial domestic bourgeoisie that gave the smallholder some leverage to dictatorship the smallholder lost the ability to negotiate with the state. The new domestic bourgeoisie was interested in securing loyalty at any cost – even at the expense of total collapse in the coffee sector. Thus, new authoritarian institutions were created, the old domestic bourgeoisie purged, and the smallholder lost all autonomy and retreated into subsistence. The new authoritarian domestic bourgeoisie was driven by their interest in creating and controlling an authoritarian system to choose to end negotiations with the smallholder. This illustrates how the domestic bourgeoisie is always the change agent, but may be challenged and supplanted and; moreover, this demonstrates that as socio-political variables change, for example the interest of the new domestic bourgeoisie in changing the system of governance, the choice to allow autonomy will also change as a direct result.

4. FOREIGN CAPITAL AS AN EXPLANATORY VARIABLE FOR INDUSTRIAL LIBERALIZATION IN UGANDA

After Amin was defeated, the second regime of Milton Obote marked a period of political instability in Uganda. In the midst of guerrilla warfare and a large-scale black market, the Obote regime attempted to expand the agricultural sector, including coffee, in partnership with international donors. Loans and grants were issued by agencies such as the International Monetary Fund (IMF), World Bank, European Economic Community (EEC), and the United States Agency for International Development

[114] Bunker, *Peasants against the State : The Politics of Market Control in Bugisu, Uganda, 1900-1983* 219-28.

(USAID). While the coffee sector remained dependent on smallholder production, a new and more immediate need emerged – the need to satisfy the donors. Until 1985 Ugandan economic policy satisfied international donors and resulted in several reschedulings of the national debt; however, at the same time the debt ratio rose from 17 percent in 1980 to 50 percent in 1981. Economic disaster was occurring, and the Obote regime responded by introducing heavy taxes and levies on coffee to increase state revenues. Obote used international donors such as the IMF and their conditionality to justify the new taxes to the farmers.[115] The reliance of the state and its domestic bourgeoisie on the IMF and other international donors for revenue, and the immediacy of this new alliance, restricted the possibility of intervention on the part of smallholders.[116] With the emergence of another new regime in Uganda new elements of the domestic bourgeoisie emerged that initiated an alliance with international capital that superseded ties to the smallholder.

Under the second Obote regime the economy stagnated, debt soared, corruption was rife, and local organization like the BCU had lost their ability to bargain with the state in the face of a new alliance with foreign capital from international donors. Smallholders once again retreated into subsistence, and in 1985 Obote was overthrown. In 1986 Uganda's current president, Yoweri Museveni came to power. Museveni united all political factions in a single party referred to as the National Resistance Movement (NRM). Under Museveni indigenous civil society has re-emerged and in 1987 the government's Economic Recovery Programme (ERP) turned to these groups to actively to implement projects for the poor.[117] With political opposition co-opted and the emergence of a single party system, the domestic bourgeoisie was able to act to initiate liberalization, with support from

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[115] Ibid. 229.

[116] Ibid. 30.

[117] Coninck, "The State, Civil Society and Development Policy in Uganda: Where Are We Coming From?," 55-58.

international donors, without opposition. In the new unitary state, access to the legislative apparatus was a given, and the farmers were happy to regain local autonomy.

This section has illustrated the interests of the domestic bourgeoisie in Uganda and changing dialectics between the smallholder and the domestic bourgeoisie. This section has also revealed the socio-political forces that have, historically and present-day, allowed for greater autonomy among smallholders in the coffee sector and subsequently complete industry liberalization. Stephen Bunker illustrates the importance and relevance of Adaptability Theory in explaining industrial divergence in the coffee sectors of Uganda and Kenya: "I believe that much of the decline in African agricultural production can be explained by the unrestrained struggle of competing factions for political control of the state and the related attempt by holders of state power to increase political control over and exploitation of peasants. This attempt induces the state to suppress local organizations, which are as essential to effective organization of local production and marketing as they are threatening to central state control."[118] It has already been demonstrated how the domestic bourgeoisie in Kenya, through the pursuit of their socio-political interests, was able to maintain a privileged position vis-à-vis the state apparatus at the expense of Kenyan smallholders.

In the case of Uganda, the colonial system of governance and the changing nature of the domestic bourgeoisie over successive regimes were conducive, at many times, to smallholder autonomy and eventually resulted in complete industry liberalization. The use of chiefs and their families by the colonial government for administrative purposes, the subsequent mobilization of Bagisu smallholders and their leverage vis-à-vis the state, and the co-optation of Bagisu into colonial institutional and organizational structures gave the smallholders more of an independent economic base than their counterparts in Kenya. Although during periods of socio-political turmoil the smallholders were forced to withdraw into subsistence production, Ugandan smallholders have always fought for and maintained

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[118] Bunker, *Peasants against the State : The Politics of Market Control in Bugisu, Uganda, 1900-1983* 243.

greater autonomy in the coffee sector. Thus, the history of the industry and dialectics with the domestic bourgeoisie in Uganda was more conducive to liberalization than in Kenya, and with political instability and constant changes in the nature of the domestic bourgeoisie liberalization was not prevented by the domestic bourgeoisie or the institutional channels they controlled. The path of development in Uganda has historically served an export economy based on smallholder production. In Kenya development policy focused on plantation production, where the native Kenyan was simply a provider of cheap labour with little to no stake in the domestic industry or leverage vis-à-vis the domestic bourgeoisie.

15. SOCIO-POLITICAL VARIABLES AND PATH CHOICE IN KENYA AND UGANDA: A COMPARATIVE ANALYSIS

The purpose of this brief section is to generate a comparative analysis of the specific socio-political forces that influenced the domestic bourgeoisie in Uganda to liberalize and the domestic bourgeoisie in Kenya choose not to liberalize. After years of political and economic mismanagement the domestic bourgeoisie acted to liberalize the coffee industry in Uganda. The state run Coffee Marketing Board (CMB) was restructured and their buying and selling monopoly abolished, the set producer pricing system was abandoned, and the board's assets were divested.[119] Reasons that have been cited for the choice of liberalization in Uganda are that the set pricing policy left export proceeds in the hands of marketing boards, there were poor terms of trade for smallholders, and late payments from state run cooperative societies. During the era of government control in Uganda's coffee sector the bulk of capital accumulation was monopolized by the Asian merchant class and was reinvested in the import substitution industry, not agriculture; however, import substitution was not a foreign exchange earner.[120] In light of these issues, the Ugandan state chose liberalization and during the transition period from

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[119] Jossy R. Bibangambah, *Africa's Quest for Economic Development: Uganda's Experience* (Kampala, Uganda: Fountain, 2003) 23.

[120] Ibid. 111-12.

1990-1995 the market share of private exporters increased, the new Coffee Marketing Board Limited (CMBL) fell from 84 percent to 3.9 per cent of exports, and cooperative societies fell from 12 percent to 4.3 percent of exports. Thus, the marketing structure in Uganda's coffee sector changed from a monopoly to a competitive market.[121] This transformation has also facilitated the emergence of a new capitalist class in Uganda, or a new domestic bourgeoisie, with a focus on primary accumulation. This class emerged by securing access to the resources of the state.[122] It has been argued by scholars such as E.A. Brett that liberalization is better than monopoly in the Ugandan coffee sector because despite initial adjustment shocks, the introduction of a realistic exchange rate and free trade prevents waste and misappropriation because buyers and sellers are now forced to compete for supplies and offer prices determined by the world market. Thus, those that benefit are efficient and low cost producers. Cooperative societies would have to match these standards or be eliminated, and this would facilitate an overall increase in efficiency in the industry.[123] In addition, price elasticity of supply is an important mechanism for the transmission of incentives to the export producer in the form of a higher price in local currency. This was made possible by currency devaluation. Under the old illiberal system, the inefficiencies of the CMB controlled marketing system and the cooperatives prevented this incentive because the smallholder was paid too late, up to one year late in some cases. Thus, inefficiencies in the old command system fuelled inflation by taking too long to release cash into the economy for crop finance.[124]

In Kenya, the domestic bourgeoisie could not develop autonomously because it was subordinated to foreign capital, the colonial state discouraged local initiatives, and systems were built with the

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[121] Ibid. 124.

[122] E. A. Brett, "Providing for the Rural Poor: Institutional Decay and Transformation in Uganda," in *IDS Research Reports* (Brighton, UK: Institute of Development Studies, 1992), 20.

[123] Ibid., 58.

[124] Germina Ssemogerere, *Structural Adjustment Programmes and the Coffee Sector in Uganda, 1981-1987*, *Aerc Research Paper ; 1* (Nairobi: Initiatives Publishers, 1990) 28.

primary purpose of maintaining law, order, and the status quo. Factors that inhibited the emergence of indigenous social forces capable of promoting change in the system were restrictions on African agriculture by the *Mzungu* and a marketing structure under European and Asian control. The colonial state did not lay the necessary foundation for indigenous industrialization and therefore Kenya today is dependent on international sources of capital and resources. After independence smallholders and estate owners remained highly dependent on the state for assistance. The domestic bourgeoisie, and its alliance to international capital, secured and preserved their dominant position in society and the economic sphere. A new and educated African class emerged after independence to inherit the structures of subordination and therefore was unable to lead socio-economic transformation. Thus, as Michael Schatzberg concludes, "the indigenous bourgeoisie, having consolidated its hold on state power, was unable to transcend its essentially auxiliary character in the face of foreign capital's increasingly well-fortified and -defended beachhead. In addition, the neo-colonial, dependent structure of Kenya's post independence development was advantageous to those entrenched in power who occupied commanding positions in the state's apparatus."[125] To add to this, David Himbara notes the failure of parastatal organizations to promote development in Kenya in a study on Kenyan capitalism. This study reveals that parastatal organizations actually had a negative effect on Kenyan development.[126] Himbara concludes that "…most black and white members of Kenya's business community have tended to emerge from activities associated with the state, with the seemingly inevitable consequence that the loss of political influence hastens their disappearance from the commercial or industrial scene."[127] In Kenya

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[125] Michael G and Gilbert M. Khadiagala Schatzberg, "The Kenyan Bourgeoisie, External Capital, and the State: An Introduction," in *The Political Economy of Kenya*, ed. Michael G. Schatzberg (New York: Praeger, 1987), 6.

[126] David Himbara, "Myths and Realities of Kenyan Capitalism," *The Journal of Modern African Studies* 31, no. 1 (1993): 98-100.

[127] Ibid.: 106-07.

the domestic bourgeoisie is tied closely to the state and has a vested interest in maintaining the status quo as their maintenance of socio-political power depends on it.

16. CONCLUSIONS

This study has provided a theoretical explanation, based on Adaptability Theory, to two central questions: is liberalization responsible for divergence in the coffee sectors of Kenya and Uganda and; moreover, why has Uganda liberalized while Kenya has not? The purpose of constructing Adaptability Theory is to explain not just how a state liberalizes, or to identify the political channels necessary for liberalization to occur, but to explain why a state liberalizes. The identification and analysis of socio-political variables is essential to answering the question of why a state liberalizes.

In the case of Kenya, the domestic bourgeoisie established a highly controlled coffee sector through access to the colonial government. Restrictive and authoritarian structures solidified during the official state of emergency in the Kenya colony. After independence a new domestic bourgeoisie emerged to inherit the old colonial system of governance. As in the past, the privileges and social assets of this new domestic bourgeoisie depended on the maintenance of the status quo. Through the pursuit of defined interests in maintaining power the domestic bourgeoisie has continually opted for the continuation of the illiberal status quo in Kenya's coffee sector and has had sufficient access to the legislative organs of the state to realize this interest.

In Uganda smallholders have historically maintained a greater degree of autonomy within the coffee sector as the colonial state negotiated closely with smallholders for the purposes of efficiency, smaller government, and in light of a smallholder threat to withdraw into subsistence thus damaging state revenues. As new socio-political variables emerged in Uganda's political landscape such as the dictatorships of Milton Obote and Idi Amin the domestic bourgeoisie was supplanted and interests changed. During this period Ugandan smallholders withdrew into subsistence as command structures and political turmoil devastated the coffee sector. With the return of exiled Asian entrepreneurs and the rise of Yoweri Museveni to power in 1986 yet another domestic bourgeoisie emerged. The new domestic bourgeoisie became aligned with foreign capital and liberalization was again seen as plausible and desirable; moreover, the nature of the National Resistance Movement regime, a one party system, has allowed the domestic bourgeoisie exclusive and unchallenged access to the legislative apparatus of the state.

This study has also demonstrated that liberalization is an explanatory factor in industrial divergence in the coffee sectors of Kenya and Uganda. Data presented illustrates this divergence, and links between liberalization and the spoils of the global market, and development at the local level, have also been identified. Liberalization has a positive impact on overall development and makes lucrative global markets for fair trade and organic coffee accessible by allowing for direct relationships to be formed between producers and consumers. While international donors and NGOs have an active role to play in facilitating growth in this sector in Uganda, such a program in Kenya remains impossible as long as the domestic bourgeoisie is able to maintain privilege and power and benefit from the continuation of the illiberal status quo. Indeed "coffee is development," but only when development is in the best socio-political interests of the prevailing domestic bourgeoisie.

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