



**University of  
Reading**

**The Entrepreneurial Brew**  
**Investigating the Reflexive Duality of Drivers and**  
**Determinants to Entrepreneurship – A Comparative**  
**Analysis of the Ethiopian and Rwandan Coffee Markets**

**Thesis submitted for the degree of Doctor of Philosophy**

**Economics and Social Sciences Research Division**  
**School of Agriculture, Policy and Development**  
**University of Reading**

**MacKenzie Dove**  
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## **DECLARATION OF ORIGINAL AUTHORSHIP**

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.

MacKenzie Dove

## **ABSTRACT**

Entrepreneurship is an interdisciplinary process regarded to have the potential to create wide ranging socio-economic impact, however the fuller understanding of entrepreneurs operating within emerging markets or developing economies remains somewhat ambiguous. As such, this study examined entrepreneurship through the interdependence of the individual and context, examining the unique notion of co-evolution and reflexivity to and from entrepreneurial action and institutional elements within a specific context. Creating a more comprehensive understanding of the duality of the entrepreneur and operational context within an emerging market, this study addressed three main objectives, investigating: the individual internal characteristics, or drivers, of the entrepreneur; the influences from external dynamics and institutions, or determinants, on entrepreneurial outlook and action; and finally, if and how entrepreneurial action can be reflexive to and from existing institutions as both co-evolve within operational structures.

The conceptual framework developed for this research was informed by Structuration Theory, which interprets entrepreneurship as a co-evolving construction of structure, agent and social system, providing a theoretical outline for the empirical analysis of entrepreneurship as a reflexive interdependent duality. Research used the coffee sectors of Ethiopia and Rwanda to structure the investigation of entrepreneurs given the similarly linear formations of each marketplace. Use of the respective coffee markets provided a framework for detailed analysis of entrepreneurship occurring across a range of entrepreneurial classifications and different business models across the coffee industries, comprising Smallholder Producers, Processors and Exporters. This comparative analysis further examined the entrepreneurial phenomenon within opposing economic systems of market liberalization and political embrace, using participatory qualitative and quantitative methods to collect and analyse data, and interpret results.

Empirical analysis between the internal construct of Entrepreneurs and Non-Entrepreneurs revealed inherent differences as well as varying strengths and weaknesses of the tested drivers across the different business types. Comparative analyses of operational contexts found multiple elements to influence entrepreneurship and revealed situations of entrepreneurial constriction and entrepreneurial dynamism. Examination of entrepreneurship as an interdependent whole demonstrated the reflexive nature of entrepreneurial action on systems and structures, revealing both positive and negative outcomes of reflexivity and additionality.

This thesis identified, demonstrated and explored entrepreneurship as a multifaceted, composition of the interdependence of the entrepreneur and operational context; with entrepreneurship found to have the potential for introducing change, only if embraced through the appropriate systems.

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# TABLE OF CONTENTS

Declaration of Original Authorship	ii
Abstract	iii
Acknowledgements	iv
Table of Contents	v
List of Abbreviations	xi
List of Tables, Graphs, Figures, Case Studies and Pictures	xii

## Chapter 1 Introduction

<b>1.1 Study Rationale</b>	1
1.1.1 Research Gaps Defined	1
1.1.2 Research Rationale	3
1.1.3 Study Area	4
<b>1.2 Study Aims, Objectives and Research Questions</b>	5
<b>1.3 Thesis Outline</b>	7

## Chapter 2 Literature Review. An Entrepreneurial Recipe

<b>2.1 Introduction</b>	9
<b>2.2 Entrepreneurship Theory and Major Contributions</b>	11
2.2.1 Theory and Major Contributors	11
2.2.2 Entrepreneurial Opportunity Perception	18
2.2.3 Entrepreneurship within a Policy Landscape	21
2.2.3.1 Entrepreneurship within Developing Economies	23
2.2.3.2 Entrepreneurship within sub-Saharan Africa	24
2.2.3.3 Challenges and Successes for Smallholder Producer	26
2.2.3.4 Private Sector Impacts to ‘Development’	27
<b>2.3 Analysing the Entrepreneurship Nexus</b>	29
2.3.1 Evolution to the Individual – Opportunity Nexus	29
2.3.2 Structuration Theory	31
2.3.2.1 Critique of Giddens’ Structuration Theory	35
2.3.2.2 Examples of Application of Structuration Theory	36
2.3.3 Trait Psychology	37
2.3.4 Global Value Chain Analysis	38
<b>2.4 Individual Construct, Internal Drivers</b>	39
2.4.1 Ingredients of the Entrepreneur	41
2.4.1.1 Resilience	41
2.4.1.2 Self – Efficacy	42
2.4.1.3 Innovativeness	43
2.4.1.4 Risk Tolerance	44
2.4.1.5 Opportunity Recognition + Entrepreneurial Orientation (OR+EO)	45

2.4.1.6 Selected Driver Review	46
2.4.1.7 Human Capital & Gender	46
<b>2.5 Operational Contexts, External Determinants</b>	<b>49</b>
2.5.1 Operating Environments for Entrepreneurs	49
2.5.2 Identified Determinants	50
2.5.2.1 Political Environment	51
2.5.2.2 Market Structure	51
2.5.2.3 Resource Availability	52
2.5.2.4 Historical and Socio-Cultural Setting	53
<b>2.6 Potential Impacts and Influences from Entrepreneurship</b>	<b>54</b>
2.6.1 Potential Impacts and Benefits of Entrepreneurship	54
2.6.2 Types of Entrepreneurs	55
2.6.3 Measuring Entrepreneurship	58
<b>2.7 Conclusion</b>	<b>59</b>

### **Chapter 3 Methodology. A Researcher's Toolbox**

<b>3.1 Introduction</b>	<b>60</b>
<b>3.2 Research Approach</b>	<b>60</b>
3.2.1 Theoretical Perspective	60
3.2.2 Operational Application	63
<b>3.3 Research Design</b>	<b>64</b>
3.3.1 Location Selection	67
3.3.2 Research Areas	69
3.3.3 Entrepreneur Classification	75
3.3.4 Respondent Sourcing and Community Entry	79
3.3.4.1 Research Pilot	79
3.3.4.2 Rwanda Data Collection	80
3.3.4.3 Ethiopia Data Collection	81
3.3.5 Ethical Assurances	83
<b>3.4 Tools, Data Collection and Analysis</b>	<b>83</b>
3.4.1 Research Tools	84
3.4.2 Research Analysis	90
3.4.3 Issues	90
<b>3.5 Conclusion</b>	<b>94</b>

### **Chapter 4 Context – Coffee and Country: A Presentation of the Global Coffee Industry, Ethiopia and Rwanda**

<b>4.1 Introduction</b>	<b>96</b>
<b>4.2 Coffee, a Global Perspective</b>	<b>97</b>
4.2.1 Market Structure	98
4.2.2 Coffee Production, Processing and Supply	99
4.2.2.1 Production – Coffee Cherry	101

4.2.2.2 Processing – Cherry to Parchment	102
4.2.2.3 Export – Parchment to Green Bean and International Export	104
4.2.2.4 Import, Roasting and Marketing	104
4.2.3 Understanding Quality and Pricing	105
4.2.3.1 Global Pricing	106
<b>4.3 Ethiopia at a Glance</b>	107
4.3.1 Political and Economic Histories	108
4.3.1.1 Early Powers	109
4.3.1.2 Imperial Regime	109
4.3.1.3 The Derg Military Junta	110
4.3.1.4 Ethiopian People’s Revolutionary Democratic Front	111
4.3.1.5 Ethiopia Today	112
4.3.2 Relationships with the Private Sector and Entrepreneurs	114
4.3.3 Ethiopia and Coffee	116
4.3.3.1 Coffee Sector Actors	118
<b>4.4 Rwanda at a Glance</b>	122
4.4.1 Political and Economic Histories	123
4.4.1.1 Ethnic Clashes and Post-Colonial Transition	124
4.4.1.2 Coffee in Politics	125
4.4.1.3 1994 Genocide	126
4.4.1.4 Rebuilding Rwanda Post –1994	127
4.4.1.5 Rwanda Today	128
4.4.2 Building a Dynamic Private Sector	129
4.4.3 Rwanda and Coffee	130
4.4.3.1 Coffee Policy Development	133
4.4.3.2 Coffee Chain Actors	134
<b>4.5 Comparison of Ethiopian and Rwandan Coffee Markets</b>	138
<b>4.6 Conclusion</b>	141

**Chapter 5 Defining Drivers. Identifying the Individual Constructs that Separate the Entrepreneur from Non-Entrepreneur.**

<b>5.1 Introduction</b>	142
<b>5.2 Classifying Entrepreneurs and Understanding Specific Drivers – How Were Respondents Classified?</b>	143
5.2.1 The Individual Construct, Drivers of the Entrepreneur	144
5.2.2 Coffee Chain Segments	145
5.2.3 The Entrepreneurial Range	151
<b>5.3 Socio-Demographic Results</b>	154
5.3.1 Age, Gender and Education	155
5.3.1.1 Age	155
5.3.1.2 Gender	155
5.3.1.3 Education	157
5.3.2 Inheritance and Family History	157
5.3.2.1 Inheritance and Family History with Coffee	158

5.3.3 Business Strategies: Cooperatives, Asset Valuation and Investment Plans	160
5.3.3.1 Cooperative Memberships	160
5.3.3.2 Coffee Valuations	161
5.3.3.3 Current Investment Strategies	162
5.3.4 Entrepreneurship Probability	163
5.3.4.1 Socio-Demographics	163
<b>5.4 Investigating Similarities and Differences of Drivers per Business Segment and Along the Entrepreneurial Range</b>	165
5.4.1 Likert Scale Testing Explained, Driver Indexes Employed	165
5.4.2 Likert Scale Preliminary Analysis	168
5.4.3 Driver Indexes – Explanations, Comparisons and Results	170
5.4.4 Segment Comparisons	171
5.4.4.1 Resilience	172
5.4.4.2 Self – Efficacy	176
5.4.4.3 Innovativeness	180
5.4.4.4 Risk Tolerance	183
5.4.4.5 Opportunity Recognition + Entrepreneurial Orientation (OR+EO)	186
5.4.5 Nuanced Results from Driver Indexes	190
5.4.5.1 Entrepreneurs vs. Non-Entrepreneurs, Irrespective of Country	190
5.4.5.2 Non-Entrepreneur vs. Entrepreneur, by Country	192
5.4.5.3 Ethiopia Entrepreneur vs. Rwanda Entrepreneur	194
5.4.6 Entrepreneurship Probability	196
5.4.6.1 Drivers	196
<b>5.5 Conclusion and Emerging Findings</b>	198

## **Chapter 6 Defining Determinants. Identifying the Contextual Operating Environments that Shape Entrepreneurship.**

<b>6.1 Introduction</b>	203
<b>6.2 What Are the Historical and Socio-Cultural Influences to Entrepreneurship?</b>	205
6.2.1 Domestic Relationships with Coffee and Entrepreneurship	208
6.2.1.1 Ethiopia	208
6.2.1.2 Rwanda	211
6.2.2 Historical and Socio-Cultural Impacts on Entrepreneurship	213
6.2.2.1 Ethiopia	214
6.2.2.2 Rwanda	216
<b>6.3 What Are the Current Political Environments Influencing Entrepreneurship?</b>	220
6.3.1 Political Economies, Perceptions of Entrepreneurs and the Private Sector	223
6.3.1.1 Ethiopia	223
6.3.1.2 Rwanda	229
6.3.2 Support Mechanisms (or lack of) for Entrepreneurship Promotion	233
6.3.2.1 Ethiopia	233

6.3.2.2 Rwanda	235
<b>6.4 What Influences Do Market Structures Have on Entrepreneurship?</b>	237
6.4.1 Market Structures, Regulations	240
6.4.1.1 Ethiopia	240
6.4.1.1.1 Quality Classification	246
6.4.1.1.2 Quantity Control and Marketing	247
6.4.1.2 Rwanda	248
6.4.1.2.1 Quality and Marketing	253
6.4.2 Commoditization and Specialization, Effects on Entrepreneurship from a Non-Liberalized vs. Liberalized Market	255
6.4.2.1 Ethiopia	256
6.4.2.1.1 Commoditization	258
6.4.2.2 Rwanda	260
<b>6.5 What Are the Available Local Resources Influencing Entrepreneurship?</b>	262
6.5.1 Financial Availability and Accessibility	265
6.5.1.1 Ethiopia	265
6.5.1.1.1 Financial Priority	267
6.5.1.1.2 Respondent Finances	270
6.5.1.2 Rwanda	273
6.5.1.2.1 Respondent Finances	276
6.5.2 Land Usage and Expansion Potentials	280
6.5.2.1 Ethiopia	280
6.5.2.2 Rwanda	282
6.5.3 Accessing Market Information and Technology Usage	284
6.5.3.1 Ethiopia	285
6.5.3.2 Rwanda	287
<b>6.6 Conclusion and Emerging Findings</b>	289

## **Chapter 7 The Entrepreneurial Ecosystem. Identifying Potential for Entrepreneur Reflexivity and Additionality**

<b>7.1 Introduction</b>	295
7.1.2 Presenting the Entrepreneurial Ecosystem Structure	297
<b>7.2 Perceptions and Choice Making Behaviour of the Reflexive Entrepreneur</b>	300
7.2.1 Resilience	300
7.2.2 Self – Efficacy	306
7.2.3 Innovativeness	309
7.2.4 Risk Tolerance	317
7.2.5 Opportunity Recognition + Entrepreneurial Orientation (OR+EO)	319
<b>7.3 Entrepreneurship Additionality</b>	322
7.3.1 Additionality and the Wider Benefits from Entrepreneurial Action	323
7.3.1.1 Ethiopia	323
7.3.2.1 Rwanda	327
7.3.2 Entrepreneurs as Architects of Change	331

7.3.2.1 Ethiopia	332
7.3.2.2 Rwanda	334
7.3.2.3 Rwanda's Socially Geared Coffee Zoning Policy	337
<b>7.4 The Entrepreneurial Ecosystem: Demonstrating Entrepreneur Reflexivity and Additionality</b>	338
7.4.1 The Entrepreneurial Ecosystem	338
7.4.2 Comparative Economic Improvements	343
7.4.2.1 Ethiopia	343
7.4.2.2 Rwanda	344
<b>7.5 Conclusion and Emerging Findings</b>	345
<b>Chapter 8 Conclusion</b>	
<b>8.1 Introduction</b>	349
<b>8.2 Key Research Findings</b>	351
8.2.1 Analysing the Individual Construct (Drivers)	351
8.2.2 Analysing the Operational Context (Determinants)	353
8.2.3 Analysing Entrepreneurship Interdependence and Reflexivity	355
<b>8.3 Key Research Contributions</b>	357
8.3.1 The Entrepreneurship Blueprint and Entrepreneurship Matrix	359
<b>8.4 Policy Recommendations</b>	363
<b>8.5 Proposals for Further Research</b>	367
<b>8.6 Conclusion</b>	369
<b>References</b>	370
<b>Appendices</b>	
Appendix A – Participatory Budgeting	387
Appendix B – Semi-Structured Questionnaire	393
Appendix C – Key Informant Interview Example Questions	395
Appendix D – Structured Questionnaire, Likert Scale	396

## **Abbreviations**

**ECX** – Ethiopian Commodity Exchange

**EPRDF** – Ethiopian People’s Revolutionary Democratic Front

**FWC** – Fully Washed Coffee

**GoE** – Government of Ethiopia

**GoR** – Government of Rwanda

**GVCA** – Global Value Chain Analysis

**ICA** – International Coffee Agreement

**MSMEs** – Micro, Small, Medium Enterprises

**OR+EO** – Opportunity Recognition and Entrepreneurial Orientation

**RDB** – Rwandan Development Board

**RPF** – Rwandan Patriotic Front

**SACCO** – Savings and Credit Cooperative

**TPLF** – Tigray People’s Liberation Front

**VSLA** – Village Savings and Loan Association

# List of Tables, Graphs, Figures, Case Studies, Pictures

## Tables

Table 2.1 Systematic Review of Entrepreneurship	13
Table 3.1. Breakdown of Key Informants Interviewed	86
Table 3.2. Details of Data Collection, Number of Respondents per Tool	89
Table 3.3. Coding Classifications	90
Table 4.1. Coffee Quality Parameters	106
Table 5.1. Driver Tangibility	145
Table 5.2. Demographics: Age, Gender and Education	155
Table 5.3. Ethiopia, Higher Education	157
Table 5.4. Demographics: Inheritance and Family History	158
Table 5.5. Business Strategies: Cooperatives, Asset Values and Investment Plans	160
Table 5.6. Ethiopia, Socio-Demographic Probabilities	164
Table 5.7. Rwanda, Socio-Demographic Probabilities	165
Table 5.8. Ethiopia Preliminary Analysis of Drivers using Mode	168
Table 5.9. Rwanda Preliminary Analysis of Drivers using Mode	169
Table 5.10. Ethiopia, Resilience Segment Comparisons and Significance	173
Table 5.11. Rwanda, Resilience Segment Comparisons and Significance	174
Table 5.12. Ethiopia, Self-Efficacy Segment Comparisons and Significance	177
Table 5.13. Rwanda, Self-Efficacy Segment Comparisons and Significance	178
Table 5.14. Ethiopia, Innovativeness Segment Comparisons and Significance	181
Table 5.15. Rwanda, Innovativeness Segment Comparisons and Significance	182
Table 5.16. Ethiopia, Risk Tolerance Segment Comparisons and Significance	184
Table 5.17. Rwanda, Risk Tolerance Segment Comparisons and Significance	185
Table 5.18. Ethiopia, OR+EO Segment Comparisons and Significance	187
Table 5.19. Rwanda, OR+EO Segment Comparisons and Significance	188
Table 5.20. Entrepreneur vs. Non- Entrepreneur, irrespective of country	191
Table 5.21. Ethiopia, Non-Entrepreneur vs. Entrepreneur, per Driver Index	192
Table 5.22. Rwanda, Non-Entrepreneur vs. Entrepreneur, per Driver Index	193
Table 5.23. Ethiopian Entrepreneur vs. Rwanda Entrepreneur	195
Table 5.24. Ethiopia Driver Index Probabilities	197
Table 5.25. Rwanda Driver Index Probabilities	197
Table 6.1. Historical and Socio-Cultural Influences, per Segment	207
Table 6.2. Political Environment Influences, per Segment	222
Table 6.3. Ethiopia, Economic History	224
Table 6.4. Rwanda, Economic History	229
Table 6.5. Market Structure Influences, per Segment	239
Table 6.6. Ethiopia's Coffee Oversight	241
Table 6.7. Local Resource Availability Influences, per Segment	264
Table 6.8. Ethiopia Business Registration	268

Table 6.9. Ranking of Current Financial Sources and Preferred Financial Sources	279
Table 6.10. Ethiopia Smallholder Producer Starting Points	282
Table 6.11. Rwanda Smallholder Producer Starting Points	284
Table 6.12. Most Common Methods for Accessing Market Information, Ethiopia	286
Table 6.13. Most Common Methods for Accessing Market Information, Rwanda	288
Table 6.14. Determinant Outcomes to Entrepreneurship	293
Table 7.1. Observed Comparative Innovations	316
Table 7.2. Benefits and Influences from Entrepreneurship in Rwanda	328
Table 7.3. Strategic Business Investment and Perceived Outcome of Rwandan Entrepreneurs	334
Table 8.1. Terms, Conceptualizations and Frameworks Introduced in this Research	357
Table A.1. Ethiopian Average Smallholder Producer Input Cost Requirement	388
Table A.2. Ethiopian Profit Scenario 1, Sale of Product at Low Price	389
Table A.3. Ethiopian Profit Scenario 2, Sale of Product at High Price	389
Table A.4. Rwandan Average Smallholder Producer Input Cost Requirement	391
Table A.5. Rwandan Profit Scenario 1, Sale of Product at Low Price	391
Table A.6. Rwandan Profit Scenario 2, Sale of Product at High Price	392

## **Graphs**

Graph 4.1. Ethiopia Coffee Production and Export	117
Graph 4.2. Rwanda's Coffee Export	132
Graph 4.3. Rwanda's Evolution towards Fully Washed Coffee	132
Graph 4.4. Coffee Export Comparisons	139
Graph 4.5. Coffee Revenue Comparisons	140
Graph 4.6. Averaged Cherry Price to Producers	141
Graph 5.1. Resilience Driver Scores, per Segment, by Country	175
Graph 5.2. Self-Efficacy Driver Scores, per Segment, by Country	179
Graph 5.3. Innovativeness Driver Scores, per Segment, by Country	183
Graph 5.4. Risk Tolerance Driver Scores, per Segment, by Country	186
Graph 5.5. OR+EO Driver Scores, per Segment, by Country	189
Graph 5.6. Entrepreneur vs. Non-Entrepreneur Driver Comparison	191
Graph 5.7. Ethiopia, Non-Entrepreneur vs. Entrepreneur Driver Comparison	193
Graph 5.8. Rwanda, Non-Entrepreneur vs. Entrepreneur Driver Comparison	194
Graph 5.9. Ethiopian Entrepreneur vs. Rwandan Entrepreneur Driver Comparison	195
Graph 6.1. Ethiopia, Top Ranked Finance Preference	272
Graph 6.2. Ethiopia, Top Ranked Current Source of Finance	272
Graph 6.3. Rwanda, Top Ranked Finance Preference	277
Graph 6.4. Rwanda, Top Ranked Current Source of Finance	277

## **Figures**

Figure 2.1. Shane’s Model of the Entrepreneurial Process	20
Figure 2.2. Author’s Conceptualization of Shane and Venkataraman’s Individual – Opportunity Nexus	30
Figure 2.3. The Co-Evolving Entrepreneurship Nexus	33
Figure 3.1. The Co-Evolving Entrepreneurship Nexus	62
Figure 3.2. Research Design and Implementation Timeline	67
Figure 3.3. Ethiopia Fieldwork Research Areas	70
Figure 3.4. Map of Specific Field Work Sites in Ethiopia	71
Figure 3.5. Rwanda Fieldwork Research Areas	72
Figure 3.6. Map of Specific Fieldwork Sites in Rwanda	74
Figure 3.7. Entrepreneurial Range and Business Segment	75
Figure 3.8. Parameters for Entrepreneurial Classification	77
Figure 4.1. Coffee Production and Supply Chain for Global Markets	101
Figure 4.2. Ethiopia Coffee Chain and Sector Influences	119
Figure 4.3. Rwanda Coffee Chain and Sector Influences	135
Figure 5.1. Visualization of the Entrepreneurial Range and Business Segments	153
Figure 5.2. Driver Index Scale Descriptions	167
Figure 5.3. Driver Index Scale	170
Figure 6.1. Ethiopia Coffee Market Structure and Product Flow	245
Figure 6.2. Rwanda Coffee Market Structure and Product Flow	252
Figure 7.1. Author’s Conceptualized Structure of the Entrepreneurial Ecosystem	299
Figure 7.2. Effects Diagram of Entrepreneurial Action in Ethiopia’s Coffee Sector	326
Figure 7.3. Effects Diagram of Entrepreneurial Action in Rwanda’s Coffee Sector	330
Figure 7.4. Completed Entrepreneurial Ecosystem for the Ethiopian and Rwandan Coffee Markets	342
Figure 8.1. The Entrepreneurship Blueprint	361
Figure 8.2. The Entrepreneurship Matrix	362

## **Case Studies**

Case Study 5.1. Women in Business	156
Case Study 5.2. Coffee Despite Lack of Inheritance	159
Case Study 5.3. Coffee Valuations	161
Case Study 5.4. Coffee Investments	163
Case Study 6.1. Coffee Expansion	210
Case Study 6.2. Capturing Additional Market Share via Growing Local Interest	211
Case Study 6.3. Returning to Rwanda	218
Case Study 6.4. Restarting a Coffee Business	219
Case Study 6.5. Perceptions for Preference	219
Case Study 6.6. Discussions with the IFC	226

Case Study 6.7. Private Sector Lobbyist	233
Case Study 6.8. Entrepreneurs Using Business to Provide Public Benefits	237
Case Study 6.9. Rwanda Vertical Integration	253
Case Study 6.10. Challenges of ECX Commoditization	259
Case Study 6.11. Certified Coffees	261
Case Study 6.12. Commercial Farming	281
Case Study 7.1. Quality Focus	305
Case Study 7.2. Self-Belief in Business	309
Case Study 7.3. Unique Innovation	311
Case Study 7.4. Gaining a Competitive Edge through Financial Innovation	315
Case Study 7.5. Decisions of Social Benefit over Technological Advancement	328

## **Pictures**

Picture 3.1. Learning to Sort Coffee at an Ethiopian Processing Station	82
Picture 4.1. Coffee Cherry	101
Picture 4.2. Drying Beds at a Coffee Washing Station in Rwanda	102
Picture 4.3. Hand Grading of Parchment	103
Picture 4.4. An Export Warehouse in Ethiopia	104

# **Chapter 1 – Introduction**

## **1.1. Study Introduction**

Entrepreneurship is a critical element to economic development and industry advancement, and can provide pathways for improved livelihood and economic growth across sectors (Casson, 2003; Rocha, 2004; Brixiova and Asaminew, 2010; Hall et al., 2012). However, determining factors, which may predispose entrepreneurial outlook and influence action of entrepreneurs within emerging markets remains ambiguous and has received relatively less attention within areas of the entrepreneurship discourse (Thai and Turkina, 2013). A complex, interdisciplinary and even convoluted area of study; entrepreneurship can manifest through a multitude of factors, depictions and understandings across a myriad of backgrounds, cultures, business models and operating environments (Baumol, 1993; Shane and Venkataraman, 2000; Shane et al., 2003). Individual entrepreneurs are coloured through a prism of vibrant characteristics and differing environments, which conjoin through the discovery and exploitation of opportunity pursuit (Shane, 2003). Indeed, internal characteristics can propel attention and opportunity pursuit (Chell, 2008) and likewise, external contexts can be highly influential through the environment presenting the opportunity and corresponding risk (Gregoire et al., 2010; Herrington and Kelley, 2012). In turn, entrepreneurial action can also leave its mark upon a wider system (Sarason et al., 2006).

While the entrepreneurial face may vary across location, business model or operational composition, it is believed core similarities and needs exist across all realms. However, understanding how these internal characteristics and contexts influence entrepreneurship within an emerging market requires additional study as empirical evidence defining the characteristics and contextual influences remain limited (Williams and Nadin, 2010; Boso et al., 2013); it is the generation of this evidence that drives this specific study.

### **1.1.1 Research Gaps Defined**

Traditionally, entrepreneurship study has focused on either the opportunity or the individual, but rarely both and much of the current analysis and discourse centred on entrepreneurship

has focused this analysis on either the individual or the opportunity within a western or developed economy context (Rogerson, 2001; Thai and Turkina, 2013). Given the wide range and interdisciplinary nature of the contributing fields to the study of entrepreneurship, it has proven difficult for scholars to pinpoint a distinct definition or define a unified approach for analysis and as such, entrepreneurship remains one of the least-understood fields (Shane and Venkataraman, 2000; Shane, 2003; Jennings et al., 2013; Mazzucato, 2015). This has created a gap in current research in terms of how to approach the analysis of entrepreneurs operating within emerging markets as well as how to understand, analyse and interpret the resulting outcomes from entrepreneurial outlook and action. Given the lack in current entrepreneurship research, specifically addressing action within an emerging market context, entrepreneurially orientated activities and actors are still not well understood within the developing economy context (Boso et al., 2013).

Traditionally, work has investigated either the actor or the opportunity existing within a developed economy, and while investigation within the developing country context is growing, there currently exists much opportunity and need for additional exploration (Jennings et al., 2013). It is assumed a variety of entrepreneurial activities are on going within emerging economies, however empirical evidence demonstrating the internal make-up and wider operational landscape of current entrepreneurs in these contexts is scarce (Williams and Nadin, 2010).

Within a theoretical realm, more recent thought has sought to investigate entrepreneurship either as a dualism or duality within differing approaches and philosophical concepts. Related investigation into entrepreneurship as a duality using Structuration Theory has recently only taken place on a theoretical level and has yet to be empirically tested (Sarason et al., 2006). As such, it is this notion of entrepreneurship as an interdependent duality that this research looked to test through empirical analysis of the entrepreneur and entrepreneurial action within the context of emerging markets, specifically analysed in the context of the coffee markets of Ethiopia and Rwanda (Shane and Venkataraman, 2000; Sarason et al., 2006).

### **1.1.2 Research Rationale**

Undertaking this journey of understanding entrepreneurship and more specifically, entrepreneurship within an emerging market context, began with the following questions, which evolved to form the rationale for this study. Do all entrepreneurs have similar characteristics, which predispose entrepreneurial action? Can entrepreneurs succeed in opportunity pursuit in spite of external structures or hurdles? And do these external barriers influence an entrepreneur's opportunity pursuit or dictate entrepreneurial action?

While some individuals may have all the markers considered necessary of an entrepreneur, the influence of the operational context presents an interesting quandary into how operational contexts have the potential to enable or even prohibit entrepreneurial action and advancement (Mazzucato, 2015). Within a developing economy context, with varying degrees to the rule of law, political perspectives, regulatory environments, strength of market structures and fluidity to the formalization and professionalization across sectors, the analysis of entrepreneurship is an especially critical investigation for understanding wider growth and developmental potentials (Acs et al., 2008; Chell, 2008).

As such, understanding entrepreneurship as only an outcome of individual genius is only part of the story and instead should be considered as an intertwined phenomenon of individual and context. Building from this rationale, research has looked to identify, investigate and understand the individual characteristics and operational contexts needed to shape and support entrepreneurial action, as well as how entrepreneurial action is reflexive to structures, which may go on to influence a wider system within emerging markets. In doing so, this research relied on Structuration Theory to inform a theoretical basis for interpreting and understanding entrepreneurship as an interdependent duality of the individual entrepreneur and operational context (Sarason et al., 2006). Ensuing research was constructed to first analyse the internal characteristics, or drivers, of entrepreneurs in order to determine differences or similarities of the internal construct between entrepreneurs and non-entrepreneurs. Second, research investigated the external parameters, or determinants, within a specific operational context influencing the entrepreneur's outlook, perception and opportunity pursuit. With the improved understanding of the individual and operational

context realized, research progressed to assess the entrepreneur and context as a whole, and investigated how entrepreneurship can be reflexive to wider systems and economies within emerging market contexts; questioning if a symbiotic ecosystem can be built through the interrelated actions of entrepreneurs, State agendas and national need.

Through research and corresponding analytical investigation, this study provided additional evidence into the individual construct of an entrepreneur as well as to the influences on entrepreneurship from differing factors within operating environments, reinforcing areas of current discourse, but also providing new information on entrepreneurs within the developing economy context. This research also presented evidence to gaps in research areas concerning actors traditionally more difficult to classify and analyse within developing economies, particularly operators within informal sectors, such as the rural smallholder producer or micro and small-scale business owners operating outside of major urban areas or traditional enterprise zones.

### **1.1.3 Study Area**

In order to understand the individual entrepreneur and operational context in action within an emerging market context, this study conducted a comparative analysis of entrepreneurs across the market chains of the coffee sectors of Ethiopia and Rwanda. While this research remains an investigation and analysis of entrepreneurship, it used the coffee sectors as a means to house the overall research framework due to the relatively linear formation of the two marketplaces. Investigation across the coffee chains provided additional ability to investigate a wider range of entrepreneurial faces given the different businesses, starting points and operational structures of smallholder rural producers, private owners of processing centres and founders of formalized exporting businesses. Comparative analyses were made between actors across the chains in order to further investigate the potential influences of individual constructs to differing business models, understand how environments of operation can shape entrepreneurs across a range of business models, as well as to investigate how entrepreneurial action can influence different operating environments.

Presented in greater detail in Chapter 4, these markets have evolved out of similar histories and continue to operate under similar, yet unique structures today, providing an ideal platform for comparison of not only individual entrepreneurs, but also of wider operational landscapes effecting entrepreneurship within each country and how each may co-evolve. Following the political and economic evolutions of both countries since the 1990s, each country has diverged down differing paths of market openness, distinct embrace of entrepreneurship, and engendered growth of the private sector (Daviron and Ponte, 2005; Boudreaux, 2007; 2010; Petit, 2007). Given the interdependence and importance of an operating environment and related influences to entrepreneurial action, a strong investigation and understanding of the specific contexts researched was found necessary in order to not only enable appropriate absorption of respondents, but also to appropriately analyse action through comparative analysis.

The comparative analysis of these two countries was used to more fully investigate and present entrepreneurs operating across a range of business segments and different operational contexts to enable comparison of not only respondents, but of market structures, financial mechanisms and political embrace.

## **1.2 Study Aims, Objectives and Research Questions**

Multiple theoretical approaches have been developed in order to describe and unpack the entrepreneurial web of individual and context; however, this specific research looked to determine the entrepreneur and context in tandem. Using Structuration Theory to inform understanding of entrepreneurship as the interdependence of the individual and context, this study has developed its own conceptual framework, coined as the *Co-Evolving Entrepreneurship Nexus*, which comprises both the individual entrepreneur and environment housing specific opportunity. The nexus further allows for a framework in which to analyse how entrepreneurship can co-evolve as entrepreneurs in turn influence a system of operation. While a multitude of possibilities exist for both the theoretical and empirical investigation of entrepreneurship, as will be described in greater detail in Sections 2.2 and 3.2.1, this research understands the ‘individual’ as an internal construct, investigating internal, inherent characteristics, which may predispose an individual towards entrepreneurial action.

Likewise, ‘operational context’ refers to the combination of determinants reflecting the systemic nature and/ or institutions naturally occurring within an economy or market dynamic, which an entrepreneur must navigate.

The research aim is to improve understanding of the individual characteristics and operational contexts of actors within a developing economy context, specifically analysing entrepreneurship within the Ethiopian and Rwandan coffee markets. In doing so, this research first deconstructs the *Co-Evolving Entrepreneurship Nexus* into the individual construct and operational context for independent analysis, in order to finally analyse influences of the reflexive entrepreneur within the co-evolving nexus in its entirety. As such, this study aims to address the following three research areas:

1. *What* internal characteristics, or drivers, of the individual construct separate an entrepreneur from non-entrepreneur?
2. *What* external dynamics of the operational context, or determinants, shape an entrepreneur’s approach, outlook and opportunity pursuit?
3. *How* drivers and determinants can be fused to reveal influences from entrepreneurial reflexivity and additionality on wider structures within a co-evolving, interdependent, entrepreneurial ecosystem?

Guided by the above aims, research relies on the *Co-Evolving Entrepreneurship Nexus* as a conceptual framework for ensuing analysis. Corresponding research objectives and questions are presented below.

### **Research Objective 1**

To identify specific drivers (individual, internal construct) of entrepreneurs within an emerging economy

- What are the specific characteristics of entrepreneurs along the coffee chain?
- What additional attributes may separate entrepreneurs from non-entrepreneurs?
- Are there differences and/or similarities of drivers tested between entrepreneur classifications or differing segments along the coffee chain and between countries?

### **Research Objective 2**

To identify specific determinants (operational context of opportunity) which influence entrepreneurship within an emerging economy

- What are the historical and socio-cultural influences to entrepreneurship?

- What are the current political environments influencing entrepreneurship?
- What are the market structures of the coffee chain that influence entrepreneurship?
- What are the available local resources influencing entrepreneurship?

### **Research Objective 3**

To identify evidence of the potential for entrepreneurial reflexivity and additionality to operating environments and wider economies

- What perceptions, behaviours and actions are results of the reflexive entrepreneur?
- How does influence from operational contexts and related entrepreneurial action influence a wider economy?
- Can entrepreneurs be architects of change? How?

The analysis and corresponding outcomes of the above research objectives are presented and dissected in tandem, with results building from each analysis in order to be used in support of the ensuing investigation of the next objective.

## **1.3 Thesis Outline**

Given the research aim and specific approach, distinct emphasis has been placed on more fully understanding the individual entrepreneur and distinctive influences of operational contexts and market systems of entrepreneurs in Ethiopia and Rwanda. As such, the thesis is constructed in order to first lay the groundwork of related theory, research methodology and contextual histories, in order to then present results from the investigation and analysis of each research objective. The following chapters are outlined as follows:

- **Chapter 2** – *Discussion* of classical to current entrepreneurship theory, related policy implications and current discourse on entrepreneurship within developing economies, particularly within sub-Saharan Africa. Theoretical backgrounds to the interdisciplinary approach taken for research design and analysis are also discussed.
- **Chapter 3** – *Presentation* of the research approach and design, inclusive of a review of the specific, targeted research areas and methods employed in respondent sourcing, data collection and analysis. The *Co-Evolving Entrepreneurship Nexus* is introduced and its framing for this research is further described.

- **Chapter 4** – *Explanation* of the structure of the global coffee market as well as the complex political, economic, cultural and social histories of Ethiopia and Rwanda and related coffee markets believed to effect entrepreneurial settings, behaviour and actions.
- **Chapter 5** – *Identification* of the socio-demographic elements as well as internal characteristics, or drivers, in order to further understand the individual construct of the entrepreneur as well as non-entrepreneur. The *Entrepreneurial Range* and corresponding business segments used for entrepreneur classification and further analysis is introduced with ensuing comparison and analysis of drivers made between respondents classified along the *Entrepreneurial Range*.
- **Chapter 6** – *Identification* of the contextual operating environments and determinants that influence entrepreneurs and corresponding action. Investigation includes the analysis into influences from histories and socio-cultural impacts, current political environments, existing market structures and local resource availability.
- **Chapter 7** – *Interpretation* into the potential influences from entrepreneurial reflexivity onto the wider systems and economies researched. Outcomes of research investigations enable a completed construction of the *Entrepreneurial Ecosystem* and related reflexive influences and ensuing additionality realized throughout the sector and broader economy; presenting an argument as to how, if enabled, entrepreneurs can be architects of social and institutional change.
- **Chapter 8** – *Conclusion* of this thesis presents research findings, exhibits research contributions, discusses policy recommendations and directs possibilities for further research through the introduction of a macro-level framework and corresponding set of micro-level parameters for use in future research and analysis on entrepreneurship: the *Entrepreneurship Blueprint* and its corresponding *Entrepreneurship Matrix*.

## **Chapter 2 – Literature Review. An Entrepreneurial Recipe**

### **2.1 Introduction**

The study of entrepreneurship is an interdisciplinary process encompassing the variable nature of differing contexts, venturing activities, support mechanisms, inherent cultures, growth variations as well as individual characteristics and psychologies (Lee and Peterson, 2000). In assessing entrepreneurship, distinct collections of research foci emerge, including but far from limited to: entrepreneurial management, networks and institutions, new business creation, as well as more recent research on the societal impacts of entrepreneurship (Jennings et al., 2013). Given the wide range of contributing fields to the study of entrepreneurship, it has proven difficult for scholars to pinpoint a distinct definition or unified approach for analysis. However the inherent fluidity of investigating entrepreneurship also affords one the ability to move in, across, and throughout subject areas in building baselines of knowledge and identifying gaps to current research and theoretical thought; creating an entrepreneurial adventure in its own right! Despite the lack of one, unified definition, entrepreneurship scholarship still centres around the process of the discovery, evaluation, pursuit and exploitation of opportunity and the individual's potential and ability to maximize the exploited opportunity in a new or unique way within a distinct marketplace (Shane and Venkataraman, 2000; Casson, 2003). As such, entrepreneurs are transporters of new ideas, innovations and change, and can be highly impactful to local systems of operation.

Entrepreneurs are active in any society and as such, form an important part of a society's economic make-up (Lundstrom and Stevenson, 2005). A variety of entrepreneurial activities are occurring within emerging economies, however empirical evidence demonstrating the internal make-up and wider operational landscape of current entrepreneurs in these contexts is scarce (Williams and Nadin, 2010). Entrepreneurship is critical to the development of an economic ecosystem (Baumol, 1993; Isenberg, 2010; Acs et al., 2014) regardless of whether it occurs within formalized economic structures or informal marketplaces (Thai and Turkina, 2013). Despite this, entrepreneurially orientated activities and actors are currently still not all that well understood within the developing economy context (Boso et al., 2013).

This research is based largely from entrepreneurship theory stemming from an economics discourse, however given the larger confines of the research's conceptual framework of what is has coined as the *Co-Evolving Entrepreneurship Nexus*, this work also relied on contribution from the sociology and psychology perspectives. Informed by Structuration Theory, this study understands entrepreneurship as a co-evolving construct<sup>1</sup> of the individual and opportunity within a specific structure or operational context, however this work does not fully nor exclusively apply the structuration model in its investigation and analysis of entrepreneurship. As such, this research approach and ensuing analysis understands entrepreneurship through the dynamic process of an agent engaging to, and responding with, a specific context, understanding the entrepreneur and structure as co-evolving, interdependent mechanisms (Sarason et al., 2006).

In order to understand this nexus beyond its theoretical scope, research deconstructed the nexus of its conceptual framework to first analyse the enterprising individual, to then understand influences from the specific operational context of opportunity pursuit, and finally to understand the nexus in its entirety in looking at how entrepreneurs can influence their environment.

In preparation for the remaining thesis, this chapter looks to provide a solid grounding for analysing entrepreneurship through the confines of this research framework and approach. As such, this chapter largely follows the layout of this research approach and remaining analysis is constructed as follows:

1. Presentation of the theoretical study of entrepreneurship evolution and related policy.
2. Investigation into the development basis for the *Co-Evolving Entrepreneurship Nexus*.
3. Identification of elements of the individual construct, or internal drivers.
4. Identification of elements within an operational context, or external determinants, that may influence entrepreneurial action.
5. Discussion on current discourse on entrepreneurship in developing economies, particularly sub-Saharan Africa.

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<sup>1</sup> Shane and Venkataraman (2000) first presented the *individual- opportunity nexus*. Sarason et al., (2006) first used Structuration Theory to extrapolate the theoretical application of the *individual- opportunity nexus* further.

## **2.2 Entrepreneurship Theory and Major Contributions**

Theoretical viewpoints of entrepreneurship have continued to evolve and deepen with the emergence of new economic growth strategies and the continued advancement of thought concerning economic development, particularly within the developing economy context (Rogerson, 2001; Thai and Turkina, 2013). While entrepreneurs are key to sustained, successful economic growth at a national level, given its inherent interdisciplinary nature, research has yet to establish universal criteria or guidelines in which to define and classify the entrepreneur or process of the entrepreneurial venture (Boso et al., 2013; Carsud et al., 2014). As such, the understanding of specifics of entrepreneurial action and the uniqueness of the individual entrepreneur particularly within emerging economies or informal sectors remains an evolving understanding. Classical entrepreneurship theory leaned heavily on the interdisciplinary domains of sociology, psychology and economics and while this research relied to a greater degree on an economic perspective, it benefited from all three. This section looks to first review classical and current thought on entrepreneurship, leading to current policy agendas within the developing economy and emerging market context believed to impact entrepreneurship, as much of the study and discussion to date has focused on the formal business with a ‘western’ or ‘developed’ economy. Empirical information, concerning entrepreneurship in emerging or developing economies is considerably more limited, with much focus at a macro level, as opposed to the micro or individual venture level (Carsud et al., 2014). This research intends to look at entrepreneurship at the macro, meso and micro levels.

### **2.2.1 Theory and Major Contributors**

In its most basic form, entrepreneurship focuses on the discovery and exploitation of profitable opportunities. Opportunities are defined here as a “natural consequence of economic volatility. And at any given time some opportunities will be recognized and exploited (by certain individuals), and others will be overlooked” (Casson, 2010, p. 44). As such, research has typically approached the entrepreneurial phenomenon by either looking exclusively at the individual as the ‘agent’ instituting change or pursuing opportunity, or by looking exclusively at external forces in which opportunities are embedded (Shane, 2003). Given these distinct research approaches, traditional study has focused on entrepreneurs as

‘fillers of market gaps’ or through opportunity pursuit via new firm creation; typically within ‘western’ or ‘developed’ markets (Sarason et al., 2006). This study looked to benefit from the more recent approaches understanding and analysing entrepreneurship through the interdependence of the individual and operational context, as will be discussed throughout this chapter.

Despite multiple definitions and approaches of study, in order to ensure transparency in the knowledge gained and used from current discourse as well as to add credence to this specific research perspective, a distinct and pragmatic definition of the entrepreneur was developed specifically for this research to further enable and support research activities. As such, within this research, an entrepreneur is defined as:

*An individual aimed at profit maximization through opportunity recognition and its pursuit, which has resulted in unique, tangible action towards opportunity recognized.*

In this definition, profit is understood not only in monetary terms, but also through non-monetary means. Non-monetary means can be as varied as secured benefits, such as supply and/ or sourcing routes, additional payments earned in-kind such as technical agriculture or business trainings or even expanded marketing opportunities. Business success rates or exact profitability could not be obtained or verified within this research and as such were not used as a specific measurement for entrepreneurial classification, which will be discussed in greater detail in Section 5.2.3. This definition does not expressly account for potential power dynamics related to gender and/ or certain ethnicities, which in some contexts may restrict certain individuals from believing in their own opportunity pursuit or ability to take tangible action towards an opportunity recognized; this is recognized as a limitation of this study. Section 3.3.3, presents the additional guidelines used in determining respondents as entrepreneurs. Table 2.1 below, presents a systematic review of entrepreneurship thought and corresponding defining elements to entrepreneurship as identified through this literature review.

*Table 2.1 Systematic Review of Entrepreneurship*

<b>Author(s)</b>	<b>Contribution to Entrepreneurship Study</b>	<b>Defining Elements of Entrepreneurs/ Entrepreneurship</b>
<b>Cantillon</b> (1775)	First introduction of the term 'entrepreneur' as an organized study of phenomenon	Entrepreneur is an agent who contracts business arrangements with known risk of uncertainty
<b>Schumpeter</b> (1921; 1934)	Introduction of ideas of Creative Destruction, New Combinations. Risk is borne by financier, not entrepreneur Risk taking is a characteristic of capital investment / investor	Entrepreneur capitalizes on market disequilibrium through new combinations or creative destruction of existing processes
<b>Kirzner</b> (1979)	Entrepreneurial discovery occurs through the 'push - pull' effect of opportunity alertness and pull of profit	Entrepreneur is the decision maker who arises out of an alertness to an opportunity
<b>Casson</b> (1982; 2003)	Entrepreneurial opportunity is through new goods, services, materials and processes that are introduced and sold at a greater value. Individual specializes in the judgment of unique allocation of scarce resources.	Entrepreneurship occurs through the individual valuation of opportunity and resources; opportunity discovery is a subjective process. Entrepreneurs are 'judgmental decision makers', individuals who create and are responsible in conceiving and implementing new business plans aimed at wealth creation
<b>Baumol</b> (1993)	<i>Individual Approach</i> - entrepreneur is an individual who interprets opportunity to create new businesses. <i>Firm-Organizing Approach</i> - entrepreneur is a high-level management group that creates, or operates new processes into business ventures.	Entrepreneurship occurs via continual innovation to ensure new opportunity discovery for profit maximization Society's rules and norms create incentives and influence firms to entrepreneurial activity. At times institutional factors incentivize rent-seeking entrepreneurship activity as opposed to socially productive activity
<b>Palich and Bagby</b> (1995)	Entrepreneurial Individual vs. Entrepreneurial Firm Entrepreneurs perceive less risk than managers. Entrepreneurs view business opportunity more positively, view risk elements as potential opportunity	
<b>Venkataraman</b> (1997)	Opportunity discovery process is subjective and not all individuals recognize and react to same opportunity in same way	Entrepreneurship is intrinsically linked to individual opportunity valuation
<b>Stewart et al.</b> (1999)	Entrepreneurs are driven to succeed, have a higher propensity for risk-taking, than small business owners or corporate managers	

<b>Shane and Venkataraman</b> (2000)	Perceived lack of conceptual framework for entrepreneurship study: development, presentation of the <i>Individual - Opportunity Nexus</i>	Field of entrepreneurship study is the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and exploited.
<b>Baum et al.</b> (2001)	Understanding of different skills and/ or traits have different direct and indirect affects on venture performance	
<b>Shane</b> (2003; 2012)	Opportunity perception is a key element within entrepreneurial process. Opportunity perception uses awareness of socio-demographics, socio-cultural environments and new knowledge development	The entrepreneurial process occurs via individual pursuit of specific opportunity following consideration of optimal pricing and/or expected returns
<b>Rocha</b> (2004)	Entrepreneurship is positively associated with economic development and changes to social structures following entrepreneurial activity. Clusters may have impact on entrepreneurship.	Entrepreneurship is the creation of new organizations. Technological innovation and human capital are included as endogenous variables to entrepreneurial behavior.
<b>Acs et al.</b> (2008; 2014)	Importance of entrepreneurship to economic development. Importance and impact differs given development stage of an economy: factor-driven, efficiency-driven or innovation-driven stage	Interdependencies of entrepreneurship within institutional context influences economic development and institutions. Type of entrepreneurship depends on country, stage of economic development and business arena.
<b>Brixiova</b> (2010)	Entrepreneurship is a key driver of economic growth, but opportunity entrepreneurs and necessity entrepreneurs effect economic growth differently	<i>Opportunity Entrepreneur</i> - found in high-income countries. Entrepreneurs enter market out of perceived opportunities for maximum return; entrepreneurial efforts have significant, positive effect on economic development. <i>Necessity Entrepreneur</i> - from lower-income countries, individuals enter market out of necessity for survival, typically micro-enterprises; entrepreneurial efforts have limited to no impact on economic development

(Source: Author Construct)

Earliest mentions of entrepreneurship theory are traced back to Cantillon's 1775 understanding of self-employed individuals able to adjust to risk with uncertain returns (Palich and Bagby, 1995). Early modern contributions to research on entrepreneurship are traced to Knight (1921) and Schumpeter (1934), with important, later influences from Baumol, Casson, Kirzner, Shane, and Venkataraman. Both Knight and Schumpeter each understood entrepreneurship within an interdisciplinary context and shared ideas on entrepreneurial risk bearing, forming the basis for today's understanding and platform for further study (Shane, 2003; Ricketts, 2006).

Debate focused on the description and function of the entrepreneur is traced to Schumpeter. Schumpeter's early work (1934) focused on the innovating entrepreneur, however his later work (1947, 1949) focused primarily on the emergence of the firm as the prim innovating driver of growth. The Schumpeterian perspective depicts entrepreneurship as the factors of an individual able to capitalize on 'new combinations' through innovation or 'creative destruction' within a competitive, economic system (Ricketts, 2006). An entrepreneur benefits from the inherent disequilibrium of an economy by introducing change to an economic system, challenging established, set operational constructs and business incumbents (Schumpeter, 1934; Acs et al., 2014). Focused on the role of the entrepreneur as the 'personification of innovation' (Hagedoorn, 1996) Schumpeter understood economies to operate in a constant state of disequilibrium, and as such, the State is constantly creating opportunity for entrepreneurs to recognize and 'fill' gaps left by the market through innovation and new combinations (Schumpeter, 1934). Within this setting, the entrepreneur will benefit from changes in political structures, technology, socio-economic trends, and regulatory environments to combine resources into more beneficial and valuable forms (Shane, 2003). As such, the entrepreneur becomes the driver of innovation for products and processes that force change (Shane and Venkataraman, 2000).

Schumpeter's work further understood entrepreneurship in regards to human capital in which the "function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention" which requires "aptitudes that are present in only a small fraction of the population" (Baumol, 1993, p.198). Schumpeterian opportunities tend to be more

innovative and break from current knowledge or existing organizational systems and as such, also tend to carry more risk (Shane, 2003). Schumpeter's second major contribution is the consideration that as a capitalistic society develops, entrepreneurship becomes automated and larger firms become the beacon for innovation, usurping smaller entrepreneurs due to an inherent increased efficiency (Ricketts, 2006).

Kirzner describes the entrepreneurial element in human decision making to be "active and creative rather than automatic and mechanical" (1979, p.35). He defines the 'pure entrepreneur' as the "decision maker whose entire role arises out of his alertness to (recognize) unnoticed opportunities" (1973, p.39). Kirzner saw entrepreneurship as requiring 'differential access' to information, and as such, it is the interpretation and decision making of new information that enables opportunity capitalization (Shane, 2003, p. 20). In connection with appropriate market knowledge, the entrepreneur is thus more able to recognize the potential to maximize opportunity. More specifically, the 'entrepreneurial discovery' results from a push (alertness) and pull (profit) effect (Arentz et al., 2013). Kirzner (1997) believes that speculation in regards to profit seeking is the driving force behind production and entrepreneurial action. Through a Kirznerian perspective, opportunities are less innovative and instead become alterations to existing systems, knowledge or organizational forms, tending to carry less risk (Shane, 2003). Thus, entrepreneurship becomes a mechanism through which inefficiencies in an economy are discovered and mitigated (Kirzner, 1973; Shane and Venkataraman, 2000; Rocha, 2004).

Within the entrepreneurship related literature, two main 'types' of entrepreneurs are typically discussed and analysed: the development of new business through firm creation via the *firm-organizing approach* or the specific individual's interpretation of opportunity in order to create new business opportunity via the *individual approach*, initially identified by Baumol (Baumol, 1993; Lee and Peterson, 2000). Building from Baumol's entrepreneur as the individual innovator, the "transformation of innovation and ideas are made into an economically viable entity," however this is not dependent on the actual creation of a new firm (Baumol, 1993, p. 198). Instead, Baumol considers the innovating entrepreneur as the prime instrument of growth, defining the 'innovating entrepreneur' through two specific

influences: specific individual attributes and the institutional, social or economic arrangements that affected the “quantity of entrepreneurial effort” (1993, p.201). While this research places greater emphasis on the individual, this discussion would be remiss not to briefly discuss the firm-organizing entrepreneur.

The firm-organizing entrepreneur can be an individual or high-level management grouping that creates, organizes and operates new processes or businesses into new ventures (Baumol, 1993) and the analysis of firm creation is the most commonly used measure for determining entrepreneurship growth (Castanhar et al., 2008). The firm approach, typically enacted in developed economy contexts, has made more progress in the research frontier and stresses upon the overall process of entrepreneurship focusing on ‘top-management’ as decision makers of new ideas and ventures, accounting for these ‘entities’ as the entrepreneur (Lee and Peterson, 2000). Large amounts of the current discourse focus on the successful creation of the firm or a new organization as the ‘entrepreneurial entity,’ specifically within developed or more formalized economies. For purposes of this specific research, less emphasis was placed on entrepreneurs as firm creators, and greater emphasis placed on the individual entrepreneur as the pursuer of opportunity.

Uncovering the motivating factors of an individual are also key to understanding decisions of the specific individual pursuing the opportunity. The varying resource combinations as well as grade of creativity involved not only varies across individuals but also varies between opportunity depending on resources available and how an individual perceives those resources (Shane et al., 2003). Thus, this creative combination, resource availability and corresponding limits, can cap levels of growth or innovation in certain situations and will be further analysed through the confines of this specific research.

While competition spurs growth, knowledge spillover is another key element for innovative opportunity perception (Rocha, 2004). As such, entrepreneurs must continually be innovating in order to continually discover new opportunities for profit maximization as typically, once something is discovered, others will follow or imitate the discovery, creating the potential for reduced profits overtime for the ‘original entrepreneur’ (Baumol, 1993).

Thus, if an entrepreneur wishes to continue or increase their profit share, they must innovate and adapt accordingly through continual opportunity pursuit. Through new combinations designed for increased profit, governments typically see entrepreneurs as a key generator of new employment, creating additional economic benefits and increased revenue streams (Palich and Bagby, 1995; Kantis and Federico, 2012). Entrepreneurial efficiency can also greatly benefit an economy through the innovation of not only growth and or the establishment of new businesses, but entrepreneurial potential is gained through understanding and presenting solutions to market needs, inefficiencies or existing market failures (Ricketts, 2006).

Finally, entrepreneurship cannot exist with out opportunity. Casson explains that entrepreneurial opportunities are situations in which new goods and services, materials, and processes can be introduced and sold at greater value (Casson, 1982; 2003). Opportunity is intrinsically linked with the individual's valuation of opportunity or resources. Thus, determining opportunity is a subjective process and as such, not all individuals recognize and react to a distinct opportunity in exactly the same way (Venkataraman, 1997).

### **2.2.2 Entrepreneurial Opportunity Perception**

The understanding of an entrepreneur's ability to perceive opportunity is key to not only the understanding of perception, but also the ability to recognize tangible potential and corresponding opportunity pursuits of the entrepreneur (Shane, 2003). Understanding opportunity perception was also critical to enabling ensuing research to adequately and accurately appreciate the entrepreneurial perception, discovery process, and related analysis from this study.

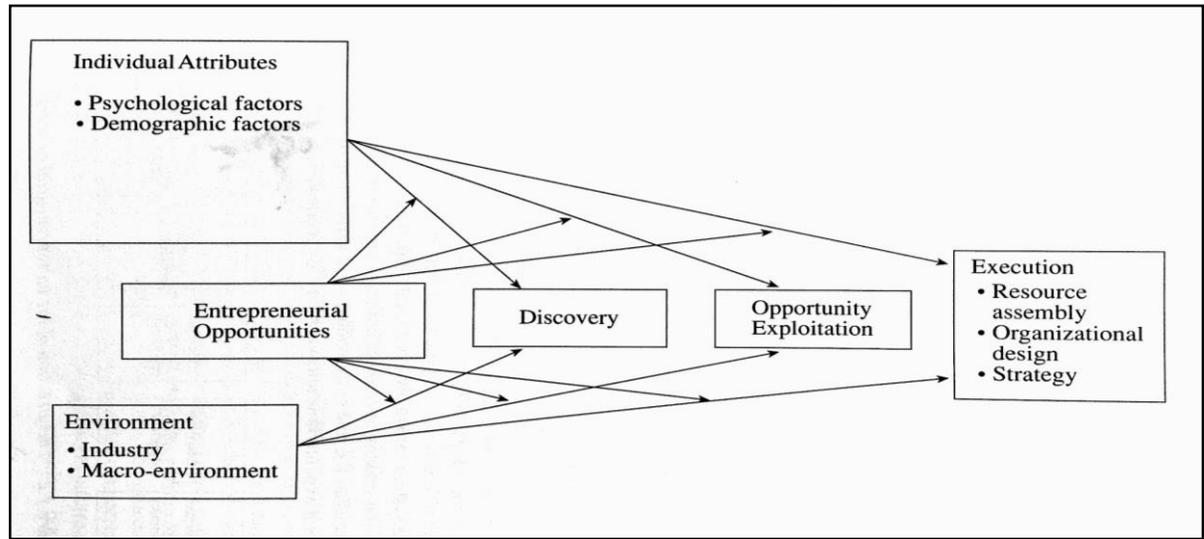
The entrepreneurial process is one in which "individuals become aware of business (ownership) as an option or viable alternative, develop ideas for businesses, learn the processes of becoming an entrepreneur and undertake the initiation and development of a business" (Lundstrom and Stevenson, 2005, p. 42). It is widely agreed this process takes place through individuals pursuing opportunities (Shane et al., 2003). However, what causes an individual to recognize and pursue one opportunity over another? Opportunity perception

and discovery requires one's awareness of "demographic, industry, and socio-cultural changes of new knowledge development and of the existence of system incongruities" (Rindova and Fombrun, 2001, p. 236). Kirzner's work plays a key role in understanding entrepreneurial opportunity recognition via alertness in that prior knowledge and experience are linked with opportunity discovery (Arentz et al., 2013). Prior knowledge, or knowledge stock is defined as "the sum of all knowledge that an individual may possess (consciously or not) at a given moment in time" (Arentz et al., 2013, p. 466). Using Kirzner's 'push—pull' understanding of entrepreneurship, an individual's existing knowledge allows experience and unique understanding of combinations to discover opportunity and its exploitation in unique ways. This existing knowledge stock can also predispose an individual towards perceiving and discovering opportunities within a specific market context related to existing, specific market and contextual knowledge and understood as either entrepreneurial orientation or market orientation (Arentz et al., 2013). *Entrepreneurial Orientation* refers to the opportunity seeking orientation, or ability to explore new market opportunities. *Market Orientation* refers to the ability to generate, disseminate and respond to market intelligence (Boso et al., 2013).

While entrepreneurship encompasses levels of growth aspiration, it varies with the specific individual and as such all individuals cannot be considered to wish to attain the same, high levels of growth or profits. Different growth intentions can result from different valuations of opportunity or differences in choice (Douglas, 2013). From a theoretical economics perspective, individuals make choices in regards to opportunity pursuit based on projected outcomes, typically in consideration of optimal price and or expected returns (Shane, 2003).

Given the varying perspectives, an entrepreneur is one that is able to recognize opportunity and in collaboration with the unique, operational or environmental context is able to maximize or exploit an opportunity. An example of the entrepreneurial process and related opportunity perception is presented below in Figure 2.1, depicting the stages of the opportunity, discovery and pursuit for an entrepreneur.

Figure 2.1. Shane's Model of the Entrepreneurial Process



(Shane, 2003, p. 11)

Even within the entrepreneurial process, information is not guaranteed. As such, when information is unknown, the entrepreneur is left to calculate and determine risk levels and expected returns based on their own judgement of a certain set of parameters or unique opportunity (Casson, 1982; Shane, 2003). Investigating entrepreneurship from an individual approach also accounts for entrepreneurial perception of the environment or contextual analysis. Thus, individuals use specific internal characteristics to make entrepreneurial decisions or take action in response to certain environmental circumstances that can support or diminish success (Lee and Peterson, 2000).

Through the investigation of the literature's landscape, what does become clear is that individual opportunity recognition, pursuit and exploitation must be paired with the appropriate resources and context to enable an entrepreneurially orientated individual to maximize an opportunity. Additionally, for entrepreneurial action to take place, intrinsic, internal abilities enabling an individual to see an opportunity as well as the external resources enabling an individual to exploit an opportunity must also be present, as both influence actions taken (Shane and Venkataraman, 2000).

### **2.2.3 Entrepreneurship within a Policy Landscape**

Great potential exists for continued and sustained economic growth if governments can harness the power of entrepreneurship in order to support a transformation of economies. However opportunity as well as direct and indirect benefits can also be lost as a government presides over a political or economic climate non conducive, or even restrictive to the entrepreneurial process. Boso et al., (2013) argue that within developing economies, high levels of both entrepreneurial and market orientation maximizes performance, however greater risk can be involved due to underdeveloped structures, regulation and infrastructure. Environments with an absence or limited scope of institutions can result in a limited ability to access capital, creating a significant barrier to market entry for entrepreneurs (Casson, 2003). Given the context of a more underdeveloped sector, network ties and contextual knowledge are perceived to be more important than in developed economies (Webb et al., 2009; Boso et al., 2013).

As will be seen, entrepreneurial action can be influenced from many areas of government policy through regulation or specific legislation governing supply logistics, trade, labour markets, social aspects and even development orientated agendas (Lundstrom and Stevenson, 2005). In addition, many factors inherent in a society impact policy: cultural or societal attitudes, population size, government involvement, labour structures and even the level of entrepreneurial action at a current time (Lundstrom and Stevenson, 2005). According to Kantis and Federico (2012) the most common applications or implements for supporting and growing entrepreneurship within a developing economy are access to seed capital, business incubation centres and technical assistance. However the use, and of course, effectiveness of these are dependent upon specific country and administrative contexts.

Government design of entrepreneurship strategy (if existing) and related policy objectives include four major areas. Specific policy areas for government support or direct involvement include Extension, New Firm Creation, Niche and Holistic Entrepreneurship policy (Lundstrom and Stevenson, 2005). These targeted approaches reveal goals of specific governments, but also the current state of economic systems and development within a specific country. Specific policy typologies are listed below:

- *Extension Policy* refers to governments without explicit entrepreneurship dominated policy structures. Support is provided to add-on measures to existing strategies or services already in place. Primary focuses of governments involved with extension type policy are those attempting to address market failures.
- *New Firm Creation Policy* is geared towards supporting (and in some cases simplifying) the start-up processes for businesses and reducing regulatory barriers.
- *Niche Policy* is dedicated to specific segments of a population to improve upon elements such as “social inclusion, gender equity, labour market integration, or wealth creation” and/ or to improve opportunity within typically under represented segments of a society.
- *Holistic Policy* attempts to do it all through a cognisant approach of fostering entrepreneurship within an economy. Integrating elements from the previous three types of policies, holistic policy aims to address a variety of failures while providing support mechanisms in which to simultaneously grow an overall economy to become more entrepreneurial (Lundstrom and Stevenson, 2005).

Admittedly, strategy looking to support and further develop entrepreneurship must stem from multiple disciplines often with overlapping agendas. Recent trends have emerged in regards to enabling institutions to fulfil not only policy mandates, but to act where policy cannot. These institutions are most likely a part of civil society<sup>2</sup> and are more able to provide entrepreneurs with direct assistance, where as government structures should work to develop the umbrella to encapsulate overall program design (Kantis and Federico, 2012).

Typically, entrepreneurship policy is designed specifically to focus on individuals, supporting the start-up process of individuals from awareness to post start-up. However the actual occurrence and effectiveness, while difficult to quantify, is questioned (Lundstrom and Stevenson, 2005). Growth strategies also benefit from the use of ‘soft’ measures such as education or training, mentorship and promotion as opposed to ‘hard’ regulatory or legal frameworks. Benefits from entrepreneurship can also be reaped from the incorporation of unique partnerships from diverse industries or across sectors (Lundstrom and Stevenson,

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<sup>2</sup> Civil Society can be made up of universities, business incubators, foundations, chambers of commerce, non-profits, educational development programs, etc (Kantis and Federica, 2012, p. 57).

2005). However, simply decentralising policy does not necessarily guarantee impact, and should be reinforced through appropriate market incentives (Kantis and Federico, 2012).

Creating or maintaining growth in an economy dominated by small enterprises requires either the expansion of current businesses or the net creation of new enterprises, which is largely influenced at a macro-economy level (Mead and Liedholm, 1998; Rogerson, 2001). While micro and small enterprises have similar levels of market entrance during times of growth as well as stagnation, large enterprise entrance and continued operation is most often connected to, and driven by, market demands. As such, larger enterprises are more reliant upon, as well as influenced by, overall economic performance policy and enterprise support strategies. As opposed to micro and small enterprises, medium to large enterprises make greater contributions to economic growth and can often disproportionately account for the amount of economic growth within an economy. As such, Rogerson argues that focus should be weighted towards the economic transitioning to medium and large-scale enterprise (2001, p.121), although, this may be a case of ‘easier said than done’ for many economies.

Within many regulatory environments, major barriers exist for business registration and new business creation including: “taxation, labour law, business trade, land ownership, town planning schemes and access to credit” (Beyene, 2002, p.137). Poor infrastructure and communication networks as well as a lack of technology transfer also inhibit enterprise growth. Understanding the specific, contextual connection and overlaps between entrepreneurship, local institutions, governance structures and economic development provides critical insight and further understanding as to the relationship of how policy and entrepreneurship can impact across these spectrums (Acs et al., 2008).

### **2.2.3.1 Entrepreneurship within Developing Economies**

While agriculture still forms the base of most economies, within the agricultural sector, most enterprises (smallholder producers) would be characterized at the micro level (particularly within this study context most smallholder producers operate on just ½ hectare or less) and much entrepreneurial activity could be categorized as survivalist. Given the agricultural industry’s importance, specifically within developing countries and its dominance by micro,

small and medium enterprises (MSMEs), promotion and support of domestic, regional and potentially international trade can be seen as key opportunity for growth, corresponding employment and income generation (Reginer, 2009). However, small enterprises must build capacity in production and marketing to be able to adequately meet increased, external demand through strategic support from national governments, international non-governmental buyers as well as foreign investors (Reginer, 2009). External demand offers opportunity that can be maximized by entrepreneurs willing to take the risk.

Improving the environment to foster entrepreneurship, specifically within the agricultural sector can result in overall economic growth. However for more encompassing pro-poor growth strategies to be successful, smallholder producers must be targeted and involved with increasing levels of commercial integration into larger markets (domestic, regional as well as international). Policies aimed at stimulating productivity and growth within the agricultural sector in large part also supports the development and nourishment of entrepreneurs: access to national and regional markets, opportunity for export, development of, and increases in, human capital and land size (Jayne et al., 2010, p. 1392). The growth of smallholder producers' gradual integration into the larger global market will enable entrepreneurship, and also encourage specialization and differentiation (Djurdeldt, 2012) if an appropriate supporting environment is present. Increasing focus on access to inputs as well as improving market structures and regulation, at a macro-level at least, has supported economies for smallholders to increase production and allowed new entrants into the sector.

Specifically within developing countries, micro, small and medium enterprises are significant creators of employment and income generation. However, the majority of micro and small enterprises typically have a single employee<sup>3</sup>, or, occasionally additional unpaid family members, which are often not counted as 'employees' (Mead and Liedholm, 1998).

### **2.2.3.2 Entrepreneurship within sub-Saharan Africa**

Following the recent global financial crisis (2008), it has become even more apparent for developing economies to focus on other areas for growth and revenue generation away from

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<sup>3</sup> Micro to Small Enterprise defined as 1-50 employees (Mead and Liedholm, 1998).

FDI or donor assistance and are looking at the transformative potentials of domestic entrepreneurship and MSMEs as positive drivers of change and growth within a country (Brixova and Asimnew, 2010); private sector actors are considered a key element of this change.

Many economies in sub-Saharan Africa (SSA) are considered to be at the ‘factor-driven stage’ of development, as opposed to efficiency driven<sup>4</sup> or innovation driven<sup>5</sup> economies. Factor-driven economies are characterized by early stages of economic growth, with a large agricultural base and the overall economy largely dependent upon natural resource extraction, lower cost efficiencies from commodities or value added products (Acs et al., 2008; Harrington and Kelley, 2012). Acs et al., (2008) also add that at the factor driven stage, an economy is not creating knowledge specifically for the sake of innovation. Overall there is the perception of many available business opportunities across SSA despite the stage of economic development within a specific country. However the types of business activity to be engaged in differs from what is typically found in more developed economies (Herrington and Kelley, 2012). As such, businesses and business ventures tend to be lower-margin, ‘me-too’ businesses and are highly vulnerable to clusters or shocks (Valliere and Peterson, 2009). In addition, new business-oriented activity is largely driven by necessity (survival) rather than opportunity (return) motives. Societal perceptions about entrepreneurship and potential for success have been found to greatly influence an individual’s decisions with high levels of positive perspectives resulting in larger proportions of individuals venturing into entrepreneurial activities (Herrington and Kelley, 2012).

Within many countries in sub-Saharan Africa, agriculture still forms the base of most economies, with the majority of labour involved in some capacity within the agricultural sector. However, this view of the ‘agricultural entrepreneur’ has shifted and evolved, now varying widely across different country contexts and specific policy environments, and the ability of entrepreneurs to contribute to economies is tied to specific environment and related

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<sup>4</sup> Development of industrial sector, higher productivity via economies of scale with the addition of more developed financial institutions (Herrington and Kelley, 2012)

<sup>5</sup> Economies experience the ‘shift’ to an expanded services sector, economy responds to the needs of a more affluent population. Also increased focus on R&D and knowledge-intensive business (Herrington and Kelley, 2012).

growth strategies (Djurfeldt, 2012). As linkages with larger or urban markets develop and are increasingly influenced by international markets and prices, it is perceived that overcoming or easing access barriers can be accomplished through diversification of tradable crops, goods or services (Dorward et al., 2003).

### **2.2.3.3 Challenges and Successes for Smallholder Producers**

For the majority of economies in sub-Saharan Africa, agriculture maintains a fundamental role in consumption, employment generation and economic growth. Harnessing opportunity within this sector has the potential to result in significant strides for development of an economy. Successful entry and supply of local markets for producers and indeed entrepreneurs, is highly influenced by local conditions or environments such as “climate, population density, human capital endowments, infrastructure and communication” (Dorward et al., 2003, p. 76).

Difficulties faced by smallholder producers have compounded recently through the continued growth and globalization of markets and international supply chains, which in turn, has also impacted entrepreneurial action. International pressure on price, market entry barriers, land availability and lack of ownership rights or access to financing also can create additional difficulties. Environments lacking entrepreneurs in rural areas can be traced to difficulties for improved market institutions which create a type of ‘penalizing environment’ resulting in low productivity and a lack of entrepreneurial activity or entrepreneurial dynamism (Djurdeldt, 2012). In addition, an inability of governments to properly regulate local markets has resulted in weak regional and national markets (Jayne et al., 2010).

Creating and fostering linkages between knowledge, market gaps and economic development is critical to improving an agricultural sector with exportable commodities and achieving poverty reduction (Juma, 2011). Stimulating productivity requires increased public investment, a friendly policy environment to private sector involvement (Jayne et al., 2010) as well as market access, access to working capital and credit facilities, and human capital. Djurfeldt (2012) found successful strategies of smallholder entrepreneurs to be related, in that a) *raising land productivity*, achieved through inputs and technology, b) *attaining food*

*security*, in that once consumption demands were met a household was able to sell remaining harvest, and c) *diversification of income*, including non-farm income but also diversification within the farm (p.222).

Specific characteristics enabling success within the smallholder agricultural perspective (as an entrepreneur or not) include landholding size, relationship with head of family, human capital endowment, gender of head of household and relationship with community leader (Jayne et al., 2010). Improvements to a producer's technical knowledge and use of productivity improving inputs can also further support innovation attempts. These characteristics should be viewed in combination with the individual determinants that enable an individual to recognize opportunity and take entrepreneurial action and will be discussed in greater detail in Chapters 4 and 6.

Further understanding the importance of MSMEs, productive entrepreneurs and the benefits government policies can have is critical in unpacking the relationship between entrepreneurship and development. While not an exhaustive list, critical elements include: institutions, credit (access to/ constraints), business environment, infrastructure (bottlenecks) and skills or the lack of critical skills (Brixiova, 2010, p. 441). As will be discussed in greater detail in Section 2.5 and Chapters 6 and 7, specific policies and investment strategies can directly impact levels of growth and productive entrepreneurship.

#### **2.2.3.4 Private Sector Impacts on 'Development'**

Discussion in Section 2.2.3 has focused on policy requirements around generating and supporting entrepreneurship within a developing economy as well as the need for and effectiveness of entrepreneurship within an emerging market context, specifically within the agriculture sectors of sub-Saharan Africa. Local business expansion and the engagement of a functional private sector has also been found to play an increasingly active role in 'development' agendas, particularly within poor and/ or underdeveloped communities and countries. Incentivized private sector actors can be powerful agents of change within these contexts through directing investment, job creation, skills training and increasing inclusivity of often excluded groups (women, minorities) within a developing country (Dolan and Roll,

2013; Blowfield and Dolan, 2014). Often referred to as the ‘bottom of the pyramid’ or the ‘bottom billion’, further openness to these markets, has enabled and increased access for international businesses to interact with the poorest and generally most difficult (and expensive) groups to reach, increasing market access potential via strategically developed products, services, wealth creation schemes or localized goods manufacture. Over the last two to three decades, businesses, especially social-orientated ones, have become increasingly vested, acting as an effective tool for development practitioners and donor agencies alike through initiatives focused on public-private-partnerships and market-orientated solutions (Dolan, 2011; Blowfield and Dolan, 2014).

Additionally, increasing impacts and potential of national-level private sector actors and entrepreneurs are recognized for ability to generate employment, attract skilled labour, increase capital attraction and actively participate in the formalization and development of local markets (Dolan and Roll, 2013; Dolan and Rajak, 2016). Given this potential, increased attention has turned towards further developing and building the potential of local entrepreneurship. However, to harness positive potential from private sector actors and entrepreneurs, constraints of market access and capital attraction need to be addressed through the ‘democratisation’ of local markets. Achieving this, local entrepreneurs can become both a catalyst and beneficiary for the “new economy of development” (Dolan, 2011; Dolan and Rajak, 2016, p. 515). Discussed in greater detail in Chapter 6, within these specific research contexts, the Ethiopian and Rwandan coffee markets, donor agencies, as well as international coffee import corporations have been found to be an active player within this wider development agenda via directed skills training (business acumen, quality), infrastructure development, capital injection and market development. While these investments are recognized as a means of strengthening business propositions, it also can be seen as a case study in how private sector actors can use business as a mechanism for development. This thesis has not taken a direct critique of ‘development,’ its theory, various approaches or current agendas. However, as will be seen throughout the remaining discussion, entrepreneurship and an enabled private sector can have great potential to make positive change.

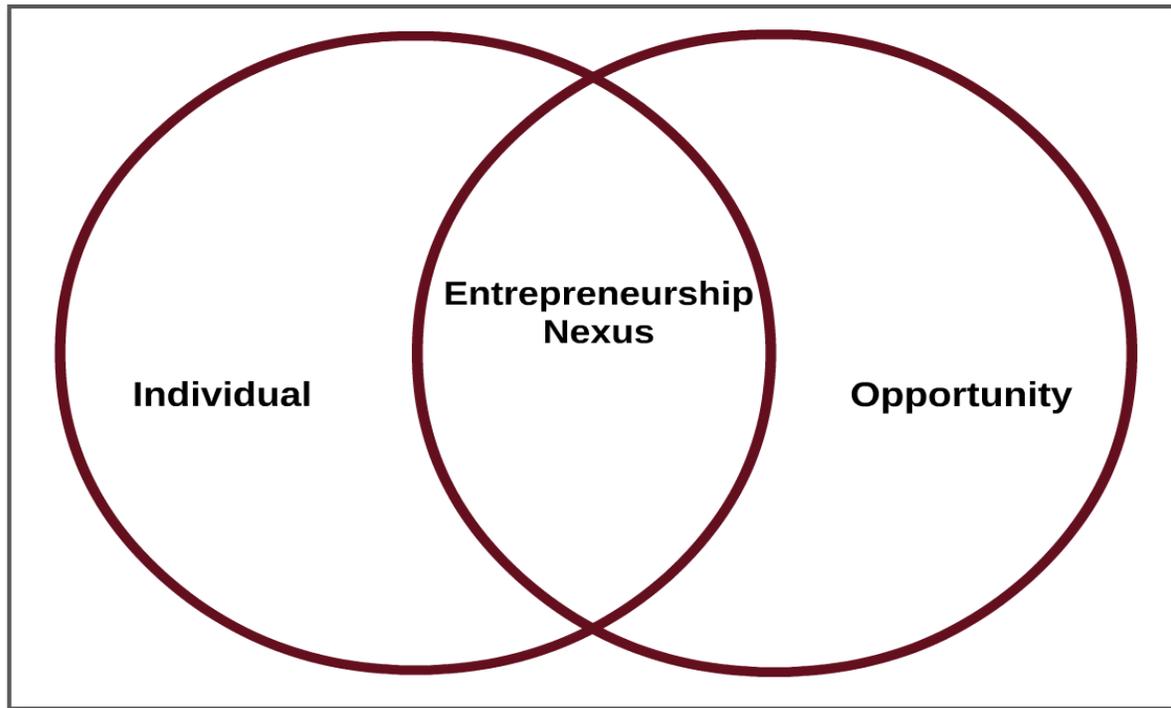
## **2.3 Analysing the Entrepreneurship Nexus**

Given the interdisciplinary aspects of entrepreneurship and its multiple perspectives for analysis, securing an overarching unified conceptualization has remained elusive and one of the greatest challenges to this field of research (Lee and Peterson, 2000; Shane, 2003). While traditional approaches towards entrepreneurship investigations have centred on either the individual, or the context of an opportunity, as two separate research areas, more recent discussions have focused on the distinct ‘overlap’ of the two elements. This section presents the theoretical background to the development of the conceptual framework used for this research. Discussion will focus first on the entrepreneurship nexus and then present the theoretical backgrounds for the ensuing analysis of the individual construct and external operational context.

### **2.3.1 Evolution to the Individual – Opportunity Nexus**

Shane and Venkataraman’s (2000) approach to understanding entrepreneurship was through the nexus of the individual and opportunity, which created the prospect for revised academic study on this overlap of two distinct areas. This reflects the understanding of the individual characteristics of an entrepreneur and the related operating environment where opportunity maximization occurs (Shane and Venkataraman, 2000; Shane, 2003). Within this perspective, entrepreneurship becomes “the nexus of two phenomena: (the) presence of lucrative opportunities and the presence of enterprising individuals” (Shane and Venkataraman, 2000, p. 218). A major contribution to the area of study, this *individual – opportunity nexus* provided an intellectual paradigm for the understanding of entrepreneurship (Shane, 2012). Figure 2.2 presented below, is this author’s conceptualization of Shane and Venkataraman’s *individual – opportunity nexus*.

Figure 2.2. Author's Conceptualization of Shane and Venkataraman's Individual – Opportunity Nexus



(Source: Author Construct)

Shane and Venkataraman used their *individual – opportunity nexus* as a base in which to understand the entrepreneurial process of discovery and exploitation of opportunity as well as the individual enterprising strategy (Shane, 2003). Key to understanding this nexus is the perception that entrepreneurship is the overlap of two distinct and otherwise independent constructs. In this understanding, the separate constructs are distinct unto themselves and only overlap when the right individual discovers the right opportunity (Shane and Venkataraman, 2000; Shane, 2003).

The theoretical approach to entrepreneurship through this framework has formed the premise that the individual and opportunity are two separate entities, operating independently from one another, enabling the notion of a more generalized universality to findings. However more recent thought has built from Shane and Venkataraman's nexus using Structuration Theory, understanding the individual and opportunity as interdependent elements and thus highly contextualizing analysis and outcome.

### 2.3.2 Structuration Theory

First introduced by the sociologist Anthony Giddens, (1984) in establishing the groundwork for social constructivism, Structuration Theory encapsulates the human individual as a purposive agent, responding to and with reason to activities; influencing, as well as being influenced by, available contexts or social structures (Giddens, 1984; Chell, 2008). Giddens' theory encompasses as well as distinguishes the agent, structure and social system. Defining the *agent* as 'purposeful, knowledgeable, reflexive and active,' the *structure* is defined as the rules and resources recursively occurring (rules are often also understood as norms and social conventions), and the *social system* is defined as duality of both structure and agent with each unable to exist without the other (Rose, 1998; Sarason et al., 2006; Dutta et al., 2016).

A meta-theory, Structuration Theory presents a wider-world view of social and system integration, in which actors are 'co-present' to a wider social formation they are a part of (Kilminster, 1991). 'Structures', within this theoretical approach are not conceived as a barrier to action, but instead as an essential involvement to the action's production and comprise the environments, societies and nation states in which entrepreneurs or businesses are located (Cassell, 1993; Chell, 2008). Structuration Theory presents the "conditions governing the continuity or transformation of structures, and therefore the reproductive systems" of an agent responding to a specific opportunity (Cassell, 1993, p. 118). As such, structures are understood to comprise unique environments as societies, nation states, institutions, rules and available resources where an agent is based (Giddens, 1984; Chell, 2008).

In regards to entrepreneurship study, Structuration Theory depicts the interplay of the entrepreneur within a social and economic system and as such, both evolve due to the influence of the other (Sarason et al., 2006). From this theoretical perspective, entrepreneurship can be characterized as a continual, 'co-evolving' process between the entrepreneur and the system housing a specific opportunity, in which the entrepreneur creates as well as discovers that entrepreneurial path and discovery influences the wider context. Specifically for Giddens (1984) the human agent is one looking to the possibility of 'doing

otherwise' in order to make a difference (Kilminster, 1991, p. 79), but action is limited to power differences and relative to resource mobilization capacity.

Structuration Theory investigates the relationship between agency and structure, perceiving the agent as an interdependent, reflexive element within a larger system, not a separate entity that operates independently from an environment or social system (Sarason et al., 2006; Chell, 2008). In viewing the entrepreneur and opportunity within a distinct operational context, it reflects the entrepreneur as a “reflexive agent engaging in purposeful action” (Giddens, 1984; Sarason et al., 2006, p. 287). Thus, this theoretical application recognizes the socio-economic structure as dynamic, but also subject to change, thus “dynamically creating opportunities based on subjective interpretations” (Chell, 2008, p. 76). As such, Structuration Theory has become increasingly recognized as a way to approach the theoretical aspects of entrepreneurship and is used in understanding entrepreneurs at the macro (national, regional level) and micro (individual, team level), but also meso (industry, institutional level) in order to analyse surrounding contextual institutions (Chell, 2008).

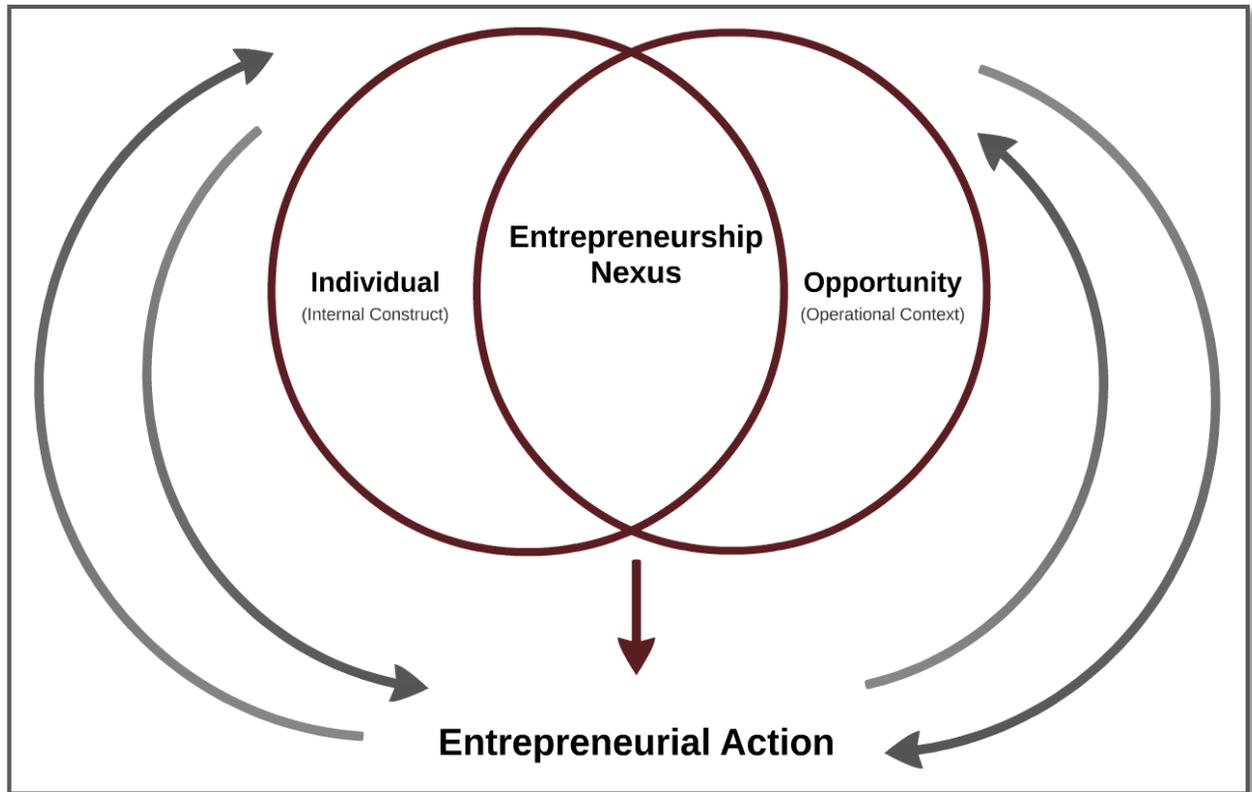
While this study has not uniformly applied Structuration Theory as a model in its analysis of entrepreneurship, the theoretical conceptualization of its framework was informed by it. In doing so, perception of the entrepreneurship nexus provided an additional, but also more expansive perspective in how entrepreneurs can both interpret and influence their environment, viewing the entrepreneur as a reflexive agent to and within an interdependent operational context (Sarason et al., 2006). While Shane and Venkataraman's *individual – opportunity nexus* is one in which entrepreneurship is an overlap of the two independent constructs, entrepreneurship through Structuration Theory presents the constructs as an interdependent duality<sup>6</sup>, unable to be separated in which the individual entrepreneur not only is benefited by distinct opportunities within an environment, but in turn benefits specific environments of operation, resulting in a co-evolving construction. Figure 2.3 depicts the author's conceptualization of the co-evolving entrepreneurship construct, informed by

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<sup>6</sup> Shane and Venkataraman (2000) understood the entrepreneurship overlap as a dualism. Whereas entrepreneurship through Structuration Theory understands it as a duality, comprised of linked, as opposed to separate, parts (Sarason et al., 2006).

Structuration Theory. This conceptualization was also developed as the conceptual framework used in this research: the *Co-Evolving Entrepreneurship Nexus*.

Figure 2.3. *The Co-Evolving Entrepreneurship Nexus*



(Source: Author Construct)

While entrepreneurship has long been understood through a more traditional sense through the discovery and filling of market gaps, i.e. the Kirznerian perspective, entrepreneurship from a Structuration Theory perspective sees both social and economic systems as dynamic but also influenced by entrepreneurial action (Sarason et al., 2006). Recent emerging research has further aided in the understanding of how individuals operate within specific systems and how they can be influenced by wider institutional arrangements (Jennings et al., 2013). In Giddens' Structuration Theory, context is referred to a 'social structure' and the structural properties of these distinct systems consist of rules and/ or resources in use by human agent interaction. As such, the rules and resources inform the agent and are reaffirmed by the agent's action (Giddens, 1984; Sarason et al., 2006; Mole and Mole, 2012). However, this research deviates from Giddens' use of structure in its analysis of the

‘operational context,’ instead choosing to analyse the more formalized, tangible institutional structures existing within the Ethiopian and Rwandan coffee markets.

To be discussed in greater detail in Section 2.5, systems, as presented in this research, can influence resources such as finance availability, social capital, legitimacy, reputation, and experience of a given community or more specifically what a given network or community is willing or able to provide (Chell, 2008). These institutions can vary widely due to levels of enforcement and direct interaction, but largely include state involvement, legal structures, market formations and development of support mechanisms for entrepreneurs (Lee and Peterson, 2000; Jennings et al., 2013). Successful or unsuccessful entrepreneurship, in turn, impacts these systems and related operational outlooks.

Social ties improve upon an individual’s chances to successfully exploit an opportunity, as they may also be more likely to benefit from additional information or improved access to resources (Shane, 2003). Societal perceptions about entrepreneurship and potential for success have also been found to greatly influence an individual’s actions (Herrington and Kelley, 2012). As such, an entrepreneur may be propelled or constrained by specific opportunities or structures identified through the venturing process within a specific context and specific opportunities or structures may be created or constricted through the results of entrepreneurial actions making entrepreneurship relative to both the individual and context of operation (Sarason et al., 2006).

As discussed, it was critical to view entrepreneurship through the appropriate lens and context to fully appreciate and understand influence, action and decision making of entrepreneurs within targeted research areas. As entrepreneurship is viewed as an integral part of an environment and not a separate entity that operates independently from a social system, entrepreneurship processes are rooted in the corresponding country’s context and institutional frameworks (Acs et al., 2014). Recalling the co-evolution of the entrepreneur within and to a social and economic system, entrepreneurship can be characterized as a continual process between the entrepreneur and the operational landscape in which the entrepreneur discovers and creates opportunities while still being influenced by the wider operational landscape (Sarason et al., 2006).

### **2.3.2.1 Critique of Giddens' Structuration Theory**

Analysis of structure, in this research specifically referred to as the 'operational context,' and agent, provides a deductive framework in which to study these two aspects: the agent and structure without necessarily prioritising either the individual or the operational context, as well as examining how entrepreneurship can go on to shape institutions and wider economies (Mole and Mole, 2010). However, it is this same notion of equitable, interdependence of agent and structure (individual and operational context) that has drawn the most criticism of this approach. Particular critique, namely from Archer (1990, 1995), Rose (1998) and Layder (2006) discuss the conflation of the agent and structure as a limiting factor in analysis due to an inability of separation between the individual and specific social system. Additionally, the notion of interdependence of the agent's reflexive action on a specific system does not allow for the further analysis of impact on the structure or the agent (Kort and Gharbi, 2013). While Giddens acknowledges some structures can 'exist' external to an agent (allocated resources i.e. raw materials, land), through his development of Structuration Theory, these two entities cannot exist without the other (Giddens, 1984; Kort and Gharbi, 2013, p. 94).

Giddens also states that rules are independent from structure as they exist in the agent's conceptualization of structure, however this presents a disconnect in the rational (realist perspective) understanding that preordained rules are implemented by an existing social system or order (Rose, 1998; Kort and Gharbi, 2013). This contrasts with the realist view of how elements within a society and its members interact (Rose, 1998). The realist perspective allows the structure and agent to exist as distinct elements and interact over different lengths of time. As such, this separation allows for a detached and correspondingly distinct analytical review (Archer, 1995; Rose, 1998). Additionally, within Archer's realist perspective, structures are properties of existing resources, both human and material, however these are continually needing to be improved, which fosters the notion for continuing 'metamorphosis,' and further explains a recursive nature of society (as perceived through a realist perspective) (Mole and Mole, 2012). In contrast, Giddens sees structure as subjective to the rules and resources perceived and created by the agent and as such, places greater emphasis on the interdependence of the agent, as opposed to the independent

structure (Mole and Mole, 2012). Additional disciplinary approaches to entrepreneurship are Equilibrium, Imperfect and Radical Innovation Theories (Economics) and Social Constructionism Theory (Sociology) (Chell, 2008). Recognized as alternative possibilities for analysing entrepreneurship, these theories were not specifically detailed due to applicability as well as time and space available within the overall thesis.

### **2.3.2.2 Examples of Applications of Structuration Theory**

One reason this study chose to rely on Structuration Theory as a way of informing its approach to entrepreneurship was the lack of the theory's actual implementation or empirical research in regards to entrepreneurship, it has only been discussed through theoretical assessments. This was, perhaps naively, viewed as a distinct opportunity to make a specific contribution to the wider research around the subject. However in hindsight, the lack of previous implementation or existence of wider empirical research using the theory could also have been interpreted as an incompatibility or difficulty in being able to fully apply the theoretical framework successfully. To date, no other studies have been found directly applying Structuration Theory as an empirical model analysing entrepreneurship. As such, within this space of lacking contextualized examples, this research was left to interpret applicability of elements of the theory.

While alternative research applying Structuration Theory to entrepreneurship has not been found, the theory has been used to study the fields of Organization, Information and Management Systems, Strategic Management as well as specific elements of Business Theory (Rose, 1998; Mole and Mole, 2012; Dutta et al., 2016). Within these disciplines, Structuration Theory has been lauded for its ability to reflect how individuals and businesses intersect within a wider organizational structure as well as how the recursive duality of structure and agency evaluates progress towards strategic change (Dutta et al., 2016). However, a critical, recognizable difference between these studies and this specific research is the application of 'structure'. The above named studies understood structure in a more similar perception to Giddens' original theory, with structure interpreted as rules and social norms existing across a specified time and space, developed by and continually influencing the agent (Rose, 1998; Dutta et al., 2016). Alternatively, this study deviates from Giddens'

interpretation of structure, choosing instead to perceive ‘structure’ as the more tangible elements within localized institutional systems of an ‘operational context’. This deviation and specific approach was implemented, as it was believed to be more applicable in regards to empirical research and analysis within the overall research design.

### **2.3.3 Trait Psychology**

Economists have developed theories around entrepreneurship, which have inferred personality and behaviour characteristics of an entrepreneur and this identification of the individual entrepreneur has typically involved the exploration of the individual through distinct human attributes (Shane, 2003; Chell, 2008). However, as this study looks at both the individual construct and operational context, trait theory was used to identify, understand and analyse the individual, internal entrepreneurial construct.

While the individual construct is just one part of the entrepreneurial story, this research uses elements of Trait Psychology to further investigate and measure elements of the internal make-up or construct of the individual entrepreneur. In taking a ‘trait view’ of an individual’s personality, specific aspects of character of the individual can be identified and used to determine increased likelihood of entrepreneurial action (Chell, 2008). Through analysis of the individual, entrepreneurship can be attributed, in part, to the “internal psychological traits of entrepreneurs” through characteristics such as risk propensity, self-efficacy or innovativeness (Lee and Peterson, 2000, p. 402). Individuals have differing aspects of personality and or motives, which are a core element of self (Shane, 2003). As such, personality traits are considered to remain largely unchanged over stretches of time or through various influences. Cognitive characteristics are however considered to change and evolve over time and can be largely situationally dependent (Chell, 2008).

From a psychology perspective, trait theory is a personal construction of “a dynamic inner process” and is reflected through consistencies in outlook, behaviour and personality aspects (Chell, 2008, p. 105). Through individual pursuit of opportunity exploitation, specific psychological characteristics can increase (or decrease) the likelihood of exploitation (Shane, 2003). However, it is important to recognize that the endowment of a psychological trait

does not automatically enable an individual to be an entrepreneur or to take entrepreneurial action (Shane, 2003). While personality traits are an inherent part of every individual, specific traits, enduring characteristics or identifiable attributes of an individual can be found to be more typical in entrepreneurs than others (Chell, 2008) and will be discussed in greater detail in Section 2.4.

However, understanding the individual through only personality traits has largely proven unsuccessful in fully determining a wider range of entrepreneurship as an individual may be understood to have all their characteristics predisposing towards an entrepreneurial nature, but may not exist in a context to enable or support the entrepreneurial venturing process (Shane, 2003). Individuals engage in entrepreneurial behaviour at particular times and in response to particular events or opportunities and as such the nature of entrepreneurship can be considered ‘episodic’ (Shane, 2003). Entrepreneurship is not a continually occurring phenomenon and as will continue to be discussed, understanding only the individual is just part of the story.

### **2.3.4 Global Value Chain Analysis**

Global Value Chain Analysis<sup>7</sup> (GVCA) can account for historical, cultural and current contexts inclusive of public sector actors, governments, service providers, certification schemes and even pricing structures within the international market (Gibbon, 2001; Daviron and Ponte, 2005; Bolwig et al., 2010). In regard to these specific research confines, the use of GVCA improved understanding and analysis of the determinants to entrepreneurship as well as further supported the understanding and potential impact of entrepreneurial entry into international trade arenas and ensuing opportunities offered (Daviron and Ponte, 2005). While GVCA was regarded as a useful tool, within this research it served merely as a guideline to support investigation and analysis and was not used as a strict method of interpretation or result examination. As such, a brief discussion below presents how areas of GVCA supported this research.

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<sup>7</sup> GVCA also known as Value Chain Analysis pre-1994 (Bolwig et al., 2010)

Given the nature of the coffee production and supply chains that house this research, the use of GVCA supported ability in understanding entrepreneurs within a larger marketplace as well as within the embedded network of activities and ensuing impacts of value distribution (Daviron and Ponte, 2005; Bolwig, 2010). Employment of the GVCA method allowed for analysis of “structures, actors and dynamics of value chains, including examining the typologies and locations of chain actions and the linkages between them” (Bolwig et al., 2010, p. 174). It further enabled the understanding of factors impacting income distribution within and between actors through the capture of distinct roles and/ or skillsets of differing chain segments (Kaplinsky, 2000; Gibbon, 2001).

Using GVCA in analysing entrepreneurs within respective coffee sectors supported the detailed understanding of each market and enabled opportunity to trace entrepreneurs’ movement up and within the chains as well as allow for deeper understanding of the transformative impacts across the chain (Bolwig et al., 2010). Considering the buyer-driven market of the coffee sector and influence by the wider global market, research also accounted for the governance or external influences outside the distinct coffee sectors of Ethiopia and Rwanda. Specific market structure analyses will be found throughout this research, but primarily within Chapter 6.

## **2.4 Individual Construct, Internal Drivers**

The theoretical basis for the conceptual framework for this research was presented in Section 2.3 and will be discussed further in Section 3.2. However, from a practical research application perspective, understanding the entrepreneurship nexus through tangible, empirical evidence required the initial deconstruction for the individual and operational context to be understood separately, prior to understanding the reflexive entrepreneurial influence on systems of operation. This section presents the approach supported through related literature of understanding the individual entrepreneur. Deconstruction of the *Co-Evolving Entrepreneurship Nexus* looked to first understand the individual construct of the entrepreneur, which provided opportunity to assess the entrepreneurial make-up through the extraction and later analysis of individual characteristics, or drivers. Throughout the current entrepreneurship related literature, several distinctive traits emerged which have helped to shape the understanding of the innate, predisposed characteristics of an entrepreneur.

Assessing why entrepreneurs may select certain choices can also be contributed to entrepreneurial ability, specific labour skills (specialization), attitude toward risk and access to capital (Kihlstrom and Laffont, 1979). Additional ingredients of successful entrepreneurs may also include: new ideas and innovation strategies, human capital and (access to) financial resources (Goetz and Freshwater 2001). For ease and clarity in presentation, human capital and gender are presented within the discussion on Drivers, Section 2.4, however are not counted here as inherent characteristics to the internal construct of the entrepreneur. Likewise, financial resources are presented within the discussion on Determinants in Section 2.5.

In reviewing the individual entrepreneur, this research looked to the specific, individual attributes and predisposed characteristics (drivers) believed to be key elements to the predisposition of an individual to be more entrepreneurially inclined or to take entrepreneurial action (Lee and Peterson, 2000). Within the confines of this research, ‘individual’ is understood as the individual construct and this research investigates the ‘internal make-up’ of the person using a trait-view to better understand individual elements separating entrepreneurs from non-entrepreneurs.

#### **2.4.1 Ingredients of the Entrepreneur**

While major theoretical contributions to entrepreneurship have been outlined, defining the specific innate characteristics enabling an individual to recognize and maximize opportunity (or not) continues to be investigated. This analysis of the internal, individual construct differs from the more traditional research that has focused on the individual through historical experience, (specifically family linkages, business start-up results or personal histories) access to capital and education (Fairlie and Holleran, 2012).

New, emerging literature is beginning to analyse the specific personality or psychological traits believed to have influence over an individual’s entrepreneurial likelihood. As such, a multitude of individual characteristics, constructs and traits emerge as ‘entrepreneurial drivers’ from a range of perspectives and fields of study. These include: ambition, analytical ability (cognitive skillset), awareness, creativity, desire for independence, education,

entrepreneurial orientation, extraversion, foresight, innovativeness (including technical, product, service, system), intuition, locus of control, opportunity recognition, persistence, personal experience, self-efficacy, social ability, social competence, social networks, resilience, risk tolerance and vicarious learning (Casson, 2003; 2010; Shane, 2003; Chell, 2008). Many characteristics, as well as influences, can be considered within the individual construct which contributes to the makeup and actions of an entrepreneur, however current research only has a limited grasp on the level and depth of these factors and corresponding internal processes enabling or predisposing entrepreneurial behaviour (Zhao et al., 2005).

As it was not feasible within this study to test every driver listed in the paragraph above, those selected for analysis were derived due to the importance in enabling entrepreneurship determination, but also for tangibility within the specific research environments. This tangibility also improved researcher ability for absorption of respondent responses and actions. The specific drivers were finalized following initial testing and investigation during the Rwanda Research Pilot and will be discussed in full in Chapter 5. Within this study, the specific drivers targeted in evaluating entrepreneurship within an emerging market context are **resilience, self-efficacy, innovativeness, risk tolerance, and opportunity recognition and entrepreneurial orientation (OR+EO)**. Wider situational frameworks may also influence these drivers and the socio-economic or cultural constructs believed to have influence on entrepreneurs and will be addressed within Chapter 6. Each driver is discussed in turn below.

#### **2.4.1.1 Resilience**

Resilience, as defined by Tedeschi and Callhoun (2004) refers to an “ability to go on with life, or to continue living a purposeful life, after hardship or adversity” (as cited in Bullough et al., 2014, p. 478). It has also been defined as a “dynamic process encompassing positive adaptation within the context of significant adversity (Bullough and Renko, 2013, p. 345). The development or innate construct of an ability to positively rebound from and adapt to adverse situations can reduce the occurrence of negative ‘chain-reactions’ and amplify effective coping and adaptation measures (Sinclair and Wallston, 2004). Optimism, higher levels of education, the ability to articulate goals and interests, or the ability to garner wide

ranging social support have been found to be specific characteristics enabling individuals to be more inclined towards resilient action (Sinclair and Wallston, 2004).

Resilience, specifically framed within entrepreneurship research, has received limited attention and is largely associated with difficult environments (war and/ or conflict zones) or other extreme or adverse situations (Sinclair and Wallston, 2004). Bullough et al., (2014) argue that entrepreneurial intentions can be developed if individuals are resilient in adverse situations and have high belief in their own ability (self-efficacy); resilience has been strongly linked to self-efficacy. It has been shown that higher levels of both resiliency and self-efficacy, especially within adverse or dangerous conditions can better enable ability to manage difficult situations or stress in dealing with improved coping skills in order to continue activity, following an adverse event (Bullough and Renko, 2013; Bullough et al., 2014). Similar to self-efficacy, developing a level of resilience can also be influenced by external factors and environments (Bullough and Renko, 2013).

#### **2.4.1.2 Self – Efficacy**

Self-efficacy can be viewed as a motivational aspect of a construct, which is continuously influenced through preferences, actions, choices and experience, which an entrepreneur continues to build (Zhao et al., 2005). Considered to be a distinct entrepreneurial trait, but can be either motivating or de-motivating, self-efficacy is generally defined as the “belief in one’s capabilities to organize and execute the courses of action required to produce given attainments” (Bullough and Renko, 2013; Bandura, 1997 as cited in Bullough et al., 2014, p. 479). Self-Efficacy was originally understood as a central part of the social learning and social cognitive theories but began to be integrated into entrepreneurship research in the 1990s (Bullough and Renko, 2013).

Research has shown that individuals with greater degrees of self-efficacy are more likely to look for and exploit opportunities in comparison to individuals with low self-efficacy (Shane, 2003). While self-efficacy is considered to be a motivational construct, which relates to risk and specific entrepreneurial intentions (Zhao et al., 2005) it is also believed to have a direct impact on entrepreneurial feasibility and ability (Bullough et al., 2014). Multiple studies

have shown it to be highly linked with resilience and overall performance indicators are believed to influence motivation and self-confidence (Chen et al., 1998). Most frequently defined as one's perceptions about their own abilities to perform specific tasks, individuals with a higher self-belief about their own ability to achieve a specific task are considered more likely to have higher performance outcomes than individuals with low self-efficacy or self-belief (Chen et al., 1998; Shane et al., 2003).

An individual's degree of self-efficacy can also be influenced and determined by performance and/ or accomplishments (Chen et al., 1998). Thus, a high self-efficacy individual may take criticism or failure in a more positive light and be more willing to 'try again' as compared to a low self-efficacy individual (Shane et al., 2003). The decision to take entrepreneurial action, will no doubt be influenced by an individual calculation of an opportunity, however an individual's level of self-efficacy is a deciding factor as to whether an individual believes they can or cannot exploit and benefit from that opportunity (Chen et al., 1998; Shane et al., 2003). As such, entrepreneurs have been found to be much more likely to maintain a positive outlook during adversity and/ or setbacks and are more likely to pursue new opportunity again following adversity (Bullough and Renko, 2013; Bullough et al., 2014).

#### **2.4.1.3 Innovativeness**

At its foundation, all innovation can be perceived as new or improvements to ideas in unique or original combinations, significantly impacting socio-economic change as drivers of growth (Schumpeter, 1934; Janssen, 2000; Hall et al., 2012). Innovation, or the capacity to engage in the development of new processes, products, services, ideas or systems, does not necessarily require entry into new markets (Hult et al., 2004; Okpara, 2007). While innovation begins with creative ideas, creativity on its own however, is not sufficient to bring about innovation or innovative change (Okpara, 2007).

Earlier research focused on individual innovativeness as only a characteristic, however more recent research views it as an outcome of a characteristic from idea improvements in collaboration within a wider structure (Baumol, 1993; Scott and Bruce, 1998). As such, an

entrepreneur is focused on gathering and combining ideas or opportunities in unique and or original ways based on their available surroundings, systems or structures. Additionally, innovativeness can be revealed in multiple forms such as new processes that improve efficiencies, new or improved products or services, or finally management resulting in improved organizational structures, business models or operations (Okpara, 2007).

#### **2.4.1.4 Risk Tolerance**

Perhaps one of the most important elements of entrepreneurship is an individual's attitude towards, and ability to manage risk, and risk tolerance is the most analysed trait of entrepreneurship (Fairlie and Holleran, 2012). Kihlstrom and Laffont (1979), stated risk aversion as a key-determining factor to the individual that 'becomes' an entrepreneur. Entrepreneurs bear technical risk (product functionality), market risk (pace and scale of customer adoption, competing business ventures) and competitive risk (length of time they will remain competitive in a given market) (Shane, 2003). Risk-taking propensity within the entrepreneurship perspective is defined as an individual's "willingness to take moderate risks in the pursuit of a given opportunity" (Shane et al., 2003, p. 265). As such, an individual's propensity to take risks is the outcome of 'judgemental decision-making', which is associated with the behaviour of entrepreneurs (Chell, 2008). Research has shown that entrepreneurs are less risk adverse and more likely to see opportunity as opposed to risk, or are more willing to bear risk in given scenarios than non-entrepreneurs (Shane and Venkataraman, 2000; Shane, 2003; Douglas, 2013).

Palich and Bagby (1995) show that while it is widely believed that risk is an innate determinate of entrepreneurs, risk propensity may also be heavily impacted by willingness to take risks given the specific opportunity or business related activity. As such, this research found perceptions to be different when considering opportunity, in which entrepreneurs may be more ready to handle riskier endeavours than non-entrepreneurs (Palich and Bagby, 1995). However, it must be realized entrepreneurs take recognized and calculated risk, as opposed to individuals actively pursuing risk-filled activities precisely because they are 'risky'. Calculated risk-taking is a specific, strategic behaviour of entrepreneurs and variations or differences within individual risk propensity can result in different outcomes (Josien, 2012).

Specific relationship or socio-cultural constructs surrounding failure are also considered as part of an individual's risk tolerance.

#### **2.4.1.5 Opportunity Recognition + Entrepreneurial Orientation (OR+EO)**

*Opportunity Recognition* is largely influenced by subjective interpretations and perceptions of objective realities such as new information or market dynamics (Gregoire et al., 2010) and the literature understands opportunity recognition to be a cognitive attribute understood on an individual level (Shane and Venkataraman, 2000). Webb et al., (2013) describe two key factors inherent in an entrepreneur: alertness to an opportunity and the cognitive ability for opportunity recognition. Alertness enables an entrepreneur to recognize opportunity, perhaps before or in a different way than others. Opportunity recognition occurs when knowledge bases are bridged, enabling the entrepreneur to recognize opportunity and fill a market gap (Webb et al., 2013). In line with Schumpeter's earlier description of new combination, entrepreneurs are the ones able to put new opportunities together with appropriate resources (Croitoru, 2012). An individual may also be more comfortable or confident in pursuing an opportunity due to their social position within a community (Shane, 2003).

*Entrepreneurial Orientation* refers to an individual's interest and desire to explore new opportunities; generally resulting in the individual operating with higher degrees of innovativeness, but also higher degrees of risk tolerance (Boso et al., 2013). An individual's specific orientation towards entrepreneurship can be characterized by a myriad of dimensions: innovativeness, proactiveness, competitive aggressiveness and risk taking but all contribute to an individual's ability to be 'orientated' to recognize an opportunity (Huang and Wang, 2011). Entrepreneurial orientation includes the ongoing process of exploratory learning, opportunity seeking and the exploration of new markets for future advantage (Boso et al., 2013).

Individual action based on entrepreneurial orientation carries high potential for uncertainty and risk, however this can be mitigated with an individual's market-orientation, which includes specific market understanding, intelligence and connections within, and of certain markets operations (Boso et al., 2013). Market orientation correlates highly to market

intelligence and adaptiveness, which can potentially offset risk taking as well as indicate a higher degree of self-efficacy (Boso et al., 2013; Douglas, 2013).

#### **2.4.1.6 Selected Driver Review**

While each of the drivers described above, can not alone be considered as an indicator of entrepreneurship, the combination of these elements along with the individual's operational business landscape were used to further investigate the individual entrepreneurial construct to understand entrepreneurship within a given environment. These selected drivers, analysed in greater detail in Chapter 5, assessed differences between entrepreneurs and non-entrepreneurs as well as determined the entrepreneurial strength or weakness of specific drivers for respondents, across business models and for comparison between countries.

While human capital and gender are not specifically tested as 'drivers' in this research, both elements are acknowledged as important in understanding the individual entrepreneur operating within the given contexts of this research. While a specifically gendered approach has not been taken within this research, it is recognized as a dynamic within these contexts of opportunity, with some entrepreneurs having to account for.

#### **2.4.1.7 Human Capital & Gender**

*Human capital* can be acquired in many ways and from multiple venues such as education, trainings, or past experiences. Increased knowledge (or a specialized knowledge stock) can better enable an individual to register or sift through new information and apply it to decision making, creating 'knowledge' in four distinct ways: "accumulation, organizational proximity, social proximity and recombination-transformation" (Vaghely and Julien, 2008, p.76). Shane (2003) discussed that an individual is more likely to exploit an opportunity depending on levels of education due to the increased knowledge stock and skillset as well as potential technical information gained through education. The degree of education has been strongly linked to the level and success an individual obtains (Shane, 2003). However, in lieu of education, an individual can also benefit from previous experiences or from the observation of others (Shane, 2003). Admittedly, this research has targeted entrepreneurs within

developing economies where high attainment of quality schooling is not an automatic guarantee.

Shane and Venkataraman, offer two main properties as key for successful entrepreneurship in relation to human capital: 1) possession of prior knowledge, required to identify the opportunity and 2) cognitive properties, necessary to value the opportunity (2000, p.222). Information corridors reflect the prior knowledge stock of an individual within a specific situation. This also points to the required specialization of an individual to have the necessary, specific knowledge that enables recognition and identification of an opportunity. However, despite the individual's stock of prior knowledge an individual may still fail to recognize an opportunity. Without the ability or the appropriate development of cognitive properties an individual may be unable to achieve this relationship (Shane and Venkataraman, 2000).

How an individual is able to gather and use relevant information can also be traced to their 'absorptive capacity'. The specific absorptive capacity enables information to be transformed into knowledge that supports opportunity recognition, innovation and decision-making (Rocha, 2004). Knowledge can also be garnered through proximity and clusters, which support information sharing and training, both through formal and informal mechanisms. Within the context of an informal sector of a developing economy, it is considered that knowledge will have a greater level of influence from proximity and cluster dynamics (Rocha, 2004). Opportunity is a combination of market information and innovation, however the entrepreneur that has the cognitive ability to pair this with knowledge will be more able to maximize an opportunity (Vaghely and Julien, 2008). Knowledge gains and information flows from clusters, is especially evident within the coffee sector.

*Gender* is not specifically highlighted and this research has not taken a gendered view of entrepreneurship, however aspects of gender are recognized to have potential in influencing entrepreneurship through existing gendered power dynamics, social norms and the related impact on accessibility as well as perception of opportunity pursuit within the specific contexts analysed. Previous studies have shown men to have a higher prevalence towards

entrepreneurship, see: Brush, 1992; Haber, Lamas, & Lichtenstein, 1987, but this has more to do with opportunity availability and specifics of gender dynamics than a person's gender (Zhang et al., 2009). And an individual's gender is not in itself a determinant of entrepreneurial nature. Zhang et al., (2009), found that when analysing personality and genetics of entrepreneurs from similar backgrounds it did not significantly influence a tendency to become entrepreneurs, however men and women do face different environments and stages of an entrepreneurial process that can determine levels of market accessibility and entrepreneurial success. As Rijkers and Costa (2012) explain, differing cultures, religious or socio-economic contexts often influence which individuals or members of the community or household are able to explore additional or new opportunities for increased income generation. Specifically within developing country contexts, women's (and to a similar extent children's) employment is often counted as unearned income (Zhang et al., 2009).

The specific social norms and related dynamics around gender within a specific context can be highly impactful in regards to opportunity accessibility and the varying institutional structures which can influence a woman's ability to perceive and pursue tangible action towards new opportunity. Gender differences in access to and use of specific services, namely finance, education and land tenure have been found to have direct, negative repercussions for female entrepreneurs as well as an economy more widely (Aterido et al., 2013; Brixiova and Kangoye, 2016). The existence of these 'barriers' have been found to result in gendered performance gaps, underperformance of female entrepreneurs and a higher prevalence for women to exit a market place than men, particularly for actors in sub-Saharan Africa (Brixiova and Kangoye, 2016). Dynamics within households should also be considered when assessing gendered market accessibility and corresponding resources. The majority of household heads in sub-Saharan Africa are male and many female-managed rural agricultural plots remain, in some respects, controlled by the male-head of household. Additionally, female-headed households are overwhelmingly characterised by situations where the husband has passed away, works in an alternative location involved in migrant labour, or is involved with polygamous relationships (Ali et al., 2016). These situations can further exacerbate gendered endowment and access gaps (Ali et al., 2016; Brixiova and Kangoye, 2016).

This study focused on individuals as entrepreneurs, and as such targeted respondents that had already taken tangible action towards opportunity pursuit and in doing so, had found ways around specific barriers. Within the specific contexts of the Ethiopian and Rwandan coffee markets, men were found to be much more prevalent entrepreneurial actors, which fits with the specific dynamics and construction of the socio-cultural norms of each country as well as the existing market structures.

## **2.5 Operational Contexts, External Determinants**

As has been discussed, in addition to the individual construct, the opportunity landscape or external operational context can also influence an entrepreneur's action and process of opportunity pursuit (Baumol, 1993; Shane and Venkataraman, 2000; Shane et al., 2003). With an understanding to the background of the internal, individual construct, attention now turns to understanding the operational contexts entrepreneurs must navigate in pursuit of opportunity. Not all entrepreneurs will recognize value and maximize an opportunity at the same time or in the same way, and different individuals will weigh the value of an opportunity differently given perceived elements of a specific operational structure (Shane and Venkataraman, 2000). Pairing analysis of the individual with the entrepreneur's external environment provides a broader understanding of an operational context enabling the breadth and depth of specific actions (Lee and Peterson, 2000). Entrepreneurial intentions can be influenced by a multitude of factors including motivation and individual capacity, but also the current competitive environment, resource availability, political system, market involvement and regulatory environment (Gregoire et al., 2010; Herrington and Kelley, 2012). The following section looks to define and present broader themes of the operational context believed to have the potential to influence entrepreneurial actions. The nuanced elements of determinants found to have influence on entrepreneurship through this research will be discussed and analysed in greater detail in Chapter 6.

### **2.5.1 Operating Environments for Entrepreneurs**

The 'environment' in which an individual operates is a complex mix of socio-economic factors inclusive of interlinked, yet distinctive political, legal, regulatory, economic, market and socio-cultural systems (Chell, 2008). However, entrepreneurial pathways and dynamics

can differ significantly depending on the varying institutional contexts and specific levels of market professionalization and/ or wider economic development (Acs et al., 2008). Additional complexity can be added to these systems via existing physical, technological and even religious environments (Chell, 2008). While research to date has focused mainly on the individual or firm analysis of entrepreneurship, it has largely overlooked “system-level constraints and outcomes” (Shane and Venkataraman, 2000; Acs et al., 2014, p. 478). Despite the seeming potential for an opportunity to be lucrative, without the existence of the necessary resources or supporting structure, an entrepreneur cannot maximize an opportunity ‘discovered’ (Sarason et al., 2006). Likewise, the existence or ability to access these specific resources may dictate the degree to which an individual may take entrepreneurial action (Shane et al., 2003). This can be specifically seen within emerging markets where regulatory, financial and legal systems may be lacking. Successful environments for entrepreneurship are heavily determined by quality of governance, access to capital, institutions (political and social) as well as the perception of entrepreneurs within societies (Acs et al., 2008).

Emerging economies, such as Ethiopia and Rwanda, are increasingly experiencing large scale institutional transformation with a focus on further stimulating and enabling economic growth through market-based policies (Boso et al., 2013). Increasing privatization and corresponding ‘entrepreneurial transformation’ of state enterprises can also be a significant part of entrepreneurial activity (Zahara et al., 2000, as cited in Valliere and Peterson, 2009 p. 464). While this presents widespread opportunities, it can also be seen as a means of excluding private sector participation.

### **2.5.2 Identified Determinants**

Within the entrepreneurial environment, interdependencies between the entrepreneur and wider development potential is impacted by factors such as governance effectiveness, access to capital or additional resources as well as social perception of entrepreneurs (Acs et al., 2008). Given this research focus, the external determinants of entrepreneurship within the wider operational systems are understood to be the **political environments, market**

**structures, available resources** and **historical, socio-cultural settings** and are briefly described in turn below.

These specific determinants are highlighted in the current literature as acknowledged factors to entrepreneurship and economic effectiveness (see: Casson, 2003; Shane, 2003; Acs et al., 2008; Chell, 2008; Brixiova and Asaminew, 2010; Boso et al., 2013). However, the determinants selected for this specific research are used as overarching themes to house further investigation into each and were chosen due to sensibility in appreciating multiple and differing aspects of the operational context believed to have an influence on entrepreneurship. Further investigation and analysis in order to understand where and how these specific elements support and promote entrepreneurship as well as which may dissuade and constrict entrepreneurship will be further discussed in Chapter 6.

#### **2.5.2.1 Political Environment**

Political environment includes the current political system, including its political and economic stability, legal restrictions or ease and efficiency (cost) of doing business and ability for business establishment. In order for entrepreneurship to be cultivated within an economy, the political system should be transparent, enable “individual rights, democratic rules and checks and balances of a government” (Lee and Peterson, 2000, p 408.) Political freedoms, power decentralization, strong rule of law and property rights are also believed to increase levels of opportunity exploitation (Shane, 2003). As presented earlier in this literature review, government policy can approach entrepreneurship support under four distinctive policy approaches: Extension, New Firm Creation, Niche and Holistic Entrepreneurship. Within this research, the two types of approaches were found to be implemented within the political systems analysed: Extension Policy and New Firm Creation Policy. As will be discussed in Section 6.3, each government takes a different approach to, and acceptance of, entrepreneurship, however neither has yet to actively implement policies specifically targeting and supporting entrepreneurship.

#### **2.5.2.2 Market Structure**

Market structures include the industry structures, regulatory climates, barriers to entry, population dynamics (social, cultural, political norms), market size and opportunity and

political involvement within a given market structure. Market incentives can increase opportunities for entrepreneurial action and this can also be supported through government regulations aimed at making an economy more efficient (Lee and Peterson, 2000). However, market structures can also restrict and inhibit entrepreneurial action and movement throughout a market system. It is critical to recognise that entrepreneurs operate and grow differently in differing stages of an economy's development. Thai and Turkina (2013) argue that a more formalized and open economy enables entrepreneurship to flourish due to more formalized, widely accepted, understood and legally executable structures of systems geared towards developing a human capital base, as opposed to a less formalized, closed economy.

### **2.5.2.3 Resource Availability**

Resource availability refers to the ability to access adequate means of capital and finance, existing infrastructure, available technology and opportunity for education and/ or training, (business or technical) (Goetz and Freshwater, 2001; Shane et al., 2003). Finance (accessibility, availability and cost) was found to be problematic for many entrepreneurs within developing country contexts due to lack of access, high cost and impeding bureaucracy from banks and inability to provide sufficient collateral (lack of assets). This is especially problematic for entrepreneurs within the early stages of business development or operators within informal sectors hindered by typical banking challenges. Additionally, entrepreneurs are often unable to obtain financing if needs are larger than typical micro-credit providers due to the smaller size of business and lack of related collateral endowments, or are unable to afford and use such large financing provided from national lenders. From a financial lender's perspective, micro-loan recipients do not have the structure and capital to be able to take larger loans and often lenders do not find medium sized loans financially viable or an attractive service to provide (Herrington and Kelley, 2012).

Lee and Peterson (2000) found that the most favourable external environments for an entrepreneur are those that provided market incentives (financial returns), but also provided access to appropriate capital availability in order to pursue opportunity as wished. A country's investment climate and related institutions are critical in encouraging and actually enabling entrepreneurial activity and development as well as overall economic development,

or its lack thereof (Valliere and Peterson, 2009). In developing economies, entrepreneurs may be more dependent on donor-oriented financing mechanisms or international financial institutions, but not local financial providers. While this may legitimize some business aspirations, a corresponding risk of bureaucracy and political interference also exists (Valliere and Peterson, 2009).

#### **2.5.2.4 Historical and Socio-Cultural Setting**

The historical, socio-cultural setting refers to the specific desirability for entrepreneurship or business success related role models for new entrepreneurs as well as cultural beliefs associated with opportunity exploitation (success, failure, 'traditional' employment models) within a society (Goetz and Freshwater, 2001; Shane et al., 2003). Research shows that entrepreneurs operating within an informal economy or less regulated sector are highly driven by a 'socially-supportive culture'. This socially supportive or accepting culture for entrepreneurship, along with the presence of entrepreneurial role models is also believed to support opportunity exploitation (Shane, 2003). A socially supportive culture creates acceptance or animosity of success, approving or disapproving of the individual risk taker, responding to failure or expectations of success among a wider community. The socially supportive culture is less important within more developed economies due to higher levels of regulation and formalized processes (Thai and Turkina, 2013).

*Conflict*, while not discussed as a specific determinant, it is recognized to have devastating impacts to entrepreneurs, the wider development of entrepreneurship as well as a wider economy and its institutions (Bruck et al., 2012). While conflict results in obvious damage to a country and economy, it also results in reduced or destroyed market size, limited profitable opportunities, increased uncertainty, technological stagnation and higher transaction costs for entrepreneurs. It also impacts the quality of the "entrepreneurial pool" from lost investment opportunity and/ or access as well as lost educational opportunity (Bruck et al., 2012, p. 11). During times of conflict, an entrepreneurial brain-drain of sorts can also adversely impact an economy's ability to recover and rebuild, and this is especially harmful for less developed economies. Entrepreneurs, as with smallholder producers or poorer segments of a population, tend to be disproportionately affected by conflict (Bruck et

al., 2012). Given the recent violent histories of both Ethiopia and Rwanda, influence from conflict on entrepreneurship was also appreciated within the wider discussion.

## **2.6 Potential Impacts and Influences from Entrepreneurship**

Building from entrepreneurship theory and understanding the interdependence of entrepreneurship as discussed above, this section looks to understand the potential for entrepreneurship (both positive and negative) and create an understanding for ways in which entrepreneurial activity can in turn impact structures and wider operating environments. Entrepreneurship is considered as an important mechanism to economic development not only through employment and new innovations, but also through the resulting welfare effects (Acs et al., 2008). The results of the reflexive entrepreneur and structure identified through this research are discussed in greater detail in Chapter 7.

### **2.6.1 Potential Impacts and Benefits of Entrepreneurship**

As has been discussed, entrepreneurs are critical for economic growth and integral to the process of economic development. Long considered as a significant factor in socio-economic development, entrepreneurs emerging from these marketplaces decorate a long spectrum of varying contributions critical to roles of poverty alleviation and national economic development (Lee and Peterson, 2000). Most significantly, entrepreneurs contribute through employment creation, growth enhancement and corresponding poverty alleviation (Rogerson, 2001). Determining the driving factors to the actions and decisions of entrepreneurs in coordination with the contextual operating environment sheds light on ways in which to foster business opportunity, expansion, innovation and growth, crucial for continued development and economic growth within a wider economy. Unpacking these elements provides context and grounded evidence to a successful atmosphere for entrepreneurs investigated within these research contexts.

Entrepreneurship is generally thought to have a positive impact on economic growth due to potential for the creation of new economic activity, typically resulting in new organizations or pursuits of innovation (Rocha, 2004). However, looking at potential for additional benefits or business opportunities created through entrepreneurial activities, focus should

also be on the entrepreneurial process, with the intention to understand the determinants of the payoffs or expected returns for an entrepreneurial activity. As such, an appropriate reward structure (payment scheme, tax incentive, ease of market access, access to capital) should be built in to, or form part of, an active economy (Rocha, 2004). The development of beneficial structures to entrepreneurship can create additional pathways for continued entrepreneurial reflection as to related effectiveness on implemented reward structures. The transformative potential of entrepreneurship is a key element to economic development and can provide pathways for improved livelihood and economic growth across sectors (Casson, 2003; Rocha, 2004; Brixiova and Asaminew, 2010; Hall et al., 2012). Direct and indirect benefits are however, also reliant upon the type of entrepreneur and whether or not an entrepreneur consciously uses the positive potential of entrepreneurship for a wider benefit.

### **2.6.2 Types of Entrepreneurs**

Josien's (2012) work focused on the differing levels of entrepreneurs: micro and macro and their related designation towards risk. While a macro-entrepreneur looks to create something entirely new and has a high level of risk-taking propensity, a micro-entrepreneur sees business ventures as a primary source of income and is generally thought to have a lower risk taking propensity (Josien, 2012, p.23). This is seen in this research through the range of entrepreneurs as smallholder producers to owners of a large formal business, such as an exporter.

Apart from micro and macro, specifically looking at the types of entrepreneurs and conducive environments for success within developing economies, Brixiova (2010) has determined that two types of entrepreneurship emerge: opportunity and necessity. Understanding the characteristics and tendencies of the opportunity and necessity entrepreneur lends credence to the ability for improved understanding of respondents. As such, *opportunity entrepreneurship* occurs in higher-income economies, typically characterized by more highly educated entrepreneurs that make specific decisions and choices based on opportunity returns. Opportunity entrepreneurship is the voluntary nature of opportunity pursuit, exhibiting an individual's perception and cognizant action to achieve benefits of opportunity (Acs et al., 2008). Conversely, *necessity entrepreneurship* also

referred to as ‘survivalist’ or ‘enforced’ entrepreneurship, occurs in lower income economies where, typically less educated entrepreneurs operate out of the necessity to generate needed additional income. Multiple studies have shown opportunity entrepreneurship to have significant positive impacts on economic development whereas necessity entrepreneurship is believed to have almost zero impact (Brixiova, 2010; Acs et al., 2008). However, given the specific context framing interpretation, income gains by necessity entrepreneurship may have a higher relative impact at a household level, despite impacts at a national level, which may remain unseen. Successful entrepreneurship can be characterized by survival rather than highly productive activities.

Rogerson (2001) states that a majority of new start-ups in developing economies or those operating within informal sectors are the result of enforced or necessity entrepreneurship, actions taken for survival rather than opportunity recognition and exploitation (p.117). Usually operating within the ‘informal’ sector, these businesses often enter and exit the market as needed, with exit strategies not necessarily related to business failure (Rogerson, 2001; Mead and Liedholm, 1998). Mead and Liedholm (1998) point out that these survivalist (necessity) enterprises are key to direct poverty alleviation of an individual or household as they enable “large number’s of very poor people to become less poor” (p.70). However this group typically is the most difficult to serve financially and without the much-needed access to working capital, growth and expansion is largely capped (Mead and Liedholm, 1998). With at least 1/3 of new labour entering employment within the MSME sector, these micro enterprises, while important to income generation, are primarily established as ‘survivalist’ mechanisms characterized as necessity entrepreneurship. This type of entrepreneurship typically results in lower returns with different growth paths and corresponding economic impact than larger enterprises (Mead and Liedholm, 1998).

While opportunity focused entrepreneurship has been shown to have positive impacts on an economy and economic development, necessity entrepreneurship has almost no impact (Acs et al., 2008; Brixiova, 2010). Typically, countries in sub-Saharan Africa have higher rates of necessity entrepreneurs due to higher rates of un and under employment (Herrington and Kelley, 2012). However, dependent upon the specific environment and situation, necessity

entrepreneurship may result in a higher relative impact for a specific household. This also impacts development of local private sectors and markets. Within factor-driven economies, high discontinuance and exit rates are typical for entrepreneurial activity (Herrington and Kelley, 2012). Reasons for this are varied and highly contextual, however, with high levels of necessity entrepreneurship, it is possible that individuals target an opportunity out of necessity and once reaped the benefit, (income gains to support a specific need) choose to move on. It is also highly possible that operating within different sectors (again country specific) may result in easier exit options due to lack of regulation. As will be presented, this research looked to understand the entrepreneurial faces across a range of business types, aims and sizes.

Despite limited literature available, *imitation entrepreneurship*, while seemingly oxymoronic, is also considered. Building on from Rocha's (2004) research on cluster dynamics, imitation entrepreneurship is understood as the evolution of multiple business models following a specific, or type of business model initially established. This could be seen as a general phenomenon of the coffee sector within producing countries. Within these structures, entrepreneurs have learned or observed basic operating structures, imitating a basic model, yet having changed structures, procedures or elements in order to compete within a unique setting. While the 'imitation' of a specific business model may not be entrepreneurial, the entrepreneurial aspects are in the unique placement and operational aspects of the new business to enable and maintain competitiveness and profitability. Imitation entrepreneurship can be seen within many cluster dynamics as discussed in Rocha (2004) and was also observed within this study.

Finally, entrepreneurs and the businesses operated have the potential to be architects of social change. *Social entrepreneurship* refers to business operations with a conscious social aspect implemented through innovation and entrepreneurship, and as such, the social component is rooted in business principles or operational strategies to create social value. While profits remain a key factor for decisions, the business based platform also looks to maximize efficiencies and profit, however the decision on how to use profit and where to invest are from a conscious decision of creating social impact, integrated as part of a wider business model (Novkovic, 2008).

### **2.6.3 Measuring Entrepreneurship**

Given the myriad of varying perspectives and constructs of perceiving and understanding entrepreneurship, it remains a difficult element to define and appropriately quantify completely and as such, its corresponding benefits (or adverse outcomes) remain a difficult concept to ‘measure’ (Shane, 2003; Jennings et al., 2013). The majority of quantification strategies for assessing entrepreneurship have typically focused on impact to or outcomes of national economic growth, business start-up or firm-level analyses, population dynamics, historical studies, length of business operation, labour market data, business output or the specific individual entrepreneur, or the entrepreneurial perception or attitudes (Casson et al., 2006; Acs et al., 2014). However, these methods have typically been implemented in studies looking at entrepreneurs within developed economies. The majority of entrepreneurship assessments conducted within a developing country or emerging market context however have largely focused on industry impact, business scale, formalization and market entry strategies (Brixiova, 2010; Boso et al., 2013; Jennings et al., 2013). It is also recognized that the potential lack of data within some countries may also play a role in limiting empirical studies.

As entrepreneurship is relative and highly dependent upon actors and environments, empirical studies reviewed through this related literature investigation supported the development of individual mechanisms for selecting and/ or measuring entrepreneurs within a specific study. Given the relatively limited number or availability of potential measurement approaches, this research relied on developing its own interdisciplinary design and approach for measuring and assessing entrepreneurship within an emerging market. The guidelines and baseline measurements used for this specific study can be found in Section 3.3.3.

One mechanism that does establish measurement parameters is the Global Entrepreneurship Monitor<sup>8</sup> (GEM), which provides data on global entrepreneurial activity, largely focusing on individual motivations and small-scale business ventures as opposed to large firm operations. The Global Entrepreneurship Monitor is one of the only known mechanisms for attempting

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<sup>8</sup> Established 1997 by Babson College and London Business School. [www.gemconsortium.org](http://www.gemconsortium.org)

to measure entrepreneurship within a developing economy context. However GEM's classifications for entrepreneurship stages within developing economies look at the evolution of an entrepreneur in accordance with the length of time of a specific business life within informal economies (Herrington and Kelley, 2012). GEM's measurements approach businesses operating in major urban centres however it does not investigate the differing types of business models or operational sectors. It also makes no attempt at understanding the individual entrepreneur or the overlapping differences between differing business environments. As such, its measurement guidelines were not used within this study.

## **2.7 Conclusion**

This chapter has taken a focused, systematic approach to the review of classical and current literature surrounding entrepreneurship in the attempt to build a solid foundation for the ensuing investigation into research themes, objectives and specific questions. The discussion built from an economics basis of entrepreneurship theory and was further informed by Structuration Theory in understanding and developing this research's specific approach for analysing entrepreneurship within the coffee markets of Ethiopia and Rwanda. The use of psychology's trait view approach, created a foundation for the understanding and analysis of the internal, individual construct of the entrepreneur. Additional examination discussed entrepreneurship within differing contexts, specifically within developing economies in sub-Saharan Africa and the related policy requirements providing additional insight into the potential determinant influences from varying elements of the operational context on entrepreneurship. Use of this interdisciplinary approach enabled this research to use and build from its conceptual framework: the *Co-Evolving Entrepreneurship Nexus*, which framed the investigation of the reflexive entrepreneur within a distinct operational context in order to further analyse if and how entrepreneurs can benefit from as well as influence wider structures through entrepreneurial activity.

## **Chapter 3 – Methodology. A Researcher’s Toolbox**

### **3.1 Introduction**

Analysing entrepreneurs within this specific research design enabled a distinct research approach and process to aid in the understanding, interpretation and analysis of the individual construct of an entrepreneur as well as investigation of the specific interaction within and influence from unique market environments of operation; in this case, the coffee sectors of Ethiopia and Rwanda. This chapter will present the research approach, design and specific methods used throughout the data collection and analysis process.

### **3.2 Research Approach**

The aim of this research was to understand specific influences from internal characteristics, or drivers, and elements of external operational contexts, or determinants, of entrepreneurs and the corresponding influence this may have on systems of operation. This study used the coffee sectors of Ethiopia and Rwanda as the structure in which to ground opportunity perception and individual action within two distinct marketplaces, providing an ideal situation for analysis and further comparative study. While entrepreneurship can be viewed from a multitude of differing academic perspectives and disciplines, this research built theoretically from an economic perspective, but also used theory and approaches from the sociology and psychology domains. As discussed in the literature review, academic scholarship has yet to agree to a single definition, set of distinctive assumptions or theories used in identifying entrepreneurship (Shane, 2012). Without a distinctive set of principles, the multitude of perspectives and indeed multiple options for defining and even analysing the individual entrepreneur or entrepreneurial action must be clarified. The following discussion looks to present the specific framework this particular research used in design and approach in order to identify, interpret and analyse entrepreneurs and environments of operation.

#### **3.2.1 Theoretical Perspective**

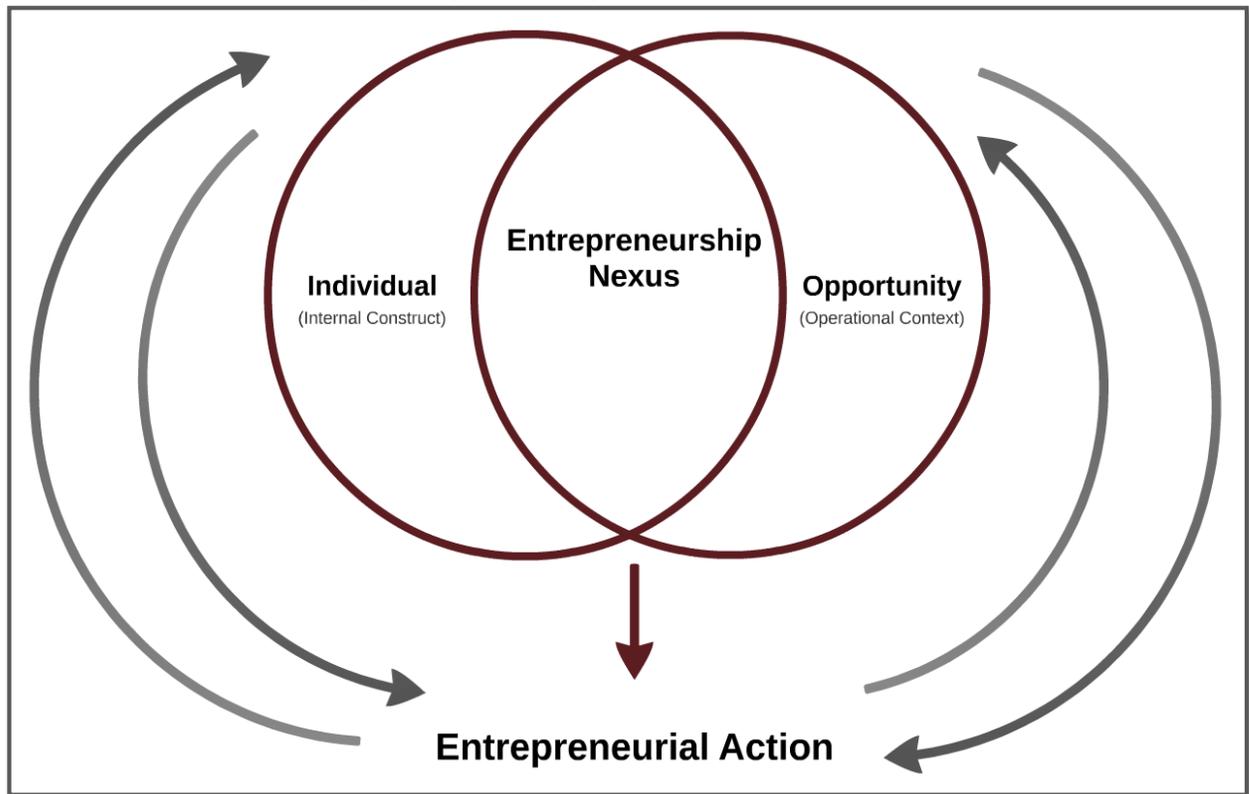
As presented in Section 2.2, traditionally, entrepreneurship study has researched either the distinct individual or the distinct opportunity. This more traditional approach of analysing entrepreneurship is one in which the entrepreneur is commonly perceived as a filler of market

gaps; with the individual entrepreneur and specific opportunity conceived (and studied) as two separate and distinct constructs (Shane, 2003; Sarason et al., 2006). However, as discussed, more recent investigation has looked at the outcome from the combinations of these two constructs. This ‘combination’ was first presented in Shane and Venkataraman’s (2000) framework of understanding entrepreneurship as the *individual—opportunity nexus*, initially presented in Figure 2.2 of Section 2.3.1. This nexus perceives entrepreneurship as the overlap of two distinct constructs: the individual (entrepreneur) and the opportunity (context). Shane and Venkataraman’s understanding of entrepreneurship is one of the individual entrepreneur and opportunity as a dualism, or separate and distinct elements independent of each other that come together to ‘overlap’ when the right individual discovers the right opportunity (Shane and Venkataraman, 2000; Sarason et al., 2006; Shane, 2012).

Discussed in Section 2.3.2, Structuration Theory views the entrepreneur and opportunity within a distinct operational context; one that reflects the entrepreneur as a “reflexive agent engaging in purposeful action” (Giddens, 1984; Sarason et al., 2006, p. 287). Thus the ‘entrepreneurship nexus’ is not viewed as an overlap of two separate domains, but as a co-evolving construction of the individual and opportunity within a specific operational context; believing both as interdependent forces that cannot be understood separately. As such, an entrepreneurial minded individual may be propelled or constrained by specific opportunities or structures identified through the venturing process within a specific context. Likewise, specific opportunities or wider structures may be created or constricted through the results of entrepreneurial actions (Sarason et al., 2006).

Structuration Theory informs this understanding of the individual entrepreneur as interdependent within specific operational contexts. Thus, the co-evolution of the entrepreneur and system, or operational context is perceived to be continually influencing entrepreneurial behaviour, and in turn, entrepreneurial behaviour and choices are constantly influencing their operational context. The author’s developed conceptual framework and conceptualized *Co-Evolving Entrepreneurship Nexus* is again depicted in Figure 3.1, below.

Figure 3.1. *The Co-Evolving Entrepreneurship Nexus*



(Source: Author Construct)

This research approach and analysis understands entrepreneurship in accordance to the theory of structuration, as the dynamic process of an agent engaging to, and responding with, a specific operational context; understanding the entrepreneur and context as co-evolving, interdependent mechanisms within a social system (Sarason et al., 2006). Using elements of the theoretical application of Structuration Theory, embodied through the *Co-Evolving Entrepreneurship Nexus*, this study looked to investigate the unique interdependence of the entrepreneur and operational context as mutually dependent elements within a wider market structure through the investigation of grounded, empirical evidence. Building from this approach, this study developed an operational framework to study the theory in action, through the discovery of evidence to the inputs and outcomes of the co-evolving dynamics. As such, research looked to investigate these elements in turn, through understanding:

1. The nature of an individual entrepreneur,
2. External factors which influence entrepreneurship, and
3. How entrepreneurs in turn influence their social and operational systems.

### 3.2.2 Operational Application

In order to understand this co-evolving nexus in action, the individual and context must first be understood separately to then be able to understand the more complete nexus in its entirety. As this research approach views entrepreneurship as part of a larger system and not as a separate entity operating independently from distinct contexts, research looked to take this theoretical approach further by investigating the grounded application of both internal (individual construct) and external (operational context) inputs, as well as the output of tangible evidence of entrepreneurial action and corresponding reflexivity.

Therefore, this research investigation and analysis deconstructs<sup>9</sup> the individual and operational context, to then test influences of the co-evolving nature of the nexus. As such, this research has the following three objectives:

1. *What* internal characteristics, or drivers, of the individual construct separate an entrepreneur from non-entrepreneur
2. *What* external dynamics of the operational context, or determinants, shape an entrepreneur's approach, outlook and opportunity pursuit
3. *How* drivers and determinants can be fused to reveal influences from entrepreneurial reflexivity and additionality on wider structures within a co-evolving, interdependent, entrepreneurial ecosystem

In this research, *individual construct* is understood as internal, inherent characteristics, which can predispose an individual towards entrepreneurial action. These characteristics are referred to as *drivers*, and several will be tested through this investigation of the individual entrepreneurial internal construct. *Operational context* refers to the systemic nature of institutions naturally occurring within an economy or market dynamic, which an entrepreneur must navigate and work within. The identified institutions, norms and influences within the operational context (political, economic, market and socio-cultural) are referred to as *determinants* within this research. The phrase *entrepreneurial action* has been coined to conceive the tangible, actual outcomes that can be identified and analysed through this research process from the individual entrepreneur operating within, and influenced by, a

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<sup>9</sup>Deconstruction of the *Co-Evolving Entrepreneurship Nexus* may appear counterintuitive, however this approach, as part of the overall research design, is felt necessary in order to truly account for both, key elements within the greater whole. Previous entrepreneurship studies have typically looked at only one element, either the individual or opportunity and thus, have not fully accounted for a larger picture.

distinct operational context, and these outcomes are used to investigate reflexive influences back to the social system.

Critical to the specific absorptive capacity used in analysing evidence of entrepreneurship through tangible, unique action is an understanding and appreciation that entrepreneurship and indeed entrepreneurial actions are relative and contextual and as such, must be understood within the specific context of operation. While building from a theoretical interpretation of entrepreneurship, this research took a pragmatic view in research approach and design, in the attempt to create and use new knowledge as a tool for action (Bryman, 2012). As such, this research placed greater emphasis on, and interest in, the practical application and corresponding implementation of entrepreneurial activity within the unique research contexts and less emphasis on the implications for wider theoretical discussion. Given this approach, research positionality is constructivism as the perceptions and actions being tested are the results of the active construction by respondents in reaction to their surroundings; in this case, the entrepreneur (Bryman, 2012). Research also uses subjective epistemology to investigate and analyse entrepreneurship through asking questions of what, why and how (Sarason et al., 2006)

### **3.3 Research Design**

From this research approach, developing the research design and related questions relied heavily on an inherent flexibility as information was continually learned, theories tested and research conducted through the initial literature review, pilot research phase and final field research for data collection. As entrepreneurship is largely relative and given the scope of this research, flexibility enabling an intellectual mobility to explore backgrounds, operational contexts, and individual characteristics was believed to have greatly benefited this researcher and process in order to be better equipped to more aptly appreciate respondent interactions as well as to maintain integrity of information received.

Admittedly, research questions also built from the researcher's interest, knowledge and experience of working with and investing in entrepreneurs and private sector actors in emerging markets. Professional experience includes Managing Director of several

businesses and social enterprise ventures across West Africa<sup>10</sup> involved in agri-business product purchase and service provision, the local production distribution and sale of improved household technologies, and a regional finance and investment portfolio. Responsibilities were inclusive of the development and expansion of product portfolios and corresponding distribution channels, implementation of credit provision services, market development strategies and financing schemes. Much of this work focused on the active sourcing, classification and capacity building of entrepreneurs through the development of vested investments and partnerships with national-level business partners, clients and consumers.

This previous experience contributed to the research lens and factored into the specific research approach. While existing positionality was obviously informed through knowledge gained from past experience, part of the personal appeal and challenge of undertaking this study was to move past reliance on previously used ideas, strategies and habits in order to delve deeper into the theoretical discourse and participatory strategies, and use new methods and approaches to achieve research targets. Conscious efforts were made to rely upon information gained from theoretical discourse prior to embarking on field research and respondent analysis, and to ensure formulated research positions were made from direct evidence through this research endeavour. During data collection, attempts were made to avoid preconceptions or information misrepresentation through keeping an open mind, not asking leading questions and by becoming as educated as possible on the respective marketplaces, related industry growth, economic history, and specific backgrounds to the varying research areas. A cognizant effort was also made in not comparing entrepreneurial action, findings or observations to past experiences in order to avoid bias or preconceived ideas surrounding specific entrepreneurial action as well as what a successful entrepreneur or non-entrepreneur might be in these specific settings.

Given the ethnographic approach of this study, past experience was however found to be beneficial to research design, logistical management, community entry strategies, generating

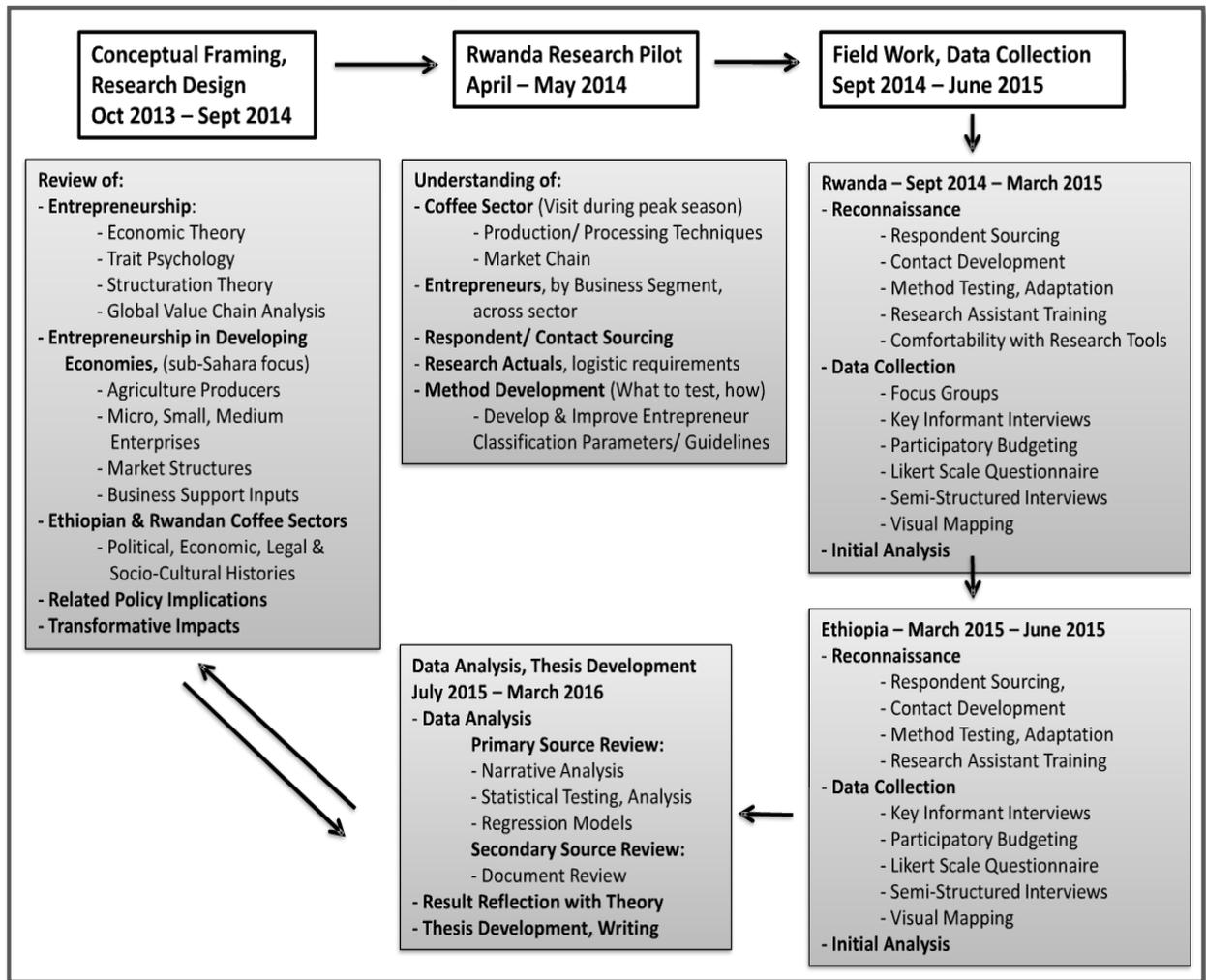
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<sup>10</sup> Business headquarters were located in The Gambia, Ghana and Nigeria. Sourcing routes and wider investment portfolios also covered Burkina Faso, Guinea-Bissau, Senegal (including Casamance), Sierra Leone and Togo.

access to interviewees, relationship building with respondents and understanding of respondent information. Ensuring appropriate absorption, interpretation and analysis of respondent responses was made through in depth due diligence on histories, business models, outlooks, future plans and growth strategies, based on evidence obtained through field research. While efforts were made to not allow this researcher's positionality to interfere with the epistemological framework, it did help in the structure and management of data collection. Despite efforts, it is recognized that past experience or perspectives may have still influenced decisions, perceptions and outcomes.

While the specific methods used will be further discussed in Section 3.4, this research benefited from the use of both quantitative and qualitative methods to investigate individual, internal characteristics as well as wider operational contexts in determining business models, current operational strategies, growth plans, valuation perceptions, innovative actions, product sourcing, financing schemes, risk management, and tangible opportunity pursuit as well as personal histories and experiences of respondents across the coffee chains of both Ethiopia and Rwanda. The data collection phase took over nine months, in addition to a six-week research pilot. The specific actions and outcomes from this research are depicted below in Figure 3.2, presenting the timeline to research design and ensuing data collection and analysis.

Figure 3.2. Research Design and Implementation Timeline



(Source: Author Construct)

As presented in Figure 3.2, the research design has been achieved through a detailed, strategic process and will be further explained below.

### 3.3.1 Location Selection

While this study is a comparative piece, research was initially attracted to Rwanda due to the country's work, and relative success, in reengineering its economy through building a strong national focus of creating and promoting an entrepreneurial environment focused on nurturing the growth of local enterprise and private sector development (Crisafulli and Redmond, 2012). Interest was peaked by the Rwandan Government's initial involvement in re-establishing a functioning economy following the war in 1994, as well as its distinct

choice and maintained commitment in extracting its direct involvement as a functional private sector re-emerged. Admittedly, the Rwandan Government's interest in entrepreneurs stems largely from the need for employment generation and economic revenue creation. However over the past 20 years, the country, its policies, legal structures, markets, and regulatory environments have worked to facilitate a more conducive environment for entrepreneurs, especially within its highly valuable coffee sector. A more conclusive discussion of Rwanda's political, economic and coffee sector history is found in Section 4.4.

In comparison, while much of Ethiopia's economy reopened following the collapse of the Derg Regime in 1991, and indeed the country has achieved high growth rates, success is often limited to and achieved by 'select entrepreneurs' in distinct sectors (Lefort, 2013). Given the active participation of the Ethiopian State in the economy and the ensuing uneven competitive environment between state-enterprises and the unaffiliated private sector, the country is experiencing constricted entrepreneurial mobility and a severe lack of entrepreneurial dynamism. While coffee remains the key export and foreign exchange earner, the market was found to be hindered by direct Government involvement, reduced resource availability and accessibility and a political perception of distrust in private sector actor's ability to achieve state-led agendas; damaging long-term potential for not only entrepreneurial opportunity pursuit, but also the coffee sector itself. Discussion of Ethiopia's political, economic and coffee sector history is found in Section 4.3.

The divergent paths of each country in terms of market liberalization, private sector re-introduction as well as entrepreneurial promotion and embrace, provide an ideal opportunity for comparative research, investigating not only individual constructs, but also the influences differing contexts have on entrepreneurial ability as well as the ensuing influences entrepreneurs have on their contexts. Within each country, specific research sites were chosen in the attempt to facilitate ease in finding respondents in order to achieve an adequate sample size and data collection. As a result, main coffee production zones were targeted for each country. Section 3.3.2 examines research areas for each country, presenting first a macro-level view of research area within the country, followed by a micro-level view of the plotted, distinct locations visited, as identified on maps used during research.

### 3.3.2 Research Areas

#### Ethiopia

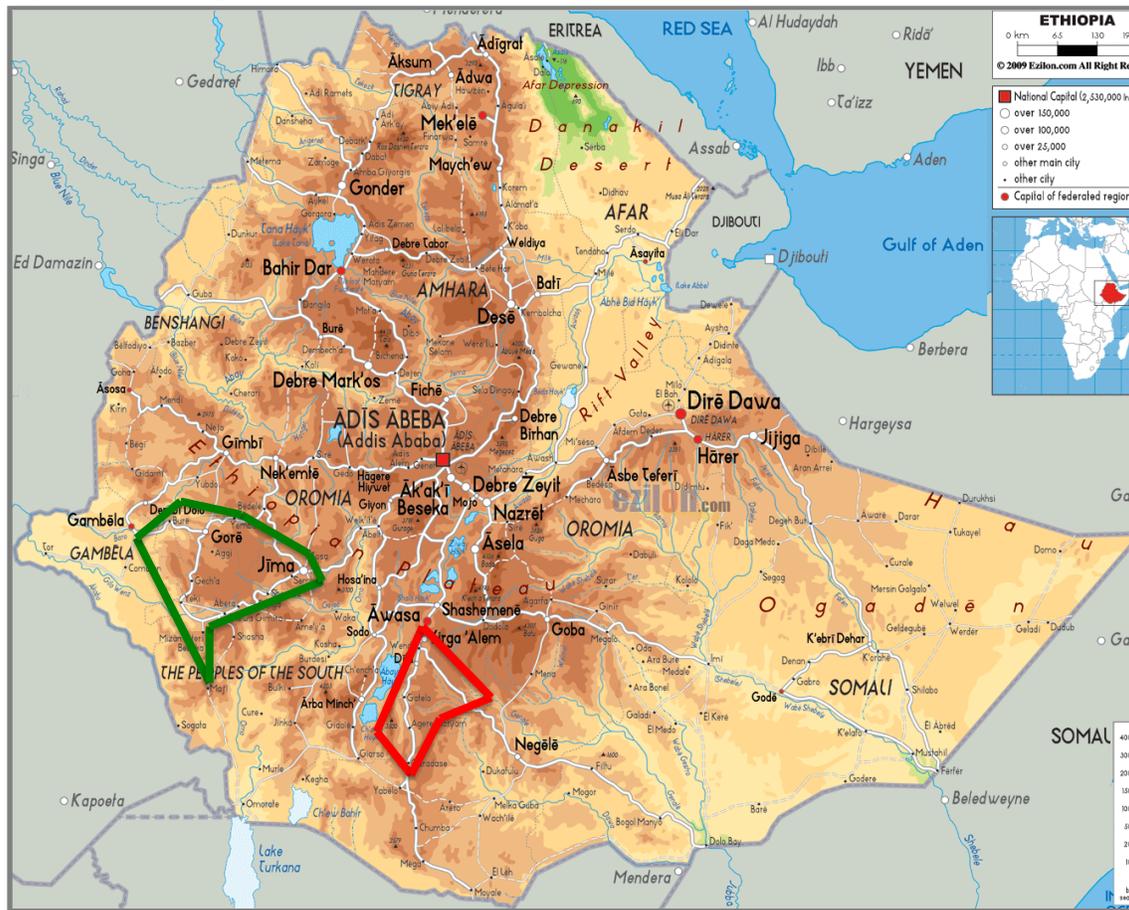
Coffee production zones stretch across most of the southern, western and eastern areas of Ethiopia and fieldwork undertaken for this research occurred in the south within the Southern Nations Nationalities and People's Region<sup>11</sup> (SNNPR). Respondent data collection, outside of the capital, specifically for Smallholder Producers and Processors focused on the Yirgacheffee and Sidama coffee zones. Additionally, respondents in Exporting, private Commercial Farming, and some Processors had business headquarters in the Capital, Addis Ababa and were interviewed there. Figure 3.3, shows the location of respondent research areas within Ethiopia. Area demarcated in **red** depicts the specific research sites within the southern coffee zones of Yirgacheffee and Sidama. Area demarcated in **green** represents area for Commercial Farms where all private commercial farmland is designated, however direct travel was not made to the Western Ethiopia<sup>12</sup>.

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<sup>11</sup> Due to Ethiopia's policy of ethnic-federalism, research chose to stay within one Federalist Zone to reduce external influences that may adversely effect comparison, support easier assimilation of respondents and similar language spoken: Amharic. While SNNPR has some of the best natural coffee producing areas, SNNPR is surrounded by the Oromia Region; a federalist zone known for its strong dislike and at times violent uprising against the National Government. For these reasons it was believed to be beneficial to strategically stay within the SNNPR for respondent sourcing in order to maintain a more uniform understanding of respondent history.

<sup>12</sup> Travel was restricted due to time and distance required, but also due to travel restrictions enacted by the Ethiopian Government due to the National Elections held in May 2015.

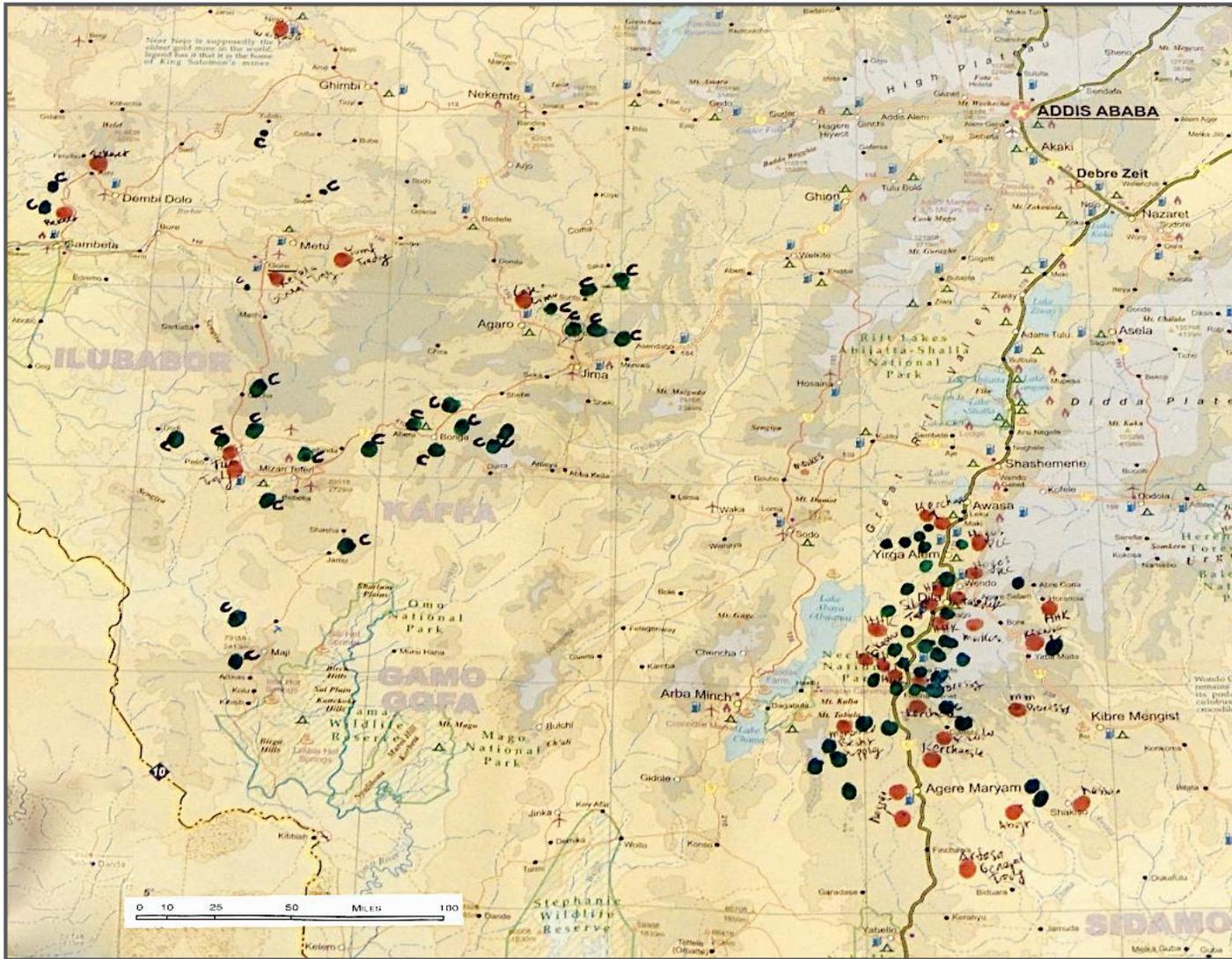
Figure 3.3. Ethiopia Fieldwork Research Areas



(Ezilon Maps, 2015; Author additions)

While Figure 3.3 shows the areas of respondents interviewed through this research within Ethiopia, Figure 3.4 below, depicts the specific research sites visited during the data collection phase as plotted during interviews with respondents. In Figure 3.4, **green dots** depict the location of Smallholder Producer farm locations. **Red dots** depict the sites of processing stations of Processors interviewed. While travel was unable to be made to specific commercial farms, locations were plotted for Commercial Farmers interviewed in Addis and are shown on the map as a **green dot** with a “C”. Data collection was conducted in the southern, coffee producing zones of Yirgacheffee and Sidama. The northern tip of research sites was an approximate 500km south of Addis Ababa and the southern tip of research sites was an additional 100km south. Research was conducted at farm or processing site, or as near as possible, through driving and at times, hiking to interviewees.

Figure 3.4. Map of Specific Field Work Sites in Ethiopia

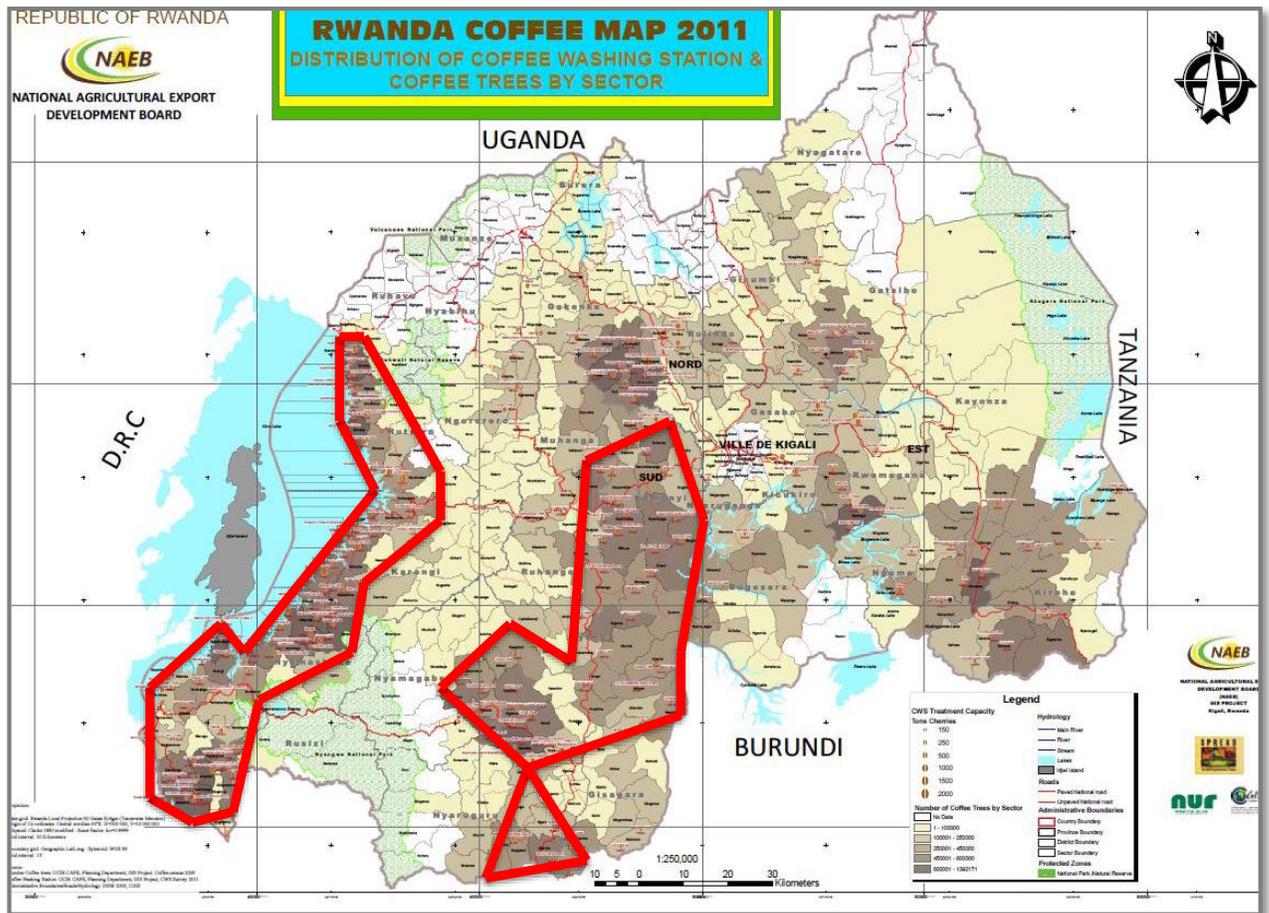


(Source: ITMB Publishing Ltd., 2011; Author additions. Research sites were plotted in real time following interview.)

## Rwanda

In Rwanda, coffee is produced across large swaths of the country and as can be seen in Figure 3.5 below, with darker areas reflect higher concentrations of coffee production. Key areas for coffee production used in this research were the western and southern regions due to the high intensity of coffee production. Rwanda is not segregated by ethnicity and Kinyarwanda is spoken throughout the country; as such, larger areas of the country were toured in the attempt at enabling adequate respondent sourcing. Areas demarcated in red show the location of data collection areas within Rwanda. Similar to Ethiopia, Exporters as well as some Processors, were located in the capital, Kigali and were interviewed there.

Figure 3.5. Rwanda Fieldwork Research Areas



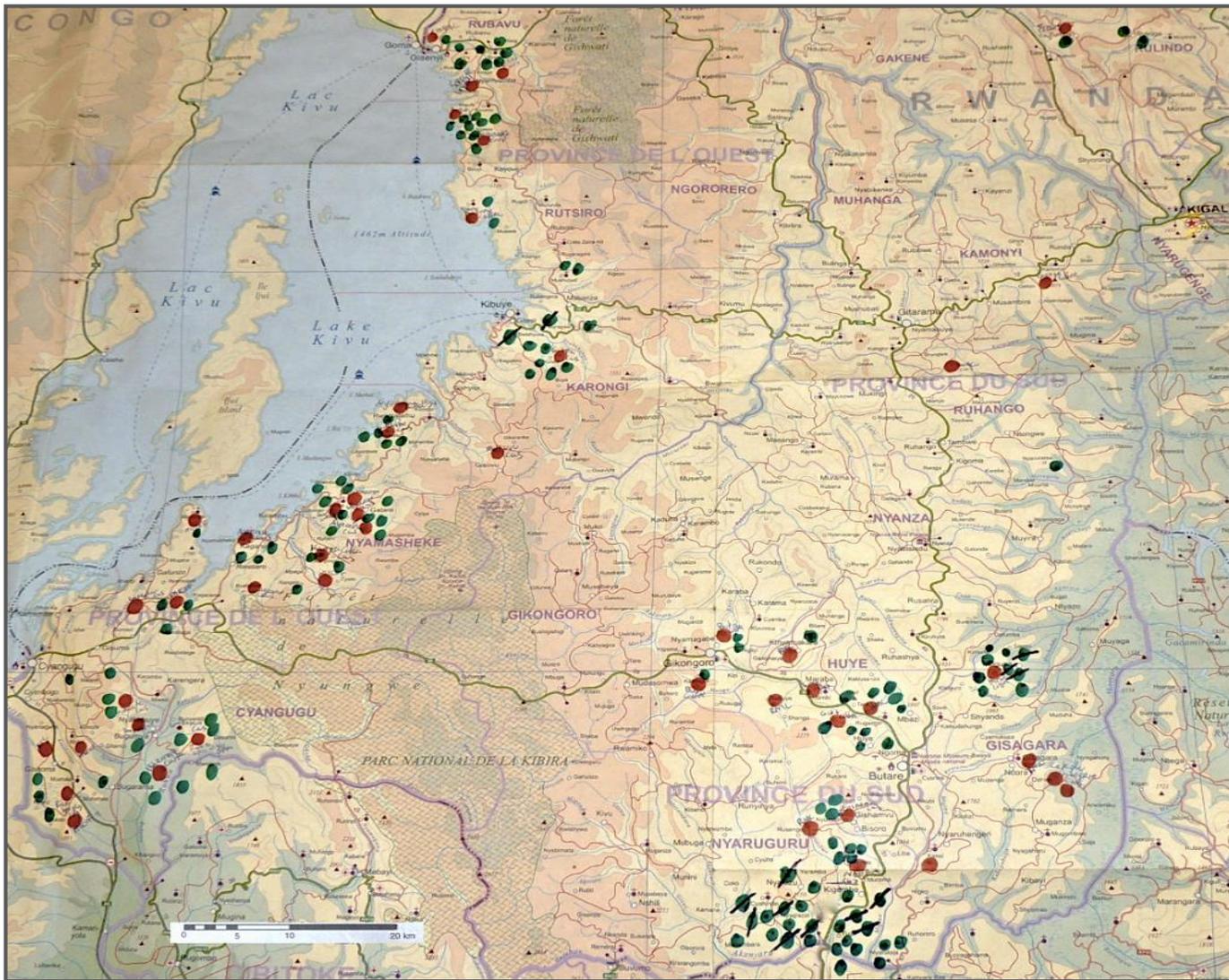
(NAEB, 2012; Author additions)

Figure 3.6 below, shows the specific research sites for locations of farms and processing stations, visited during the data collection phase as plotted during interviews with respondents. Again, **green dots** depict the location of Smallholder Producers interviewed. **Red dots** depict the locations of Processing Stations. The majority of decaffeinated<sup>13</sup> producers were located in the southern tip of the country and are marked by a “/” through a **green dot**. Southern research sites were an estimated 150 to 200km south of Kigali, with the southwest research locations an estimated 250km to 350km from Kigali. Northwest research sites were an estimated 150 km to 200 km northwest of Kigali. Research was conducted at farm or processing site, or as near as possible, through driving and at times, hiking to interviewees.

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<sup>13</sup> To be discussed further in Section 3.3.3, the term ‘decaffeinated producer’ is current phraseology used in Rwanda referring to smallholder producers that no longer produce coffee because of a conscious decision to have uprooted their coffee trees.

Figure 3.6. Map of Specific Fieldwork Sites in Rwanda



(Source: ITMB Publishing Ltd., 2013; Author additions. Research sites were plotted in real time following interview.)

### 3.3.3 Entrepreneur Classification

As discussed, entrepreneurship is relative to actors and contexts within a specific operational context and actions must be appreciated accordingly. As will be initially presented in Sections 4.3.3.1 and 4.3.3.2, the coffee industries of both Ethiopia and Rwanda are built from the same three elements: **Production**, **Processing** and **Export**, and respondents were designated according to specific business segment involvement. Within these three elements, additional classifications were made to more fully reflect the varying range of respondents and related business types encountered through this research in order to enable testing and analysis of individual entrepreneurs operating across the varying types of business models within the coffee chains. A more complete explanation of all business segments used is found in Section 5.2.2. Additionally, through the research process, it was discovered that respondents, irrespective of business segment, could not be simply classified as Non-Entrepreneur or Entrepreneur and as such, an *Entrepreneurial Range* was developed in order to appropriately classify respondents across a range of Non-Entrepreneur, Potential Entrepreneur and Entrepreneur. The *Entrepreneurial Range* will be explained and investigated in greater detail in Section 5.2.3, however, Figure 3.7 presents the outcome of entrepreneur classifications for each business segment from this research.

*Figure 3.7. Entrepreneurial Range and Business Segments*

<b>Entrepreneurial Range</b>	<b>Segment</b>
<b>Unclassified</b>	Decaffeinated Producer (Rwanda only)
<b>Non-Entrepreneur</b>	Smallholder Producer, Non-Entrepreneur
<b>Potential Entrepreneur</b>	Smallholder Producer, Potential Entrepreneur
<b>Entrepreneur</b>	Smallholder Producer, Entrepreneur Commercial Farmer (Ethiopia only) Processor Exporter

(Source: Author Construct)

The design strategy of multiple business segments represented across the *Entrepreneurial Range* was used to strengthen ability to enable not only the individual to be understood, but an opportunity in which research could understand and compare individuals (Entrepreneurs and Non-Entrepreneurs) within specific, and between different, business segments in order to determine similarities or differences in individual constructs. While business segments were

defined from the organic diversification of varying business activities across the coffee chain, the actual classification of respondents as entrepreneurs (or not) was not as clear-cut, or easily defined. The term ‘decaffeinated producer’ is current phraseology used in Rwanda referring to smallholder producers that no longer produce coffee due to the conscious decision to have uprooted their coffee trees; a very literal decaffeination of the farm. This term is not to be confused with the product: ‘decaffeinated coffee’, which is typically prepared by the international importing agent or roaster, post product export; it is not a processing technique currently performed in either Ethiopia or Rwanda. Decaffeinated producers were unable to be categorized along the *Entrepreneurial Range* introduced in Figure 3.7 due to the current business inactivity within the coffee market and as such, Decaffeinated respondents remain unclassified within the *Entrepreneurial Range*. These specific respondents were still included in this study as a means to provide additional information to a specific element of Rwanda’s coffee industry.

Given the wide range of possible actors across two different marketplaces and economic structures, a distinct, rule based system for classifying respondents could not be and was not used. Instead, building from the literature presented in Sections 2.2.1, 2.2.2 and 2.2.3, parameters were developed based on individual motivations, market interaction and the distinct, unique, tangible actions taken in pursuit of opportunity. These parameters provided guidelines for interpreting and appreciating respondents and were used to classify respondents as *Non-Entrepreneur*, *Potential Entrepreneur* and *Entrepreneur*, seen in Figure 3.8 below.

Figure 3.8. Parameters for Entrepreneurial Classification

	<b>Non-Entrepreneur</b>	<b>Potential Entrepreneur</b>	<b>Entrepreneur</b>
<b>Individual Motivation</b>	<ul style="list-style-type: none"> <li>- Limited to no interest in sector or product</li> <li>- Unwilling, or believes self to be unable to expand business</li> <li>- Lack of belief or interest in profitability for sector/ product/ business</li> <li>- Little belief in self to achieve success within specific sector or business</li> <li>- Not personally motivated in pursuit of business expansion</li> <li>- Does not see market potential or opportunity</li> </ul>	<ul style="list-style-type: none"> <li>- Interest in sector/ product</li> <li>- Believes in sector or product's profit making viability</li> <li>- Willing or eager to expand business</li> <li>- Understands market, sees gaps/ potential for new opportunity pursuit</li> <li>- Interest in exploring perceived market gaps</li> <li>- Has specific goals, future plans for business, but not yet taken steps towards achievement</li> <li>- Belief in ability to achieve success</li> </ul>	<ul style="list-style-type: none"> <li>- Interest in sector/ product</li> <li>- Believes in sector's/ product's profit making viability</li> <li>- Interest in exploring perceived market gaps. Willing, eager to expand business</li> <li>- Understands market, sees gaps/ potential for new opportunity pursuit</li> <li>- Has specific goals/ future plans for business. Currently taking action towards achieving plans. Has developed strategy to achieve plans.</li> <li>- Strong belief in self to succeed, persevere through difficult situations</li> <li>- High drive for successful pursuit of opportunity, interest in new challenges</li> </ul>
<b>Market Interaction</b>	<ul style="list-style-type: none"> <li>- Views product as just one element of many for income generation</li> <li>- Limited to no access, or use for additional resources</li> <li>- Unwilling, uninterested to take risk on new activity</li> <li>- Not investing in perceived business potential</li> <li>- Not trying to expand business</li> <li>- Short-term, season to season mentality</li> <li>- Relies on existing knowledge stock to manage business, not actively looking to build additional knowledge</li> </ul>	<ul style="list-style-type: none"> <li>- Limited or no access (at times) to additional resources</li> <li>- Limited use of additional resources if have access</li> <li>- May be investing in current business as good business practice and not as an expansion technique</li> <li>- Sees potential for new opportunity or market expansion, may not have yet determined specifics</li> <li>- Not against taking risk, but prefers to see other's success prior to attempt</li> <li>- Willing to invest in business expansion activities</li> <li>- Limited in action taken through pursuit of perceived opportunity</li> </ul>	<ul style="list-style-type: none"> <li>- Views product as key or integral to income generation</li> <li>- Takes action on new opportunity seen for market expansion</li> <li>- Actively investing in current business as well as for business growth/ improvement/ expansion into new, unique area(s)</li> <li>- Actively pursue options for additional resources / financial access. Able to overcome barriers to resource sourcing / financial access</li> <li>- Willingness to take risk in pursuit of new opportunity</li> <li>- Not necessary to witness other's prior success before attempting / starting something new</li> <li>- Takes long-term view on business potential (not just season to season)</li> <li>- Willing and able to try new activity, regardless of having seen other's attempt</li> </ul>

		<ul style="list-style-type: none"> <li>- Relies on existing knowledge stock to manage business, not actively looking to build additional knowledge</li> </ul>	<ul style="list-style-type: none"> <li>- Actively looking to improve and/ or build upon existing knowledge stock to search for new opportunities or unique activities to become involved</li> <li>- Active player in market, enforcer for change</li> <li>- Embrace opportunity to try something new</li> <li>- Active pursuit of new opportunity, innovative pursuit of opportunity</li> </ul>
<p style="text-align: center;"><b>Unique, Tangible Action towards Opportunity Pursuit</b></p>			<ul style="list-style-type: none"> <li>- Established own business. Expand inherited business into current model, inclusive of specific operational expansion in pursuit of new opportunity</li> <li>- Unique approach to gain, maintain competitive advantage/ secure supply</li> <li>- Diversify product and business portfolio: certification/ unique production/ processing techniques/ marketing strategy</li> <li>- Implementation of innovative sourcing - supply routes/ financing mechanisms (provision and/or attraction)/ quality recognition</li> <li>- Continuation of business despite price volatility or adverse business climates</li> <li>- Strong belief and trust in own decision for opportunity pursuit, despite risk. Pursues business/ new venture accordingly</li> </ul>

(Source: Author Construct)

### **3.3.4 Respondent Sourcing and Community Entry**

Given the multiple ‘moving parts’ within this research and the need to build from a baseline understanding to ensure appropriate respondent absorption, the research process was designed in a strategic manner in order to not only gain understanding, but also to develop contacts and build relationships. Research did not partner with local institutions in the attempt to avoid potential contamination, however it is recognized that this approach potentially added difficulty in actually finding respondents and perhaps, in finding the ‘right’ respondents across a range of business types, outlooks and performances. While primarily based in Addis Ababa or Kigali, during data collection phases outside of the capital cities, this researcher stayed in research location areas, often for several weeks at a time. As research specifically looked to uncover certain elements about entrepreneurs, *purposive sampling* was used to select key individuals based on distinct factors (Berg, 2004). While some respondents, such as Exporters were more easily identifiable and contactable, others such as rural Smallholder Producers required greater efforts to uncover. *Snowball sampling* was also used to find target respondents based on others’ recommendations or suggestions (Berg, 2004). Usage of the snowball sampling technique did not account for the potential of local power dynamics, which facilitated men being more commonly presented as respondents. The ensuing lack of gender parity is recognized as a limitation to this study.

#### **3.3.4.1 Research Pilot (April – May, 2014)**

A pilot research trip was taken to Rwanda during the peak of the coffee harvesting and processing season in order to observe the natural phase of work and business process, with the goal of facilitating an improved understanding of the operational aspects of the coffee production, supply and marketing systems as well as the contextual environment of entrepreneurs within the country. This visit was largely focused on defining some of the logistical and operational frameworks that heavily defined the overall research. While contacts of coffee actors or locations of coffee businesses were initially sought from local government agencies during the first weeks of the pilot phase, updated, accurate lists were not available. As such, a Rwandan Research Assistant was hired to facilitate community entry and provide translation and this researcher hired a car and drove throughout coffee

production zones across the country in search of Producers, Processors, Exporters as well as other industry actors.

Given the peak coffee season, it was anticipated that the majority of actors across the coffee spectrum would be active and easier to find, however, given the frantic nature of the industry during this time, lengthy discussions or interviews were not expected, nor received. Despite the hectic season, contacts and potential respondents were able to be found through the pilot investigation and while brief, initial meetings explained researcher presence and research purpose, and contacts were asked if they would be willing to be a part of the larger data collection phase. Transparency and an effort for effective presentation of intentions was made to not only appropriately inform respondents, but to dissuade potential biases<sup>14</sup> contacts and respondents may have had towards this researcher (Bryman, 2012). Those agreeing to be part of the study provided contact details or methods of how to locate them, for producers without mobile phones. This resulted with not only an initial contact database of possible respondents, but also in a feasible logistical layout for the larger research and data collection phase. The pilot also enabled the initial assessment of specific driver applicability, varying business models and the wider coffee market from which to develop methods and data collection tools.

#### **3.3.4.2 Rwanda Data Collection (September, 2014 – March, 2015)**

Rwanda data collection built from the initial contacts gained in the pilot phase, but occurred strategically, after the close of the coffee season<sup>15</sup> with the conscious effort of providing respondents with opportunity and time to spend during interviews in less pressured environments. The logistical framework identified through the pilot aided in ordering area entry and additional respondent sourcing. Entering areas where research was conducted occurred either through invitation from sourced contacts or in new areas of entry, abiding by appropriate protocols, gaining community entry approval from local municipality offices prior to data collection, where possible. Targeted, as well as snowball sampling was used for smallholder producers through personal recommendations from other respondents.

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<sup>14</sup> Many respondents assumed I was an investor or buyer, which at times appeared to change attitudes if a clear research purpose or intention was not understood.

<sup>15</sup> Rwanda's coffee harvest and processing season typically stretches from March to June.

Additionally, in order to get a wider range of respondents as well as the need to find respondents across a range of entrepreneurial-ness, respondent requests were made for interviews with smallholder producers with a large number of trees as well as those with a small number of trees<sup>16</sup>. In this way it was believed to be able to better source producers along different scales of business size and management with the hopes of finding a wider range of respondents<sup>17</sup>. Admittedly this may have pre-disposed some respondents, however it was found that recommended respondents tended to be ‘model farmers’ or more senior community members within an area, thus making it difficult to obtain producers with varying degrees of business success, perspective and interest in coffee.

Processors and Exporters, largely based Kigali in the off-season were also found through targeted sampling, with some being traced following this researcher’s purchase of their coffee from local supermarket shelves in Kigali. Key informant interviews with government officials, industry leaders, lobbyists, technical specialists, NGOs, financial investors and expat owned exporting businesses were largely held in Kigali.

Methods and data collection tools underwent heavy testing and piloting prior to use in data collection. Through these testing phases, methods of delivery and explanation were improved, tools were advanced and ambiguous or confusing questions addressed. This ‘pre-data collection, tool-testing period’ also provided opportunity for the training of Rwandan Research Assistants<sup>18</sup>, accommodating additional issues discovered or perceived in method delivery; aiding in overall method, tool, and approach improvement.

#### **3.3.4.3 Ethiopia Data Collection (March – June, 2015)**

Given the comparative nature of this study, attempts for ensured continuity and similarity were made through data collection tools and explanations, as well as through community

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<sup>16</sup> Asking for specific land size proved difficult as specific measurements were largely unknown by respondents

<sup>17</sup> Not all respondents reporting to have a large number of trees were considered to be entrepreneurs and not all respondents with a small number of trees were considered as non-entrepreneurs.

<sup>18</sup> Research Assistants were hired through a partnership with a Rwandan higher education initiative, Kepler University, which is affiliated with the US universities, providing qualified students the opportunity to earn an Associates or Bachelors degree accredited through a US university. Partnership between this researcher and Kepler University allowed selected students to receive paid work experience as well as work placement credit towards their degree. All Research Assistants were students pursuing degrees in Business.

entry and respondent sourcing strategies. While a pilot research trip was not possible for Ethiopia due to time constraints and timing of the coffee season, similar strategies were used in regards to contact sourcing, method testing and data collection. The coffee season<sup>19</sup> is typically earlier in Ethiopia than Rwanda and research timing occurred at the end of the season with the similar aim of working with respondents in less pressured environments. Contacts were initially sourced for Export and Processing businesses through the Ethiopian Commodity Exchange (ECX), with the majority of these businesses based in Addis Ababa. Discussions with Export and Processing businesses led to linkages with business partners and sourcing agents in targeted research areas who were able to provide introductions with, and contacts to, local area producers.

Again, targeted and snowball sampling techniques were used in finding respondents. Similar to Rwanda, in order to find a range of Smallholder Producers in regards to different business sizes, approaches and perceptions, respondent requests were made for interviews with producers with large numbers of trees as well as those with a small number of trees<sup>20</sup>. Methods and tools were also tested prior to data collection to ensure appropriate translation, Ethiopian Research Assistant training, and tool delivery to respondents.

Picture 3.1, shows this researcher being taught how to sort processed coffee beans and discovering she is not very good; much to the amusement of another woman sorter!

*Picture 3.1. Learning to Sort Coffee at an Ethiopian Processing Station*



(Source: Author)

<sup>19</sup> Ethiopia's coffee harvest and processing season for red cherry is typically from January to April.

<sup>20</sup> Again, respondents with relatively large number of trees were not automatically classified as an entrepreneur and vice versa.

The data collection phase for Ethiopia occurred during the build-up to and aftermath of National Elections (May 25, 2015). Respondents were recognizably hesitant in speaking with, or being perceived as providing information to ‘outsiders’. Admittedly, this made finding respondents willing to participate much more difficult and as such, a smaller sample size was gathered. It is also recognized that the greater degree of difficulty in community entry and ability to find respondents willing to participate may have limited the depth of information received in some cases.

### **3.3.5 Ethical Assurances**

Reciprocal and equitable ethical management of this research approach and process was made in the effort to not only limit negative impact, but also provide a means for a net positive contribution. Every effort was made to ensure ethical integrity and responsibility in the attempt to ensure an impartial and comfortable environment for information sharing and knowledge transfer. All respondent participants were guaranteed anonymity for information provided and advised of rights to cease participation at any time or retract information already provided. Trust relationships were observed to be especially important in both research settings and as such, community entry and respondent relationship building took a priority in the data collection phase. Throughout, efforts were made to put respondents, research assistants and the overall research aims, in the best possible positions for success.

## **3.4 Tools, Data Collection and Analysis**

This research took an ethno-methodological approach in that it was primarily based around field research and more specifically, the understanding of individuals within their own, specific environment (Silverman, 2011). Additionally, methods used were specifically designed to extract information from individuals interviewed with the understanding and analysis of specific results viewed from within a certain context (Berg, 2004). All tools used were translated into either Amharic or Kinyarwanda for Ethiopia and Rwanda respectively, and were translated by research assistants hired for the data collection process. Both quantitative and qualitative methods were used and are described in turn below. All methods and data collection tools used during this research received prior clearance by the University

before implementation. Additionally, all photographs taken of respondents, businesses or farm areas were taken with respondent and/ or owner permission.

### **3.4.1 Research Tools**

**Qualitative** research was used to unearth various business structures, specific business evolutions, individual experiences, knowledge, innovative actions taken, personal or business histories as well as specific policies, actions or resources that have been particularly instrumental in enabling or prohibiting entrepreneurial success. Methods used to collect this information were *document analysis*, *observation*, *semi-structured interviews*, *case studies*, *key informant interviews* and *market chain analysis*. During the ‘pre-data collection, tool-testing period’, it was discovered that respondents became visibly anxious when asked if conversations could be recorded and responses were observed to be much less detailed. Given this experience, a recording device was not used during data collection.

*Document Analysis* relied on the review of reports, sector analyses, market assessments and policy documents from public sector actors, private investors, technical experts as well as government agencies. A systematic, evidence focused, literature review process was used to ensure the robust identification, review and synthesizing of theories, thoughts and evidence in support of this research and process (Hagen-Zanker and Mallett, 2013). Establishing fundamental baselines for political and economic histories as well as current political environments, initially presented in Chapter 4, enabled appreciation of how operational contexts have and continue to influence action as well as in how to interpret action and opportunity pursuit. Additionally, provided that the entrepreneur and operational context are interdependent and believed to co-evolve, a deep understanding of histories, political and economic influences as well as socio-cultural perceptions were considered critical to more fully understand the entrepreneur and corresponding action within a system. While research was on going, document analysis provided much of the theoretical understanding of entrepreneurship and backgrounds to the respective coffee industries within each country. It was also used in some cases to check or provide context to information obtained from respondents.

*Observation* was an on-going process, inclusive of indirect observation of the distinct marketplaces and actors as well as direct observations with respondents in a participatory process. Direct observation not only improved understanding of systems and procedures but also allowed for observation of entrepreneurs within their distinct operational contexts (Silverman, 2011). Additionally, *Visual Mapping Techniques* were used and found to be especially beneficial during community entry. Visual mapping was used as a means of an additional, unobtrusive, informal data gathering process to provide an improved understanding of specific areas. Visual assessments included:

- Physical infrastructure within and leading to a community (road quality, electricity access)
- Transportation vehicles available (bicycles, motorbikes, cars)
- Dwellings (type/ quality of housing and/ or roofing, construction materials used)
- Number of shops, bars, local banks/ credit offices, street vendors, prevalence of livestock
- Presence of markets held

Techniques also considered personal attributes of individual respondents and other individuals within a community such as:

- Clothing
- Shoes (purchased or hand-made, lack of shoes)
- Number of children in school uniforms (or not)

While these observations are obviously not a concrete guide, it did provide additional, relative background information and was used to enable better absorption and understanding of information provided.

*Semi-Structured Interviews* were used with respondents analysed in this research in order to guide conversations on, but not limited to, business models, market perspectives, market understanding or interpretation of opportunity, future outlooks, influences to business, individual histories, current political realities and business actions. Examples of the semi-structured interview questionnaire can be found in Appendix B.

*Key Informant Interviews* were conducted with other sector actors operating within government agencies, NGOs, lobbyists, financiers, local transporters and market buyers.

Key informant interviews were used as a means of gaining and building background knowledge, clarifying information gathered and discussing result outcomes and initial findings. Attempts were made to schedule key informant interviews prior to field data collection. However in some cases, additional interviews were scheduled following the completion of field data collection in the attempt to clarify questions raised and ensure adequate and appropriate knowledge or information was gained. Based on specific positions, some key informants were able to provide strategic contacts into targeted research areas or to potential respondents. Examples of the key informant interview questions can be found in Appendix C. Table 3.1 below provides further detail into the number of key informants found for specific groups in Ethiopia and Rwanda.

*Table 3.1. Breakdown of Key Informants Interviewed*

<b>Key Informant Type</b>	<b>Ethiopia</b>	<b>Rwanda</b>
<b>Government or Coffee Department Official</b>	4	3
<b>ECX Official</b> (Ethiopia Only)	2	
<b>CEPAR Official</b> (Rwanda Only)		3
<b>NGO / Research Group</b>	6	4
<b>Non-National, Private Sector Actor in Coffee Sector</b>	2	3
<b>International Institution</b>	1	
<b>Coffee Cooperative Leader</b>	2	1
<b>Total</b>	<b>17</b>	<b>14</b>

(Source: Author Construct)

*Case Studies* were used mainly with entrepreneurs that had demonstrated a unique business model or operational scheme or were involved in multiple business phases of the coffee chain. Case studies were used to provide additional clarifications and highlight some of the most interesting individuals found through this research. *Focus Groups* were found difficult to achieve and occurred only three times in Rwanda with Smallholder Producers. Ethiopian respondents refused to be seen meeting as a group and thus none occurred in Ethiopia. Multiple case study synopses are presented in Chapters 5, 6 and 7.

*Market Chain Assessments* were used for each country and marketplace. These were used to determine product flow, support mechanisms, actor overlap, influences external to the chain, direct and indirect government involvement and sources and destinations of financial movements. This study used the Global Value Chain Analysis (GVCA) technique in support

of assessments of market structures, embedded networks and potential impacts for value distribution. GVCA also was used to support analysis and interpretation of influences from operational structures, chain dynamics, factors impacting income generation and product flow as well as income distribution within and between actors (Kaplinsky, 2000; Gibbon, 2001; Bolwig et al., 2010). Through the use of GVCA in analysing entrepreneurs within the respective coffee sectors, market structures were captured, presenting greater understanding to the skeletal construction of the respective entrepreneurial ecosystems. Within this research, analysis specific market chains were developed to capture direct and indirect government influences, financial flows (or lack thereof) external influences and final product flow capacity. Various depictions of the market chains developed through this research can be found in Sections 4.3.3.1, 4.4.3.1 and 6.4.1.1, 6.4.1.2.

*Participatory Budgeting* was used in the attempt to define actual profitability of coffee businesses. In Rwanda, budgeting occurred with Smallholder Producers and one Processor. In Ethiopia, only one participatory budgeting session took place with Smallholder Producers. Formal businesses of Commercial Farmers, Processors and Exporters were reluctant to discuss private, proprietary information. Due to the small sample size of respondents participating in this method, results cannot be generalized and are not included within wider analysis. However, outcomes from participatory budgeting sessions and the related costing models can be found in Appendix A.

**Quantitative** research relied on a *Structured Questionnaire* to determine degrees of specific individual characteristics: resilience, self-efficacy, innovativeness, risk tolerance, and opportunity recognition and entrepreneurial orientation (OR+EO). This questionnaire was structured using a *Likert Scale* to measure strength or depth of specific traits, or drivers, in Entrepreneurs, Potential Entrepreneurs as well as Non-Entrepreneurs. Likert scales are the most commonly used method found for testing individual traits (Chen et al., 1998; Zhao et al., 2005; Bullough et al., 2013) and the likert scale method was used specifically to understand the dimensions, or depth of individual characteristics of respondents (Bernard, 2000). *Ranking and scoring* exercises were also used within the questionnaire, in order to test respondent preference to specific financial packages. Likert scale questionnaires were

translated into Amharic and Kinyarwanda. Examples of the Structured Questionnaire and Likert Scale used can be found in Appendix D.

A sample size of 20 to 30 respondents was targeted for each business segment across the *Entrepreneurial Range*, identified previously in Figure 3.7, per country. 63% of Rwandan privately owned processing businesses and over 85% of Rwandan owned export businesses were interviewed for this research. With more than 400,000 smallholder producers involved in Rwanda's coffee production nationwide, the 126 Smallholder Producers interviewed for this research remain a marginally representative sample.

It was very difficult to obtain accurate information regarding businesses currently operating in Ethiopia's coffee sector, and different reports and government agencies provided large variances in business registrations and current stages of operation (licensing fees paid). However, it is estimated that over 70% of Commercial Farmers and at least 50% of privately owned processing businesses located within the southern coffee zones of Yirgacheffee and Sidama were interviewed for this research. To be discussed in Section 4.3.3, only 300 EXC Export Licences are available in Ethiopia, however an undisclosed number of non-licenced ECX Exporters continue to operate. Exporters typically source nationally and thus, cannot be limited to a single production zone. This research interviewed both licensed and non-licenced Exporters and while it is estimated that at least 15% of all Exporters were interviewed, an exact percentage for the business segment is unable to be calculated. Smallholder Producers number more than four million people in Ethiopia, and similar to Rwanda, the 95 Smallholder Producers able to be interviewed for this research remain marginally representative.

Table 3.2 below, details outcomes of data collection, presenting the number of respondents for each research tool used. All respondents partaking in the Likert Scale Questionnaire also took part in a Semi-Structured Interview. Sample size, per business segment is presented for these methods for clarity as they formed the main data collection for quantitative analysis. A more detailed breakdown for the specific business segments and *Entrepreneurial Range* is detailed in Section 5.3. Method and tool testing periods, prior to actual data collection are

not included in this final count. As can be seen, Ethiopia had an overall lower sample size than Rwanda in nearly all categories. While a greater degree of difficulty in actual respondent sourcing was experienced in Ethiopia, it is also considered as an outcome to the restrictive market and adverse political structure, as well as the closeness of National Elections to data collection occurrence.

*Table 3.2. Details of Data Collection, Number of Respondents per Tool*

<b>Research Tool, (N)</b>	<b>Ethiopia</b>	<b>Rwanda</b>
<b>Semi-Structured Interview</b>	<b>95</b>	<b>126</b>
<b>Questionnaire (Liker Scale)</b>	<b>95</b>	<b>126</b>
Decaffeinated Producer (Rwanda only)	-	14
Smallholder Producer, Non-Entrepreneur	4	31
Smallholder Producer, Potential Entrepreneur	17	15
Smallholder Producer, Entrepreneur	6	23
Commercial Farmer (Ethiopia only)	22	-
Processor	26	20
Exporter	20	23
<b>Key Informant Interview</b>	<b>17</b>	<b>14</b>
<b>In-Depth Case Study</b>	<b>5</b>	<b>15</b>
<b>Focus Group</b>	<b>0</b>	<b>3</b>
<b>Participatory Budgeting (Smallholder Producers)</b>	<b>1</b>	<b>3</b>

(Source: Author Research Data)

In maintaining respondent anonymity, coding of respondents was used according to the following system identified in Table 3.3 below, depicting business segment, country, interview number within specific business segment and year of interview. Countries were designated as ‘E’ for Ethiopia and ‘R’ for Rwanda. An example code for the first Smallholder Producer respondent in Rwanda interviewed in 2014 would be: *(P\_R\_1, 2014)*. Key Informant interviews used a similar strategy, coding key informants by country of operation, interview number and year of interview, such as *(E\_1, 2015)* for the first key informant interviewed in Ethiopia. Data gathered from discussion and interviews are referenced accordingly throughout this thesis through direct quotes or case studies. Data and information from respondents not presented as a direct quote has still been referenced, in regards to this structure, throughout the text.

*Table 3.3. Coding Classifications*

<b>Business Segment</b>	<b>Coding Classification</b>
Smallholder Producer	P
Commercial Farmer	CF
Processor	Pc
Exporter	Ex

(Source: Author)

### **3.4.2 Research Analysis**

Multiple research tools were used as a means of extracting information through different mediums, but also to triangulate data obtained to clarify information, identify outliers as well as validate results. *Narrative Analysis* was used in analysing the qualitative research in order to objectively extract trends or themes discovered (Bernard, 2000). Continual review of secondary data was also reviewed to aid and support understanding or clarification of information received during data collection. All data was entered into researcher developed excel databases and cleaned prior the running of any analysis. Specific *Market Chain Analyses* were developed and are presented in this thesis to depict results from each country's coffee market and corresponding influences from external actors or direct government involvement.

Quantitative analysis used *Descriptive Statistics* and *Statistical Analysis Testing* to determine specific scores for respondent results from likert scale tests. Respondent results within each entrepreneurial classification and business segment were aggregated in order to determine group scores for statistical comparison of varying groups across coffee chains and between countries. *Binary Logistic Regression Models* were also used to better understand and compare specific quantitative data gathered and determine its probability of influencing entrepreneurship within each country. Results from these efforts will primarily be found in Sections 5.2, 5.3 and 5.4.

### **3.4.3 Issues**

Issues and challenges were obviously encountered through this research process, and upon reflection of design and processes completed, areas for improvement have been recognized. These are addressed in the following paragraphs.

## **Entrepreneur Classifications**

Perhaps the most crucial element of this entire research process and final outcome is the classification of respondents along the *Entrepreneurial Range*. Admittedly, the classification relied on this researcher's understanding and interpretation of the literature, background, contextual information within related contexts and absorption of responses. Through the research process and data collection phase, attempts for appropriate and robust due diligence in regards to classifications were made against best reliable information received. However it is recognized that some individuals may have over or under-reported activities, and while using multiple methods tried to circumvent misinformation and validate evidence, it is recognized and possible that some respondents may have been misclassified.

An additional, obvious issue remains the actual classification of respondents. As will be show in Chapter 5, Smallholder Producer respondents were able to be classified as Non-Entrepreneurs, Potential Entrepreneurs and Entrepreneurs due to the varying range of responses and unique, tangible action taken. However, other business segments (Commercial Farmers, Processors and Exporters) were only able to be classified as Entrepreneurs. While all classifications used the same parameters articulated in Figure 3.8, respondents in these business segments (Commercial Farmers, Processors and Exporters) were all classified as Entrepreneurs due to the fact that they had started new business or had built inherited businesses into new, unique phases, or had expanded operational models and business areas.

Given the recent history and 'restart' of both countries' coffee sectors, the majority of these current businesses were start-ups. Where businesses were inherited, current owners had shown evidence as to how they had uniquely changed business approach and model to stay competitive or remain in business. It is also recognized that tangible, entrepreneurial action was easier to perceive due to evidence of business start-up, unique product diversification or divergence into new business areas. However, it is acknowledged that this can raise questions to classification and ensuing analysis. Efforts were also made to find owners of failed businesses (or 'failed entrepreneurs') and while several were sourced and contacted, none were willing to participate in this research, removing potential for an additional baseline.

## **In-Country Challenges**

As mentioned above, Ethiopia was found to be surprisingly difficult in achieving respondent willingness to participate and provide information. This was found at each stage of production, processing and export as well as with government officials. While these challenges did result in a smaller overall sample size and may have resulted in limited information gathering, it is also perceived as evidence to the enabling environment of entrepreneurial mobility (or lack thereof) and restrictive political climate and market structure and will be discussed in greater detail in Sections 6.3 and 6.4.

Rwanda, while easier in sourcing willing research participants, it was discovered that the local language, Kinyarwanda, does not have an equal translation for ‘risk’. In Kinyarwanda, the closest translation is one of ‘challenge’ or ‘problem’, which in relation to discussions about business was not acceptable. As such, distinct phraseology was used to describe risk in relation to business in the attempt to get the same idea across in a fluid and continuous manner. Risk was described as: *the exposure of loss or difficulty from a chance taken in regards to business activity.*

Given Rwanda’s recent history of the 1994 genocide and the direct impact it had throughout many targeted research areas<sup>21</sup>, certain questions were avoided. Specific dynamics with group meetings and power dynamics also had to be considered and accounted for. Rwanda’s history of the 1994 war and genocide remains a strong, palpable, and to some degrees, living component very much engrained throughout society today. However, this research was not interested in the personal histories of tragedy and horror and instead chose to strategically focus on more recent business perspectives and achievements. As such, specific direct personal histories were never asked about or sought after. Questions posed focused on specific business histories, how knowledge gains occurred and involvement within the wider community. Through these settings, some respondents volunteered information about personal experiences from the war and the country’s history of conflict; others did not.

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<sup>21</sup> Traditionally Tutsi owned large land areas inclusive of and in some cases were heavily focused on large-scale coffee production. Given the high Tutsi prevalence, many of these coffee areas where research was held experienced some of the worst massacres of the 1994 genocide.

### **Differences in Theoretical Perspectives**

Finally, different perspectives and perceptions of structure and agency, as first presented by Giddens (1984) can be found within the wider discourse to this theoretical approach of analysing entrepreneurship and can admittedly result in different options and abilities in interpreting entrepreneurship. Additionally, different theoretical perspectives have also been highlighted for building upon Shane and Venkataraman's (2000) presentation of the *individual-opportunity nexus*, other than Structuration Theory. Most suggestions have been made for using a more critical, realist perspective, such as Archer's (1995) proposal in analysing entrepreneurship through a realist lens in order to account for specific conditions that may be allowing entrepreneurship to occur, looking at neither structure nor agent (Mole and Mole, 2010). While the realist perspective is acknowledged as a feasible approach, this research wanted to prioritize the agent as well as the structure as a direct means of understanding entrepreneurship, and as such, was informed primarily by Structuration Theory.

### **Gender and Ethnicity**

In its most basic form, entrepreneurship can only occur through an individual having the ability to perceive potential opportunity pursuit and the access for its tangible pursuit. However, within the specific contexts analysed, women often have unequal access to property and assets, and within certain socio-cultural settings may be restricted from leading or undertaking specific business orientated activity. This inaccessibility and related power related dynamics obviously could have implications for results and wider outcomes on entrepreneurship within these contexts.

Similarly, within the specific contexts researched, certain ethnic groups, both men and women, are believed to also have challenges related to the inaccessibility of specific opportunity pursuits or have unequal rights to property, assets or financial services; this is recognized to also have implications to assessing entrepreneurship within these specific contexts. Likewise, it would have been unethical to specifically investigate the differences in entrepreneurship or opportunity accessibility by ethnic grouping.

This study chose to not take a gendered assessment of respondents and entrepreneurs operating within the Ethiopian and Rwandan coffee sectors. However, given the focus of the study: to improve understanding of the internal construct of individuals able to take entrepreneurial action as well as how those entrepreneurs interacted within their wider operational context, this study did not implement an ethnic or gendered sampling stratification. Not specifically analysing as such is recognized as a limitation in this study. However, it should also be recognized that research investigating the impacts on entrepreneurship from the specific elements precluding women from market access is a different aim than this specific study and is one that is recommended for future research.

### **3.5 Conclusion**

This research understands entrepreneurship as a co-evolving, interdependent, reflexive nexus of an individual and an operational context in which the context continues to influence entrepreneurial action and entrepreneurial action is believed to in turn, influence the contextual system. This chapter has looked to present the strategic approach and design for this research, in preparation for the remainder of the thesis.

Given this research approach, distinct emphasis has been placed in fully understanding individual entrepreneurs as well as the distinct operational contexts and market systems used for data collection and research analysis. In achieving this aim, the ensuing research results from this thesis are structured as follows:

- *Understanding* and presenting the structure of the global coffee market as well as the complex political, economic and social histories and coffee markets of Ethiopia and Rwanda, Chapter 4.
- *Identifying* internal characteristics, or drivers, and socio-demographic elements, in further understanding the individual construct of the entrepreneur, Chapter 5.
- *Identifying* the contextual operating environments, or determinants, that shape an entrepreneur's approach, outlook and opportunity pursuit, Chapter 6.

- And finally, *interpreting* how the internal drivers and external determinants can be fused to reveal influences from entrepreneurial reflexivity and additionality on wider structures within a co-evolving, interdependent, entrepreneurial ecosystem, specifically within the Ethiopian and Rwanda coffee markets, Chapter 7.

## **Chapter 4 – Coffee and Country: A Presentation of the Global Coffee Industry, Ethiopia and Rwanda**

### **4.1 Introduction**

Given this research purview, in order to fully define and appreciate entrepreneurial efforts and action, a solid foundation needed to be built through the firm grasp of not only operational contexts of Ethiopia and Rwanda, but also of the global coffee market and its international trade. It is important to note that as this analysis of entrepreneurship is highly contextualized. As such, results are primarily applicable to the distinct entrepreneurial actors and structures within the operational contexts of the Ethiopian and Rwandan coffee markets. As discussed in Section 2.5, the specifics of a unique operational context are critical components to the entrepreneurial outlook and action, and as such this chapter provides descriptive data to the historical overviews as well as to the economic and market evolutions for the global coffee market, Ethiopia, and Rwanda. Information presented here is in preparation for the more detailed comparative analysis of the defined determinants in Chapter 6, Sections 6.2, 6.3, 6.4 and 6.5. Additional analysis of how entrepreneurs have gone on to influence wider systems will be analysed in Chapter 7, Sections 7.3 and 7.4. This chapter is considered a part of the overall results found through this thesis, as in depth research was required for the understanding of the global coffee market and each respective country prior to the investigation into entrepreneurs; the following discussion is the by-product of that research.

For the specific countries used in this research, socio-economic and political histories, which have shaped current landscapes, are believed to have broad and wide-ranging impacts on national actors and entrepreneurs alike. This chapter is not meant as an exhaustive history, nor critique, however a sampling of the complex histories and tangled politics provides tools to appreciate analysis and results. While this research is not primarily focused on coffee, it did use the industry as a framework in which to structure research questions, house analysis and appreciate outcomes. As such, the following chapter presents market structures, institutional dynamics and related histories to provide readers tools in which to do the same.

The selected coffee markets of Ethiopia and Rwanda present ideal opportunities from which to study entrepreneurship. While coffee production volumes, histories within international markets and consumer recognition can be considered polar opposites; both countries have re-emerged from similar historical and economic platforms over the past two decades. Needing to revitalize nearly lost private sectors, each has taken distinctly different paths from which to maximize domestic industries and economies. Following the evolutions of both sectors since the 1990s, each country has diverged down differing paths of market openness and focus with Rwanda slowly establishing a liberalized coffee market focused on specialization, and Ethiopia managing a stifled, non-liberalized sector geared towards commercialization.

These respective positions offer unique launching pads in which to investigate, test and analyse entrepreneurs operating in liberalized and non-liberalized markets. As such, this chapter presents:

1. An overview of the global coffee industry as an explanation to the different international market forces, pricing influences and technical aspects.
2. A review of the political and economic histories and market evolutions of Ethiopia.
3. A review of the political and economic histories and market evolutions of Rwanda.
4. A brief comparison between Ethiopian and Rwandan coffee markets.

## **4.2 Coffee, a Global Perspective**

In the post World War II era, coffee has become the world's second largest, legally traded commodity, with more than 2.25 billion cups consumed daily (Schubler, 2009). An important source of income for 70 countries, it is produced on more than 10 million hectares and involves millions of people across the globe (Daviron and Ponte, 2005; International Trade Centre (ITC); TechnoServe, 2013a). Throughout its long history, coffee has transformed global trade, influenced fashion, incited religious and political conflicts and provided the stimulant for revolutions.

While there is not a specific year known for coffee's initial discovery, its global trade is traced to sixth century Abyssinia<sup>22</sup> (modern day Ethiopia) (Sereke-Brhan, 2010). Today's current market is comprised of Arabica and Robusta varieties (Daviron and Ponte, 2005). Robusta comprises 30-40% of global production and is known for greater resistance to pests and diseases, typically growing at lower altitudes (zero to 800 meters). However Robusta is also recognized for lower quality and less dynamic taste profiles. The remaining 60-70% is Arabica, growing best at higher, cooler altitudes, producing a superior quality bean, but is also more susceptible to pests and diseases (Daviron and Ponte, 2005; ITC, 2011). Growing at high altitudes, in typically more difficult growing conditions, Arabicas are able to develop more intense and diverse flavours due to strains of the specific growing conditions (higher altitudes, limited rainfall and specific soils), where as Robusta trees typically do not have these demands and thus, tend to produce a duller or more diluted flavour profile. Arabica is the dominant coffee variety produced in both Ethiopia and Rwanda.

#### **4.2.1 Market Structure**

Coffee was one of the first commodities to be highly regulated at the international level and for most of the 20<sup>th</sup> century was traded via a regulated global market that played a significant role in the setting of global production quotas and prices (Daviron and Ponte, 2005; Schubler, 2009). International Coffee Agreements (ICAs) regulated international production, allocating quotas to producing countries, and governed modern global trade for consuming countries from 1962-1989 (Backman, 2009; Schubler, 2009). While the ICAs had some effect on stabilizing prices, the agreements failed to establish a true mechanism to set equitable, stabilized prices across the industry and global prices continue to be highly volatile today (Daviron and Ponte, 2005; Backman, 2009). Liberalizing the global industry in 1989 saw a boom from the un-regulated supply and resulting sharp drop in prices in the early 1990s, which all significantly impacted producing country government's market power. This led to widespread, yet varying degrees of national market liberalization and political reaction across much of the coffee-producing world (Daviron and Ponte, 2005).

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<sup>22</sup> According to legend, a goat herder in Ethiopia's highlands, first discovered coffee when he observed his goats becoming very energetic and lively after eating the leaves and berries of a specific plant. Showing his discovery to a local priest who developed methods for brewing and sharing his newly discovered drink with his congregation to keep people awake for longer hours of prayer and devotion (Sereke-Brhan, 2010).

While the majority of coffee consumption occurs in developed countries, 90% of its production takes place within developing countries and remains dominated by smallholder producers, largely at a subsistence level (Ponte, 2002; ITC, 2011). Consequently, the global industry is gripped by the ‘coffee paradox’, with booming markets and profitable new trends in consuming countries<sup>23</sup>, but with price volatility, climate vulnerability, difficult market access and limited negotiating power for producing countries (Daviron and Ponte, 2005). The structure of the current global coffee market, with concentrated dominance in a handful of international traders, roasters and importers has resulted in increasingly difficult negotiations and reduced opportunity for local export agents (Ponte, 2002). Additional oversupply and the increased marketing strategies of large scale importers and roasters to blend specific coffee profiles across unified brands was also found to depress prices through the 1990s and early 2000s (Ponte, 2002; ICO, 2015). Despite these challenges, important opportunities have emerged for producing regions as consumer demand and consumption patterns have changed with the growing interest of ‘conscious consumers’ in regards to higher quality, unique products, traceable coffee origins with speciality coffees becoming one of the fastest growing industries (Ponte, 2002; Daviron and Ponte, 2005; ITC, 2011); providing ideal opportunity for entrepreneurial pursuit and expansion.

#### **4.2.2 Coffee Production, Processing and Supply**

The coffee chain is formed through a somewhat linear sequence typically passing through five different stages: producer, processor, exporter, roaster (importer), and retailer (marketer), before finally reaching the consumer (Schubler, 2009). All coffee is produced, harvested and processed in county of origin, with the final product resulting in the green bean, ready for export. Coffee beans are exported green to preserve freshness and taste profiles with the vast majority roasted upon receipt by specialized roasters who choose to either blend<sup>24</sup> different origins and profiles together or to keep as a unique origin; depending on specific taste profiles and preferences for a targeted clientele (Daviron and Ponte, 2005). As importing companies have expanded capabilities for roasting and marketing, initially

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<sup>23</sup> It is estimated that Importers and Roasters make over 85% of the final retail price, with producers taking less than 7% of final retail price (Daviron and Ponte, 2005).

<sup>24</sup> Blending presents an easier product for retailers to maintain year on year despite difficulties in securing the same supply profiles.

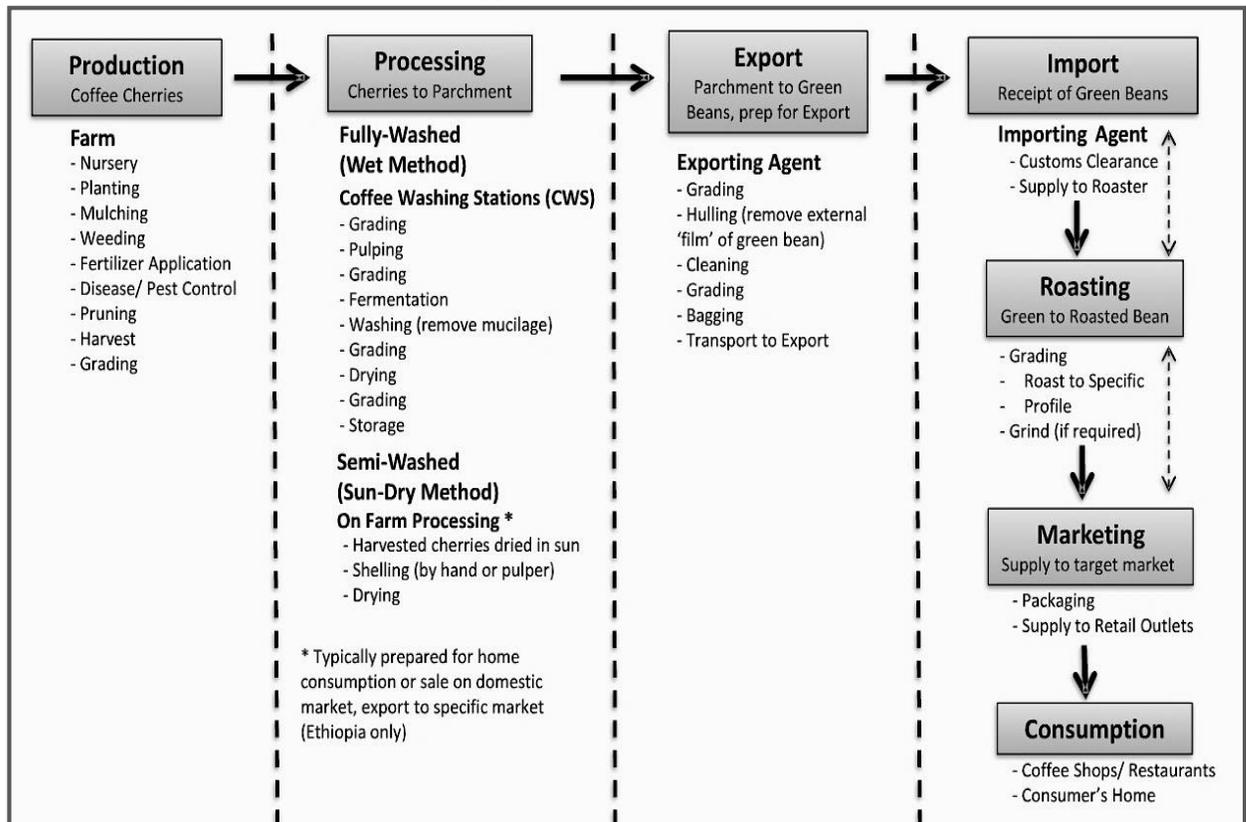
separate industries have become amalgamated within larger company portfolios. Through this structure, the coffee industry has become dominated by the top five trading groups, which as of 2005, control a combined 69% of global market share (Daviron and Ponte, 2005).

80% of the coffee cherry is waste<sup>25</sup> and an estimated seven kilos of red coffee cherries are required for one kilo of green coffee beans (National Agricultural Export Board (NAEB), 2015a). Grading is a constant process, performed throughout the chain's process. Coffee consumed in country of origin is roasted locally, however roasting remains a specialized industry that needs to be further developed in many producing countries (R\_5, 2014). Within producing countries, traditional roles for men and women throughout the coffee chains continue to be largely applied. Rural, smallholder producer household production is dominated by men, however through this study, some women (mainly widows) were found to be responsible for their own farm production. Within the processing chain, men perform traditional, more labour intensive responsibilities, while women are responsible for quality control and grading processes. Business ownership, as will be seen throughout later research, remains dominated by men, however women are increasingly owning and operating their own formal businesses. As will be shown, some of the most dynamic entrepreneurs found in this study are women. Figure 4.1 below, depicts the distinct segments of the coffee chain and related activities from the producer to end consumer. The specific segments used for analysis within this study are Production, Processing and Export.

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<sup>25</sup> 'Waste' from the cherry can be used as compost. Research found some entrepreneurs to make own compost for personal use or sale to area producers. Alternatively, Processors produced compost on site for distribution to producers as incentive or bonus payment.

Figure 4.1. Coffee Production and Supply Chain for Global Markets

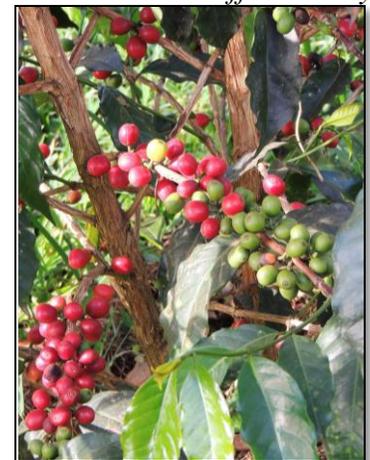


(Source: Daviron and Ponte, 2005, p.54-55; Author Construct)

#### 4.2.2.1 Production – Coffee Cherry

The majority of global coffee production is performed at the smallholder producer level. As seen in Picture 4.1, coffee cherries are a red fruit from coffee trees with a typical productive lifespan from three to 40 years<sup>26</sup>. As an income generator, it is a long-term investment and must be a carefully planned decision as coffee trees will not reach full productivity and quality potential until after year three (Backman, 2009). Inherent coffee quality is largely impacted by production zones, given the specific and unique climates, soils and specific varieties; maximizing this quality is most impacted at farm level (TechnoServe, 2013b).

Picture 4.1. Coffee Cherry



(Source: Author)

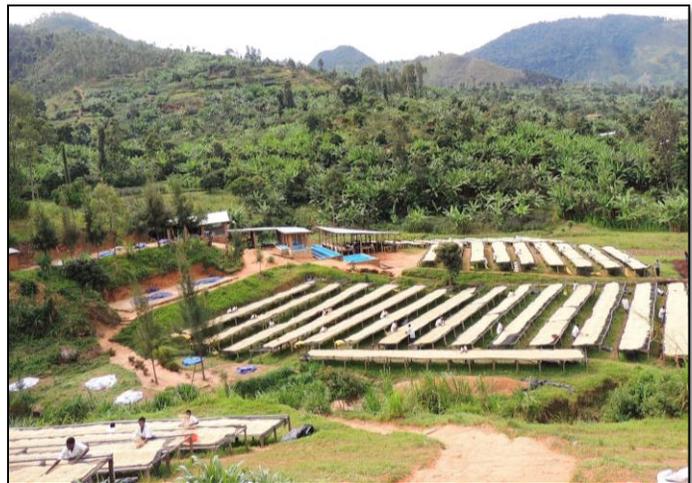
<sup>26</sup> After 40 years a tree will continue to produce but productivity and quality are noticeably reduced

Harvesting is performed by hand, either by the careful selection of individual cherries based on ripeness, or through the ‘stripping’ method in which a producer drags a hand down the branch of the tree taking all cherries off at once. Stripping, the most common harvesting method in Ethiopia, results in some cherries harvested at sub-optimal times and also damages any upcoming buds or leaves on the branch. Cherries harvested over or under peak ripeness result in a poorer quality, often bitter tasting coffee with an end result of lower quality and price (Murekezi and Loveridge, 2009). Coffee cherries are highly perishable and transportation time can also influence quality as well as impact a farmer’s decision and ability to either supply to processing centres or process by hand, on-farm (Mujawamariya, et al., 2013).

#### 4.2.2.2 Processing – Cherry to Parchment

Processing can be done either on farm site or at coffee processing centres. Two primary processing methods exist: Fully washed and Semi-washed (commonly also known as Sun-Dried). Quality attributes are not added through the processing phase, but value of the coffee is maintained, or lost post harvest and during the processing stage (Daviron and Ponte, 2005; MTI, 2008). In regions of abundant water availability, fully washed processing is the premier technique to produce a higher quality coffee, with fully washed beans garnering a higher price due to higher end-quality profiles (MTI, 2008; TechnoServe, 2013b). Picture 4.2 shows a Rwandan coffee washing station using the fully washed method with processed parchment drying in the sun.

*Picture 4.2. Drying Beds at a Coffee Washing Station in Rwanda*



(Source: Author)

The *Fully washed* or wet method, uses significant amounts of water and due to the complex and mechanized process, can only be performed at a washing station as opposed to farm site

(ITC, 2011). The fully washed process includes the mechanized pulping of ripe cherries, fermentation of the pulped cherries, soaking and washing to remove mucilage<sup>27</sup> and finally drying, peeling and polishing. The resulting Parchment<sup>28</sup> is then left to dry in the sun over a period of two to four weeks<sup>29</sup> depending on area weather conditions (Daviron and Ponte, 2005; ITC, 2011). Grading is a constant process, much of it done by hand. As can be seen in Picture 4.3 below, dried parchment, post-processing is sorted and graded by hand<sup>30</sup> at a washing station in Rwanda. While fully washed beans are typically considered of higher quality and command higher prices, it is a much more laborious as well as cost intensive process as compared to the sun-dried method (Backman, 2009).

The *Sun-Dried method* is generally considered to result in an inferior product, typically achieving lower prices. However this method also requires less time, involves less risk and relatively less investment. Sun-Dried coffees are typically processed on farm site<sup>31</sup> by hand. Harvested cherries are simply left to dry by the sun and then stripped of the external dried cherry shell either by hand or with manual ‘pulpers’. In general, sun-dried coffee tends to be comprised of the lower quality grades and is typically produced at

Picture 4.3. Hand Grading of Parchment



(Source: Author)

household level by producers unable to access processing centres or markets. Sun-dried coffee, while illegal in Rwanda, continues to have a market and is produced by producers far from local markets who can store for traders to purchase and sell in neighbouring countries,

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<sup>27</sup> A sticky, sugary coating beneath the pulp adhering to the bean

<sup>28</sup> The ‘skin’ purposely left on the bean after processing. Parchment is left on the green bean as long as possible to preserve freshness, as the taste profile continues to develop as the bean is processed. Parchment is finally removed prior to export, resulting in the green bean.

<sup>29</sup> Incomplete drying attracts mold and damages flavor profiles

<sup>30</sup> In both countries, grading was reported to always and only be done by women, as women are considered to be much more patient than men; able to effectively grade coffee beans for 12+ hours per day.

<sup>31</sup> Washing Stations can and will also produce sun-dried coffee if seasonal prices are particularly low and anticipated returns will not cover cost of fully washing techniques.

mainly Uganda. Approximately 70% of Ethiopia's coffee is sun-dried, however the country has developed a distinct market for unique sun-dried coffees, trading to the Middle East, Eastern Europe and Russia.

#### **4.2.2.3 Export – Parchment to Green Bean and International Sale**

Exporters are national business entities or multi-national companies which facilitate the purchase of parchment and green beans post processing for sale and supply to international importers. The majority of producing countries had state-managed industries at some part of their coffee history, especially in during Africa's colonial era and as such, privately owned exporting businesses are a relatively new phenomenon of the chain. Exporting businesses will also grade again pre-export; typically by hand in Rwanda and

*Picture 4.4. An Export Warehouse in Ethiopia*



(Source: Author)

through a mechanized process in Ethiopia. Picture 4.4, shows sorted and packaged green beans ready for export at a warehouse in Ethiopia. Demand preferences vary widely for differing consumption origins and sourcing is often highly linked through historical connections (Ponte, 2002).

#### **4.2.2.4 Import, Roasting and Marketing**

Typically, coffee is purchased from producing and exporting countries by international trade houses or dealers. Over the past quarter century, the coffee industry has consolidated and is dominated by a handful of retail giants and this remains one of the significant problems of the overall market structure. International traders or importers will supply to roasting houses that combine, blend and roast according to specific demand from retail clients (ITC, 2011). While different, distinct companies can be solely responsible for either the import, roasting or final marketing and packaging, a greater number of companies are merging and adding

internal capabilities to control greater proportions of market share and command higher margins (Daviron and Ponte, 2005). This led to a focus on product consistency and homogeneity in “price, packaging and flavour” using more uniformed blends, reducing cost, but also quality (Ponte, 2002, p. 1110; Daviron and Ponte, 2005). However, with the emergence of speciality coffee, smaller, more specialized importers and roasters are carving out a unique market share through targeting or specializing in specific types, tastes or origins and capitalizing on rising conscious consumption trends. These firms typically place orders directly at point of origin with processors or exporters (Ponte, 2002; ITC, 2011).

### **4.2.3 Understanding Quality and Pricing**

Specific and unique taste profiles and related degrees of quality are largely created by differing microclimates, climactic factors, altitude, rainfall and soil compositions with distinct taste characteristics coming from different growth origins. It is important to note that no one definition of ‘best quality’ exists as differing characteristics and taste preferences vary from each microclimate as well as each consumer palate. Technically, each farm produces its own, unique product based on specific variables in care as well as changing soil dynamics and climate, however these become largely indiscernible once mixed within larger batches at processing centres (TechnoServe, 2013a). Determining taste profiles is an objective process, however matching quality and preference for specific consumer groups is a subjective process largely occurring through roasters, marketers and retail agents (ITC, 2011). Marketability and branding (i.e. region, certification, unique origin) also heavily impact quality preferences (Ponte, 2002).

While no ‘universal’ grading system exists, minimum standards for export and to a certain extent marketing, include altitude and/ or region, botanical variety, preparation (wet or dry process), bean size<sup>32</sup>, bean shape, bean colour, bean density, number of defects per bean, number of defective beans per batch, roast appearance and cup quality (flavour, characteristics, cleanliness of brewed coffee) (ITC, 2011, p. 5). General international standards and quality segmentations do exist for determining the quality of coffee beans but exact specifics are often left to consumer country import regulations and producing country

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<sup>32</sup> A single tree will produce multiple different shapes and sizes of beans (R\_3, 2014).

export designations. For example, Ethiopia has 229 export classifications across ten exportable grades; Rwanda has just two export classifications across four grades (R\_3, 2014; E\_3, 2015). For the purposes of this study the following quality designations will be used as described in Table 4.1 below.

*Table 4.1. Coffee Quality Parameters*

Quality Type	Quality Specs
<b>Specialty-Grade Quality</b>	High intrinsic value, limited availability, sourced from specialized regions or unique origins. Fully washed or some of best/ most unique sun-dried coffees, Arabica varieties. As true niche coffees, products are certified with highest and most rare quality designations. Sold through exclusive retail outlets, specialized coffee bars and upmarket delicatessens. Ethiopia's specialty sun-dried coffees of Harrar and Yirgacheffee are also included.
<b>High-Grade Quality</b>	Beans are fully washed with very minimal defects to bean batches, close to visually perfect. Typically high-quality coffees used in blends to improve overall taste for lower grade, end products. High quality/ niche Robustas also classify.
<b>Commercial-Grade Quality</b>	The majority of coffee consumed. Can range from good tastes and cupping profile, but are not visually perfect. Decent taste, but not impressive, no distinctive character notes. Includes lower quality certified beans as well as lower quality, fully-washed and high-quality semi-washed beans. Quality grade consists of lower quality Arabicas, but mostly Robusta. Commercial coffee will often be blended with higher grades to improve overall batch.
<b>Low-Grade Quality</b>	Anything unable to be sold as Commercial-Grade. Typically produced via sun-dried method and sold in domestic markets for domestic consumption or black-market, cross boarder trade. Much of this grade is also used for the production of instant coffees.

(Source data: ITC, 2011, p. 39, 190, 191; TechnoServe, 2013a)

Premiums for specialty coffees can be considerable, although prices for producers remain low; they are typically still more lucrative than mainstream, commercial grades. In today's market, mainstream (Commercial to Low Grade) coffee accounts for 85-90% of world consumption from exports (ITC, 2011). Specialty or exemplary, high quality coffee beans account for an estimated 10-15% of the world market (ITC, 2011).

#### **4.2.3.1 Global Pricing**

Traded on global commodity markets, coffee is at risk to worldwide price fluctuations<sup>33</sup> in which the producer, processor and export entities have little to no power in influencing specific prices or trends. Factors influencing global supply and prices are market

<sup>33</sup> Arabica coffee is traded on the *New York Coffee, Sugar and Cocoa Exchange (NY-C)*, which covers most of the physical trade. The NY-C guides prices for commercial grade coffee the world over with higher-grade coffees pegged off commercial grade prices. Futures and speculative markets also impact price (Ponte, 2002; TechnoServe, 2013b).

speculation, futures contracts, extreme weather events<sup>34</sup> in producing countries, as well as changes in consumer preference or demand (TechnoServe, 2013b). Consumption levels in ‘traditional markets’ of Europe and North America for mainstream coffees have stayed relatively static, while consumption in Brazil, India, Eastern Europe, parts of the Middle East and China are growing at annual rates of 10-20% (TechnoServe, 2013b). However, market fragmentation of speciality consumption is growing steadily across all markets, specifically North American and European markets as consumers are trending away from commercial grade and towards higher quality, distinct taste profiles (Daviron and Ponte, 2005; TechnoServe, 2013b).

### **4.3 Ethiopia at a Glance**

The Ethiopian economy presents an interesting dichotomy with the appearance of its market-orientated economic promotion strategy. However, the country remains managed through a state-led economy dictated by internal control and private sector mistrust (Lefort, 2014). The strong party-led interventionist strategy, while achieving high economic growth rates, is powered by only a handful of prioritized industries (construction, manufacturing and select export products) (Lefort, 2014). In addition, the continued suffocation of a non party-affiliated, private sector, and the absence of genuine competitive environments, disruptive regulations and top down oversight have resulted in a lack of entrepreneurial dynamism (World Bank, 2014a).

The second most populated country in Africa; Ethiopia’s population of 90+ million encompasses more than 60 different ethnic groups (Lyons, 2011). Experiencing some of the most impressive growth rates in the world, projections are estimated at 9.5, 10.5 and 8.5% growth for 2015, 2016 and 2017, respectively (Holodny, 2015). Yet despite being one of the fastest growing, non-oil dependent economies, the country is still widely associated with chronic food shortages and continues to be depicted by a rain fed agriculture-based economy

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<sup>34</sup> For example: drought in Brazil and coffee rust disease throughout much of South America in 2013 and 2014 led to some of the largest movements in coffee prices over the last two decades with many countries believing 2015 to be a year for especially high prices, however this has not proven to be the case (E\_5, 2015). Additionally, Brazil’s forced pre-sale of its coffee stocks in order to improve the country’s liquidity in the build up to the 2014 World Cup, was also believed to be a boom to prices for the 2014 and 2015 seasons. Instead many importers hoarded stock and drove down prices (R\_4, 2014).

(Lefort, 2013; Tridos Facet, 2013). The opening of the Ethiopian economy and seeming embrace of the private sector following the regime change in 1991, has since seen divergent paths in regards to market orientation, presentation, and domestic, state-led action. While the country has worked diligently to maintain an outward appearance of stability, current leadership continues to have an intense intolerance for dissent with extreme limits on press freedoms, free speech and harsh suppression of opposition parties, as well as active involvement within economic spheres (Lyons, 2011).

Within the Ethiopian context, questions must be asked as to the willingness of the Government to support a private sector and correspondingly to what degree entrepreneurs are actually enabled to pursue opportunity. This section looks to lay groundwork for the ensuing investigation as to the potential influence these historical as well as current political, economic and market structures have on entrepreneurship within Ethiopia and the wider implications for growth.

#### **4.3.1 Political and Economic Histories**

Ethiopia, one of the earliest civilizations and political societies has been moulded by a relatively recent history of conflict and leadership styles of control and oppression; shaping its militarized, controlled existence throughout modern history (Geda, 2008; International Crisis Group (ICG), 2009; Lyons, 2011). This institutional legacy and single party political dominance continues to shape internal politics and power balances today and has further served to dilute private sector equity and ability.

The conflicts, power struggles, ideological transitions and resulting strong state-control and intervention, have resulted in barriers to economic growth as well as peaceful democratization expansion. While this study is not a historical review, Ethiopia's economic performance is believed to be strongly correlated with the political regimes and ideologies in power (Geda, 2008). As such, it is necessary to appreciate the country's formative background and understanding of its modern political development. Clarifying the political-socio-cultural environment sheds additional light onto the whys and hows of entrepreneurial choices and action in the country.

#### **4.3.1.1 Early Powers**

Ethiopia's expansive land area has historically encompassed a wide range of differing cultures, religions and ethnic groups. Tracing this history to the 1800s, important networks of extensive trade routes played key roles in not only the pacification of rivalries but connected the country through the trade of profitable commodities: initially salt and slaves, later by ivory and gold, and eventually coffee (Zewde, 2001). This time period also saw the development of social transformation towards a united monarchical system, which took, controlled, and maintained power through militarization and force.

The Tigrean, *Yohannes IV* became Emperor in 1872 and viewed unification through a “policy of controlled regionalism” attempting to create a military and political balance (Zewde, 2001, p. 44). While these efforts were strongly rebuffed by local populations, Yohannes' efforts to institute a ruling polity of controlled regionalism can be seen as the initial groundwork in laying the modern day policy of ethnic-federalism. While Yohannes was killed while trying to subdue an appointed Vassal, who later became Emperor in 1889, it is important to note the Tigrean nobility and wider Tigrean populace bitterly harboured the loss of not only Yohannes, but also the lost opportunity to replace him and maintain power through Tigrean lineage (Zewde, 2001; Bekele, 2015). This bitter resentment of lost power and ruling prospect has been kept alive in subsequent generations of Tigreans and as will be seen, not only played an important role at the end of the twentieth century, but also continues to dominate political aspects within Ethiopia's ruling party and wider business environment today (Bekele, 2015). Following Yohannes, *Emperor Menelik II*, known for his great diplomatic skill, keen administrative organization and military strategy<sup>35</sup> is recognized as ensuring Ethiopia's sovereignty during the ‘colonial’ period, beginning the country's transformation towards modernity (Zewde, 2001; Bekele, 2015).

#### **4.3.1.2 Imperial Regime**

Perhaps the country's most revered, despised and divisive ruler, *Emperor Haile Selassie*, acquired a country still operating from a traditional ethos of differing cultural and historical identities (Bekele, 2015). A distant cousin of Menelik II's, Haile Selassie, motivated by a

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<sup>35</sup> Perhaps Ethiopia's most famous conflict, Menelik II led the Ethiopians in the Battle of Adwa in 1896, which ceased the threat of Italian colonization attempts (Bekele, 2015).

political vision of subjugation and nobility, kept tradition with the past 150+ years of power transitions, seizing power through force (Zewde, 2001; Clapham, 2015). The Imperial Regime saw state-power reach levels unseen before in Ethiopian history with The Emperor proving highly adept at solidifying and wielding absolute power through elaborate security networks,<sup>36</sup> centralized provincial administration, military occupation and financial control (Zewede, 2001).

The Imperial Regime was led by a state pursued, market-based economy of landed-aristocracy and peasants (Geda, 2008). While the country developed an expansive private sector fuelled by large external investment<sup>37</sup>, 70% of the country's investment flowed from foreign capitalists with the remaining from Ethiopian elites and state-businesses (Lyons, 2011; Prunier, 2015). Industry was concentrated in major urban areas with half of all industrial sites in the capital (Zewde, 2001). Large-scale agricultural development projects and reforms resulted in immense benefits for large-scale landowners, linked to the regime and further enabled this aristocracy to take advantage of trade and industry opportunities (Zewde, 2001; Clapham, 2015). With increasing disparity created between impoverished masses and selected elites (Clapham, 2015), the country remained a largely rural agro-economy with 90% of the export value from agricultural commodities, 60% of which was coffee (Zewde, 2001). While improvement to education was a high priority, national investment in the sector failed to meet ever-increasing enrolments, resulting in reduced per pupil expenditures. This educational environment paired with a sagging economy and a 40-50% (mainly urban) unemployment rate, resulted in poorly educated, largely unemployed masses; resulting in a large population ripe for radicalization and militarization (Prunier, 2015).

#### **4.3.1.3 The Derg Military Junta**

As the country continued its economic and political implosion, the Derg Military Junta seized power through a coup, surprising both the Emperor and Populist Student Movement. The

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<sup>36</sup> This public security division formed the basis for today's Federal Police. Initially developed to suppress political dissent and opposition within the Capital, its mandate has not changed much over the past 75 years, however networks have spread nationwide (Zewde, 2001).

<sup>37</sup> Large foreign investment was due in large part to the infatuation with the Emperor by the international community (Lyons, 2011).

new regime worked quickly to subdue protest movements, outlawing strikes, instituting curfews as well as the widespread elimination of top officials (Prunier, 2015). The Derg instituted an economic system based on socialist principles of centralized planning, a nationalized private sector, nationalized land distribution and of course, a strong national military force<sup>38</sup> (Geda, 2008; Brixova and Asaminew, 2010; Lyons, 2011; Prunier, 2015). Continued fighting between populist movements which had grown out of the earlier student movement, resulted in the new Government's period of Red Terror, which took advantage of the large network of intelligence gathering. While the period initially started with arrests, it escalated to torture and targeted killings but soon led to large, indiscriminate massacres;<sup>39</sup> permanently altering the population's assessment of, and relationship with, politics and governance (Prunier, 2015).

Radical land reforms were implemented and market forces were strongly, consciously suppressed with the “nationalization of land, private property, financial institutions and manufacturing firms” (Geda, 2008, p. 8; ICG, 2009). Consolidated power through new, nationalized institutions<sup>40</sup> as well as the socialization of production and distribution systems resulted in significant reductions in economic growth and productivity with the private sector all but eliminated (Ambaye et al., 2014). The ‘socialist utopia’ intended by the Derg, never came close to fulfilling its own propaganda and the nationalization of sectors, suppression of markets, economic shocks and lost economic output crippled the country and its institutions (Geda, 2008). Impacts are still felt today through unresolved ambiguous land policies, relationships with private sector actors and entrepreneurs (Prunier, 2015).

#### **4.3.1.4 Ethiopian People's Revolutionary Democratic Front (EPRDF)**

Multiple opposition forces maintained entrenched in, much of it violent, opposition throughout the Derg Regime. The most effective and successful of these groups was the Tigray People's Liberation Front (TPLF), forged through intense struggles with nearly all

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<sup>38</sup> This not only nearly eliminated the private sector but also ceased opportunity and willingness for entrepreneurial action.

<sup>39</sup> Red Terror culminated in the late 1970s to early 80s in which hundreds of thousands of people were tortured and /or killed due to political associations or beliefs, as much as Government paranoia (ICG, 2009; Lyons, 2011).

<sup>40</sup> Including ‘peasant associations’, marketing boards, cooperatives, etc.

other northern<sup>41</sup> opposition movements (Tadesse, 2015). Out of necessity and through its multiple trials, the TPLF developed a superior military, administrative organization and political agenda. Following its long history of perceived Tigrean exclusion, the TPLF firmly believed that successful struggle against the Derg (or any opposing force) could only come from a primarily ethnic-based movement. Much of this mind-set remains in effect today through the country's entrenched ethno-federalist policies and largely Tigrean leadership throughout senior levels of Government (Tadesse, 2015).

Under an ethno-nationalist umbrella, the TPLF-led opposition, joined together to form the *Ethiopian People's Revolutionary Democratic Front (EPRDF)*<sup>42</sup> orchestrating and ensuring the Derg's collapse in 1991 (Geda, 2008; ICG, 2009; Lyons, 2011; Tedasse, 2015). The violent takeover and TPLF-led EPRDF Transitional Government, led by Meles Zenawi, inherited a country nearing collapse, with little remaining public funds, an ill-equipped civil service and non-existent private sector. It quickly reverted Ethiopia from a failed socialist idea to a market based economy, instituting structural adjustment strategies, opening the country to trade and privatization of selected State assets (Geda, 2008; Tedasse, 2015). However, leaders forged from the student populist movement in the 1960s and 70s, implemented strong party-led State agendas, assuming much control of the market economy through state-led enterprises. The end of the 1990s saw reform mechanisms begin to take hold and while private investment was encouraged in agriculture and manufacturing, Government Enterprises remained in control of financial services, transport, energy and telecommunications, among many others (Tadesse, 2015).

#### **4.3.1.5 Ethiopia Today**

Ethiopia remains hindered by a 'redistribution system,' which has focused power and resources towards the interests of a single region and political group; with policies designed to reinforce and provide unequalled support and distribution of opportunity and benefits<sup>43</sup>

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<sup>41</sup> It is believed that outside of the Capital, the Red Terror campaign had the largest impact and aggression against the Tigrean Region (Tedasse, 2015).

<sup>42</sup> EPRDF was formed by the Tigray People Liberation Front (TPLF) and political power continues to be dominated by the Tigrean people.

<sup>43</sup> 60% of Government-privatized investments have been 'awarded' to MIDROC Ethiopia, owned by Ethiopian-Saudi businessman Al Amoudi. Known to have strong ties to the regime, Al Amoudi is the country's sole gold exporter (Lefort, 2013) and ranked by *Forbes* (2012) as the world's 63<sup>rd</sup> richest person.

(Geda, 2008). Crystallized through the TPLF leadership and current State leadership structure, Tigrean nationalist sentiment and need for control grew out of the region's perceived political, socio-economic neglect through the 20<sup>th</sup> century,<sup>44</sup> and has resulted in power and business concentrated in the hands of elite officials and 'selected entrepreneurs', which comes at the expense of the remaining oppressed and exploited population (E\_1, 2015; Vaughan, 2015).

The EPRDF remains an ideologically driven party, suspicious of those considered detrimental to its agenda and the "ethno-regionally structured state" (Tadesse, 2015, p. 273). Tracing back to TPLF's initial ethos of the need for ethnic-based mobilization and governance, the current redistributive system has been further engrained through an administrative system guided by ethnic-federalism (Geda, 2008; Lyons, 2011). Control of the ethno-federalist system is based on a hierarchical platform that extends from the upper most levels of government down to village level, highly restricting and greatly increasing risk for an individual looking to invest outside of specific administrative zones or 'ethno-areas', or to challenge instituted systems (Geda, 2008; Lyons, 2011). While ethnic-federalism was aimed at increasing peace and democracy (although this can be highly questioned), it has carved deep barriers across areas of the country creating internal strife, with several regions reporting to feel more of a colonized system than a part of a national identity (Fiesha, 2006; ICG, 2009; Lyons, 2011).

While Ethiopian State-interests continue to dominate the economy and marginalize the private sector, the EPRDF-led State views development as a state-driven process and one that requires a centralized control for economic liberalization, decentralization and democratization (Vaughan, 2015, p. 285). Additionally, current ideology of the State remains one of 'development capitalism,' which rejects markets as the best tool for which to improve productivity, efficiency and development, with the State working to ensure the autonomy of a developed economy, largely excluding a purely private sector (Vaughan, 2015, E\_1, 2015). This ideology considers the government as the necessary disciplinarian

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<sup>44</sup> The nationalist sentiment and obsession with control, has grown out of the region's perceived socio-economic neglect throughout the 20<sup>th</sup> century as well as resentment at the southward shift of power stemming back to the death of Yohannes IV in 1889 (E\_5, 2015; Vaughan, 2015)

of the market, and private sector forces are seen as a threat to policy-making and target achievement (Vaughan, 2015, p. 306). As such, the economy, financial bodies and the privatization of state assets remain, essentially, state-led. Little evidence exists to the actual reduction in state-owned companies since the EPRDF came to power, with party affiliated conglomerates constituting a significant proportion of the country's private sector, with hundreds of state-owned enterprises across the economy (Access Capital Research, 2011; Vaughan, 2015).

In a country still viewing external interference as a threat, a gradual acceptance of globalization has been gained, however it has not been automatically welcomed or easily adopted (Prunier, 2015). The late Prime Minister, Meles Zenawi, ruled Ethiopia for more than 20 years and overtime had consolidated power and control in his grip alone. His unexpected and untimely death in 2012 left the country devoid of the ruling strongman it had come to accept as part of its political reality and today's post-Zenawi era remains influenced and overshadowed by the late Prime Minister<sup>45</sup>. While competing factions have vied for internal power, the party continues to use and benefit from the strong, state-led vice of control Zenawi built, and none so far have dared to confront his country's current economic contradiction. Successful elections, held in May 2015, saw Zenawi's Deputy Prime Minister Hailemariam Desalegn formally assume power as the EPRDF Government won every parliamentary seat, (BBC, 2015) however it remains to be seen if Desalegn will be able to exert himself as Ethiopia's next strongman.

#### **4.3.2 Relationships with the Private Sector and Entrepreneurs**

Ethiopia has a long history with entrepreneurship extending back to prominent trade routes from the medieval and mercantile eras, however more sophisticated demands exist for the country's entrepreneurs today (United Nations Development Program (UNDP), 2012). Despite opening towards liberalized economic markets, the highest levels of government remain highly sceptical and distrustful of a private sector as the correct entity in which to

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<sup>45</sup> The late Prime Minister's picture continues to hang in many homes, as well as in all businesses and government offices. New Prime Minister Desalegn has purposefully not replaced the picture, as tradition typically dictates, and the party has the feel of continuing to be ruled by Zenawi's presence and continued legacy from the grave.

spearhead economic growth. This current economy has revealed a state-led public sector bourgeois, which dictates opportunity, growth plans and investment. Displaying a mind-set, which embraces the public sector as the superior entity to a market-led private sector to meet targets, stimulate growth and ‘develop’ the country (Lefort, 2013). While through this state-led development opportunity has been created, the majority of entities accepting these benefits remain connected to the party. As such, ‘new entrepreneurs’ have been created by EPRDF offerings of lucrative opportunities, sometimes in exchange for warmer receptions of Government policy (this was rumoured to be especially widespread following the internal party turmoil and uprisings after the election results in 2005). It is these ‘new entrepreneurs’ that are driving the majority of the growth through the prioritized sectors and this action has worked to solidify strong (and rich) bases of support, neutralizing some forces of opposition (Lefort, 2013).

Since the regime change in the 1991, the Government has worked to increasingly open its markets and promote its own directed economic development agenda (Tridos Facet, 2013). However, over and under-regulation and the lack of competitive environments has led to an anaemic private sector stemming from lacking competitive environments and intense involvement from the State. The Government retains control and oversight through various laws, regulations and attitudes, keeping private businesses on a short leash (Tridos Facet, 2013). Ethiopia also suffers from under investment and low productivity and despite efforts and investments to incentivize growth and expansion, the economy has seen little widespread improvements, with success being traced to distinct sectors, (construction, manufacturing and export valuables: coffee, leather, flowers, oilseed) as opposed to the overall economy (Brixova and Asaminew, 2010; Ambaye et al., 2014). However, even within these ‘prioritized sectors’ the playing field is not level, and priority is weighted towards specific elements.

Additionally, poor infrastructure, weak markets, limited extension services, a severe lack of research and development, the volatility of global market prices as well as increasing costs of food imports and necessary commodities, continue to squeeze actors across the economy (Gebreselassie and Ludi, 2008). Undoubtedly, the economic and political landscape of

Ethiopia can be a harrowing experience for entrepreneurs and local business, and the Government still retains much involvement in the non-liberalized coffee industry.

### **4.3.3 Ethiopia and Coffee**

Critical to the country's continued development and sustained economic growth, coffee remains the leading export and main foreign exchange earner, accounting for over 30% of the country's total export with 2014 revenues equating more than \$750 million (out of an estimated \$2.5 Billion)<sup>46</sup> (Lefort, 2013; World Bank, 2014a; International Coffee Organization (ICO), 2015).

Recognized as coffee's birthplace, Ethiopia has long dominated the coffee conversation, with the product playing a significant part in the country's political, economic and socio-cultural identity. This long history and diversity make it an important source of genetic origins and Ethiopia enjoys the distinction of producing some of the most unique and diverse range of Arabica coffees in the world<sup>47</sup> (Backman, 2009; Megerssa et al., 2012). However, despite Ethiopia's long coffee history and its internationally recognized brand, the sector struggles to maximize its natural endowments and remains largely locked in a low-input, low-output cycle characterized through traditional production, harvesting and processing practices (Daviron and Ponte, 2005; Petit, 2007).

Ethiopia is one of only two producing countries in the world that has a strong coffee drinking culture and an estimated 50% of all coffee produced is consumed locally (Tefera and Tefera, 2013). 2014 production figures are estimated at close to 400,000 tonnes, with export volumes recorded at 190,876 tonnes (ICO, 2014). A crop of significant cultural, political and economic importance, the sector involves approximately ¼ of the population<sup>48</sup>, is the leading export for the country and remains its most significant foreign exchange earner

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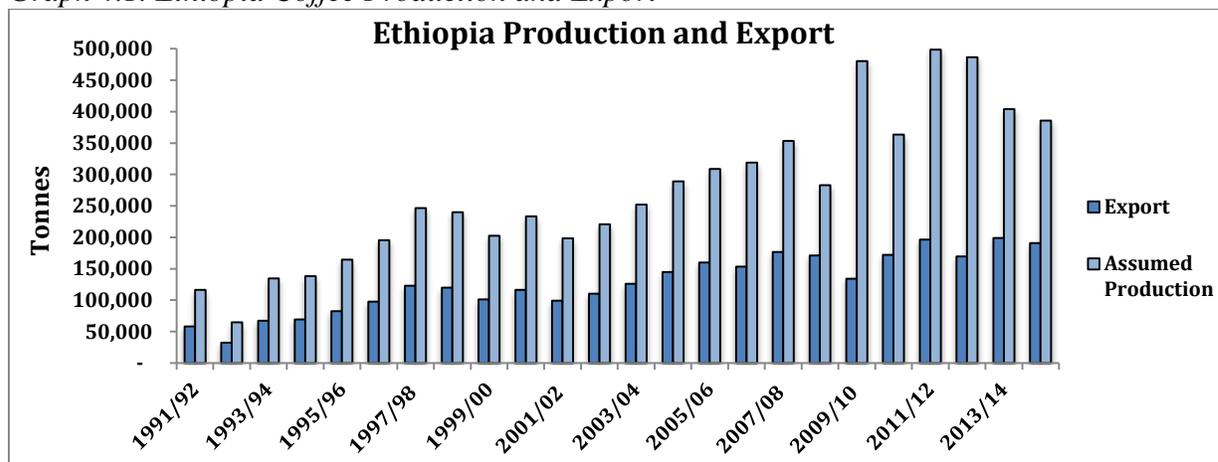
<sup>46</sup> As with the majority of statistics generated by the Ethiopian Government, these figures should be questioned. Interviews with large-scale export businesses indicated a highly skeptical reaction to recent export and revenue figures reported for the coffee sector.

<sup>47</sup> 24 formal varieties of Arabica and an estimated 6,000 indigenous strains have been discovered so far, providing not only unique, distinctive taste profiles, but also the genetic diversity of varieties thought to have resistance to disease and climate variability impacts (Chemonics, 2010; Sereke-Brhan, 2010).

<sup>48</sup> An estimated 4.2 million smallholder producers are directly reliant on coffee through their own cultivation and harvesting, with an additional 15 to 20 million estimated to be involved across the industry via transportation, processing, trading, financing and marketing (Herhaus et al., 2014a).

(Gebreselassie and Ludi, 2008; Schubler, 2009; World Bank, 2014a). Coffee can be found growing in just about every region of the country from the semi-savannah climate (altitude of 550 meters), to the wet forest zones in the west (altitude 600 – 1,500meters) and the high plateaus in the south (altitude of 2,200 meters) (Schubler, 2009). The country’s varying microclimates with adequate rainfall, appropriate altitudes, temperature and soils make ideal environments for not only producing coffee, but for producing naturally very high quality, premium coffee and the sector has grown rapidly since the regime change in early 1990s (Backman, 2009). Graph 4.1 below presents the expected production and published export volumes<sup>49</sup>.

*Graph 4.1. Ethiopia Coffee Production and Export*



(Source data: Ethiopia Ministry of Trade (MoT), 2015).

The resurgence of the sector came following the removal of the Derg Regime,<sup>50</sup> which saw widespread nationalization of coffee plantations as well as processing stations. The majority of farmers having land confiscated and nationalized under the Derg have to date, been unable to reclaim land lost in the 1970s and 80s (Lefort, 2013). It is believed the Government has now privatized approximately 23,000 hectares of state-owned coffee plantations<sup>51</sup>. Since the mid 1990s, the government has also privatized some state-owned processing stations as well

<sup>49</sup> Production figures are estimates, as data from direct household consumption at producer level is not known. Additionally, figures for production were only provided from 2005 to 2015, as such production figures for 1991 to 2004 have been estimated at double the export volumes as typically 50% of production is consumed domestically.

<sup>50</sup> During the Derg, farms not considered large enough (most smallholder farmers) were forced to be part of state-managed, rural cooperatives (Dempsey, 2006).

<sup>51</sup> The 23,000+ha are rumored to have been sold to MIDROC Ethiopia. This company has purchased 60% of Ethiopia’s privatization efforts (Lefort, 2013).

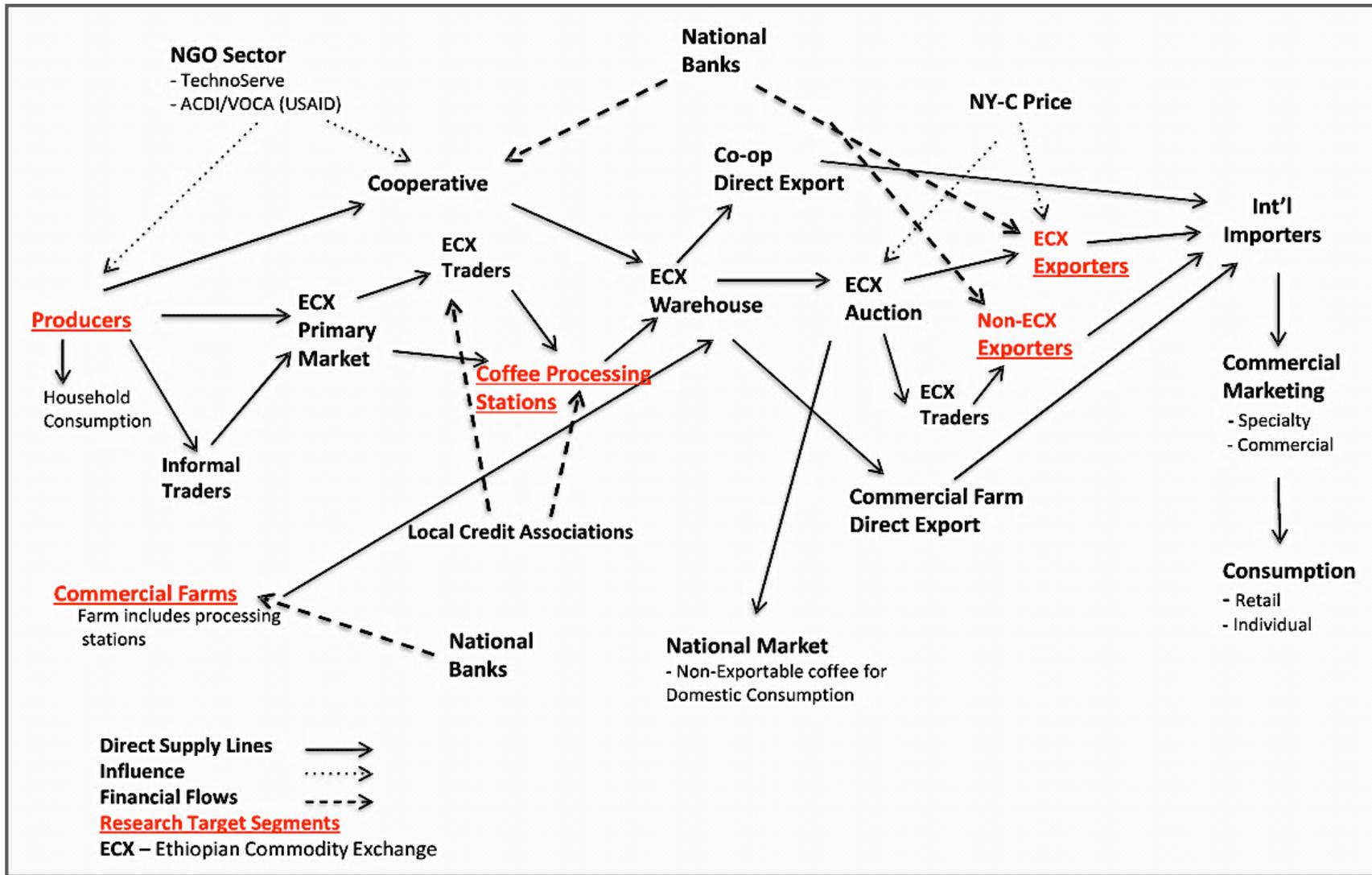
as parcel out land for new commercial plantations, with an estimated 30,000 hectares currently registered as private commercial farms (Herhaus et al., 2014b).

Historically, Ethiopia's coffee was bought and sold within the country by merchants and exported abroad by traders linked to current power regimes. Actors along the production and processing chains have historically been hindered by low prices and hampered by adverse government intervention (State Marketing Boards), low prices determined and set by the State Marketing Boards and high transaction costs. Since 1950, nine different institutions have been responsible for the country's most valuable product. One of the most complicated coffee markets in the world, it features significantly in political and economic agendas (Petit, 2007). The current coffee industry is managed on equal platforms by the Ministries of Agriculture and Trade, with product sale, market oversight, control mechanisms and structure established and enforced through the Ethiopian Commodity Exchange (ECX), with no one institution in a position of overarching control; final decisions are taken by the Office of the Prime Minister. As will be shown in greater detail in Chapter 6, the non-liberalized market and strong Government involvement has severely limited entrepreneurial mobility.

#### **4.3.3.1 Coffee Sector Actors**

The Ethiopia Coffee chain is comprised of a myriad of actors and influences. Figure 4.2 below shows the supply chain flow from Producers to Processors and finally Exporters, and the related influences from external sources, non-governmental forces and the potential for financial flow (or lack thereof) among actors throughout the chain. Regulatory and direct government oversight will be depicted and examined in detail in Chapter 6. Research segments: Producers, Processors and Exporters are designated in **red**. These specific research segments were chosen, as they are the main elements of the coffee chains in each country and are also highly representative of emerging entrepreneurial involvement providing ideal opportunity for analysis and comparison. As seen in Figure 4.2, product flows from Smallholder Producers to the ECX Primary Markets and is purchased by Processors. Once the raw product is processed, all coffees are tested at ECX warehouses before being sold at the ECX Auction. Exporters must purchase from the auction for onward sale to international importers. International buyers are prohibited from buying coffee at auction and cannot buy from an unlicensed ECX Exporter.

Figure 4.2. Ethiopia Coffee Chain and Sector Influences



(Source: Author Construct)

### **Smallholder Producers**

The majority of Ethiopia's coffee production is done through small scale, rural producers typically earning less than 60% of export prices (Backman, 2009; Minten et al., 2015). The majority of Ethiopian producers still rely on traditional cultivation and harvesting practices with little or no use of inputs. This has drawn external criticism due to Ethiopia's very low productivity rates as well as large volumes of un-certifiable<sup>52</sup>, organic coffees (Schubler, 2009). Producers typically process sun-dried coffee on-farm site for home consumption and sale to domestic markets. Small volumes of freshly harvested coffee cherries are sold directly to ECX Primary Markets or area traders who will sell on to ECX Primary Markets. Selling directly to processing centres is prohibited and thus, all product is pushed to either Cooperatives or ECX Primary Markets. While some cherries are sold at time of harvest to ECX Primary Markets as a means of accessing immediate cash, many Smallholder Producers store sun-dried coffee at home as a type of savings mechanism due to a lack of formal financing or savings schemes available.

### **Cooperatives**

Cooperatives are organized under national Cooperative Unions, which are responsible for the international marketing and sale of member product. However, only 20% of all Smallholder Producers in Ethiopia are members of a cooperative and less than 15% of all coffee is received and processed through local cooperatives (E\_7, 2015). Additionally, in order for a smallholder to supply, active (due-paying) membership is required. Coffee sold through Cooperatives and finally exported by Cooperative Unions can be traced and is thus able to receive certification, which should in theory flow back to the producer; however respondents reported that this to not always be the case. As will be seen in Section 5.3.3, distrust was found to be rife between smallholder producers and cooperatives. Coffee sold by a Cooperative Union is not sold on the ECX Marketplace, but directly through marketing and negotiations with international buyers (Chemonics, 2010). Cooperatives are not included as an entrepreneurial element within this study.

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<sup>52</sup> Given the current market structure and regulation of the ECX, coffee origins cannot be traced and thus are not eligible for certification schemes.

### **Commercial Farmers**

Commercial Farms are privately held coffee plantations of at least 50 hectares, although most farms expand several hundred. Private Commercial Farms are generally, separately managed business entities in which entrepreneurs have purchased previous state-owned plantations or bid to purchase new land sites as a vested business interest. Commercial Farms currently account for 5% of the country's total production. While coffee from Commercial Farms must still be tested for quality at ECX Warehouses, coffee can be traced back to the plantation site and thus, are able to receive certification. Coffee sold by a private Commercial Farm is not sold on the ECX Marketplace, but exported directly via marketing and negotiations with international buyers (Herhaus et al., 2014a). Commercial Farms also operate their own processing stations on farm site and due to traceability are able to certify their coffees or sell as distinct micro-lots or single origins.

### **Processors – Coffee Processing Stations**

Processing occurs in privately held processing stations, on cooperatives, or within Commercial Farms. Given the country's wide range of growing regions, both processing techniques of fully-washed or sun-dried are common and marketed. While the numbers of centres are expected to have increased, updated numbers were unable to be obtained during this research. As of 2010, a total of 1,125 processing stations existed across the country<sup>53</sup>; of those 786 were counted as privately owned facilities (Chemonics, 2010). Only privately held washing stations were investigated as part of this research.

### **Traders**

Given the wide disparity of production areas, many producers are not close enough to Cooperatives or ECX Primary Markets. As such, Traders have entered into the system as a means of providing transportation and/or supply services for freshly harvested cherries and at times, sun-dried coffee. Purchasing at garden gate, Traders supply to a designated ECX Primary Market (Chemonics, 2010). As a control mechanism, all traders must be legally registered due payers with the ECX and with the local municipalities; as of 2010 there were

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<sup>53</sup> Numbers do not account for processing stations within Commercial Farms

1,068 ECX registered traders (Chemonics, 2010). Traders are not included as entrepreneurs within the study.

### **Exporters**

All Exporters must be registered, approved and licenced with the ECX in order to purchase coffee directly at the ECX Auction and export. However ECX Export licences are limited and only 300 are currently allowed. Actors unable to get these licences are otherwise forced to purchase product from ECX registered Brokers who can buy at auction, but cannot export. Additional ‘local control’ is maintained through the premise that only Ethiopian Nationals are allowed to register as traders or exporting businesses with international companies forbidden to invest in local suppliers or to partake directly at the ECX auctions (Schubler, 2009). As such, Ethiopia’s coffee sector receives more local control than any other coffee exporting country<sup>54</sup>, but is also excluded from potential financing mechanisms available from international buyers (Schubler, 2009; Chemonics, 2010).

## **4.4 Rwanda at a Glance**

Over the past two decades, Rwanda has worked to reengineer its economy through building a strong national focus of promoting a dynamic private sector, creating an entrepreneurial environment focused on nurturing the return and growth of local enterprise. Through the country’s recent history and current efforts, it becomes apparent there is a strong will towards achieving progress and an iron fist desire to be recognized for current economic achievements and budding potential, rather than marked by past bloodshed. Rebuilding the all but eliminated private sector, concentration has centred on creating opportunity through education, reconciliation, socio-economic development and entrepreneurship as a means of developing economic self-reliance and wealth creation through private sector development (Crisafulli and Redmond, 2012). While Rwanda remains dominated by small-scale agriculture, the mixture of this national focus, agricultural prevalence and rising opportunity sets the stage for the emergence of a new ‘entrepreneurial class’ focused on high value, exportable commodities.

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<sup>54</sup> Additional licencing is also required for the local roasting of any coffees for domestic sale (Tefera and Tefera, 2013).

Making great strides in re-starting its economy, admittedly from a low starting point in 1994, impressive annual GDP growth has been realized averaging 6% between 1995 and 2000, and between 7-8% from 2003 until 2011 (Crisafulli and Redmond, 2012). Rwanda was recently projected as the 12<sup>th</sup> fastest growing economy in the world with anticipated GDP growth rates at 7, 7 and 7.5% for 2015, 2016 and 2017 respectively (Holodny, 2015). However, the majority of this growth has been concentrated, often presenting uneven growth paths and increasing levels of income disparity in the country (Ansoms and Rostangno, 2010; World Bank, 2014c). High growth rates are masking inequalities especially within the rural poor, which could undercut efforts to continue economic development (UNDP, 2007, as cited in Cooke, 2011).

The most densely populated country on the continent, Rwanda has a population of more than 12 million people on just over 26,000 square kilometres (Cooke, 2011; World Fact Book, 2014). Despite development and recognizable progress, land continues to be a scarce commodity and over half of farming households cultivate on less than one hectare of land (Boudreaux, 2010). Energy and electricity shortages as well as poor infrastructure are significant problems in many areas and increasing prices for key commodities continue to handicap growth potential; donor assistance still comprises 50% of the Government's budget (Cooke, 2011).

#### **4.4.1 Political and Economic Histories**

Rwanda's multi-layered history has produced a unique socio-cultural, economic and political landscape which today's entrepreneurs must navigate. Earliest records indicate a Tutsi Kingdom ruled over much of what is recognized as current day Rwanda since the 16<sup>th</sup> century, with a largely homogenous culture. The Kingdom included three ethnic groups: Hutu, Tutsi and Twa; with intermarriages common, a single shared language and many shared cultural and religious beliefs. Rulers during this era are recognized to have run 'tightly controlled administrations' which enabled categorization and added administrative control through distinct clan 'rankings'<sup>55</sup> (Prunier, 1997, p. 16; Crisafulli and Redmond, 2012). This early control is understood to have evolved as a necessity given the area's

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<sup>55</sup> 18 clans exist within the Hutu/ Tutsi ethnic groups

traditionally high population density. Through the centralized forms of political governance, top-down control was established in order to manage inherently small land availability with high population densities, resulting in high degrees of value-laden, social interaction (Prunier, 1997). These tight administrative structures also separated into hierarchical arrangements where Tutsi were the ruling, administrating and intellegencia class, and Hutu the labouring class (Prunier, 1997). Ethnic tensions and class divisions began to escalate in the mid nineteenth century in which power, wealth and assets (namely cattle and land) were consolidated by Tutsi elites, with Hutu and poor Tutsi excluded or designated into a forced labour system<sup>56</sup> (Cooke, 2011).

Rwanda, part of the East African Territory was first colonized by the Germans in the late 1800s but was seeded to Belgium following World War I. Divisions between Tutsi and Hutu were further extrapolated by colonial rule, in which Tutsi (thought by the Belgians to be superior) were elevated to management levels of administrative power with Hutu largely excluded<sup>57</sup> (Cooke, 2011). As early as 1933, the Belgians instituted identification cards designating tribal origin, which served to further heighten the status of Tutsi to near aristocratic levels, furthering race, class and social divisions (Crisafulli and Redmond, 2012). By the end of the colonial presence in 1959, Tutsi individuals had assumed 98% of available administrative authority as well as the majority of economic, academic and formal employment opportunities (Prunier, 1997). The administrative design of the Kingdom and later, through the Colonial and Government structures established a history of a societal norm of control and obedience that saw grave consequences in 1994 and one that continues to play a significant role today.

#### **4.4.1.1 Ethnic Clashes and Post-Colonial Transition**

While Rwanda's genocide and ensuing conflict resolution may dominate the current discourse for this small country, this specific study chose not to take a necessarily in-depth look at the 1994 genocide. However, an overview and understanding of related causes and outcomes supports a clearer view of the country today, as well as the impact historical, social

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<sup>56</sup> All Hutus were mandated for the forced labour system; mandatory labour did not apply to Tutsi

<sup>57</sup> Hutus were also excluded from higher education opportunities

and cultural institutions have on entrepreneurs. Through an examination of recent history, it is important to note that the ethnic differences and ensuing violence can not be attributed directly to incited tribal hatreds, the outcome of colonial manipulation, or influences from external actors<sup>58</sup> (Cooke, 2011) but was perhaps, a tragically perfect storm of all three.

The most recognizable conflict of Rwanda's history, the 1994 genocide was not an independent act, but predicated by numerous violent clashes charged by economic and political injustice, which used ethnicity as a tool to demonize opposition for the advancement of political agendas. The first of many violent uprisings is traced to differences between the ruling Tutsi minority and the majority Hutu population which came to a head with the 1959 Hutu Revolution; flourishing in the power vacuum left by the dwindling Belgian Colonial presence. Violent clashes continued against Tutsi as well as against the general population for the next several decades (highlighted in periodical massacres in 1959, '63, '67, '73 and '88) resulting in tens of thousands of Tutsi killed and several hundred thousand refugees fleeing to neighbouring countries: Uganda, Burundi, Tanzania and the Democratic Republic of Congo (Prunier, 1997; Cooke 2011). These first groups of Tutsi refugees were the founders of the Tutsi exile military organization, which began primarily in Uganda following the 1959 violence. Much of this initial movement of refugees would later form the Rwanda Patriotic Front (RPF) and its commanders were sourced from these Rwandans living as refugees – current Rwandan President Paul Kagame being one (Prunier, 1997).

Throughout the ensuing decades, Tutsi remained excluded from power, but were generally not harassed as long as they did not interfere with politics (Prunier, 1997; Cooke, 2011). As such, Tutsi remaining in Rwanda stayed far from politics, choosing instead to become involved in business, making up much of the private sector (Prunier, 1997).

#### **4.4.1.2 Coffee in Politics**

Earnings from coffee exports were deeply politicised and ingrained revenue streams in the colonial and post-independence eras. By the 1980s, Government and political elites relied heavily upon successful export commodities: coffee, tea and tin, in addition to foreign aid,

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<sup>58</sup> For further information on the impacts of key actions or lack thereof from the French Government and Catholic Church, see: Gérard Prunier: *The Rwanda Crisis; History of Genocide* (1997).

for personal enrichment as well as to fund State operating budgets (Boudreaux, 2007; 2010). However, increasing economic difficulties began in the late 1980s with the liberalization of the international coffee market in 1989 and the resulting 50% drop in value for commercial coffee. Significantly impacting Rwanda's foreign exchange earnings, the ensuing fiscal crisis was further compounded by drought and heightened food insecurity<sup>59</sup> (Prunier, 1997; Cooke, 2011). Rapid reductions in coffee revenue also meant reductions in graft for political elites and lead to further infighting and competition for reduced resources (Prunier, 1997). While coffee is not considered as a direct contributor to the ensuing genocide, it did add to the political and socio-economic environment and instability, which, following the drop in commodity prices, resulted in, attempted political survival through repression and further ethnic demonization<sup>60</sup> (Boudreaux, 2007).

#### **4.4.1.3 1994 Genocide**

The atrocities of Rwanda's war and ensuing genocide of 1994 are well documented and have had lasting impact on the country's social, cultural and economic evolutions, and continue to form a considerable element of today's national construct. A handful of extremist politicians used the deteriorating economic situation of 1993 and early 1994 to feed a personal agenda for the accession of a Hutu State (Prunier, 1997). The final spark igniting the war in 1994 came when President Habyarimana's plane was shot down on April 6<sup>61</sup> and the ensuing genocide killed 800,000 to one million people in a three and a half month span. It is unknown if the assassination of the President was planned or coincidence, however his removal enabled the doors to open for extremists' control to institute the 'final solution' (Prunier, 1997). What is known is that the genocide was a planned<sup>62</sup>, systematic attempt at

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<sup>59</sup> This further strengthened opposition movements, highlighted by the Rwanda Patriotic Front (RPF), which began to lay groundwork for civil war.

<sup>60</sup> Tactics have been paralleled with Nazi Germany propaganda. Later turning to a choice of 'kill or be killed' propaganda and mentality (Prunier, 1997).

<sup>61</sup> Debate remains as to the responsibility of who shot down Habyarimana: opposing RPF forces, extremist Hutu Militia, or members of the Presidential Guard. RPF Forces were cleared of any association with the assassination following a ruling from a French Judge in January 2012 (Crisafulli and Redmond, 2012). It is considered highly likely that members of Habyarimana's inner circle and perhaps family members (his wife's family coming from a traditionally more important class of Hutu) orchestrated the assassination, as he was viewed to no longer be effective and/or useful (Prunier, 1997).

<sup>62</sup> Organizers of the genocide also took measures to arm the general populace. Evidence shows that the Chillington Company, the country's largest producer of the panga (cutlass or machete – a common agricultural tool), sold more in February 1994 than all of 1993 (Prunier, 1997, p. 243)

ridging the country from all Tutsi as well as moderate or sympathetic Hutu. Within hours of the President's assassination, many high-ranking Tutsi and Hutu opposition officials, members of the judiciary, academics and journalists were murdered in Kigali in coordination with lists prepared well in advance of the plane crash (Prunier, 1997; Cooke, 2011).

Targeted demonization, brutal oppression and the later killing sprees<sup>63</sup> were facilitated by the extensive, systemic individual identity documentation of class, ethnicity and political affiliation for every Rwandan citizen; an engrained, highly detailed system dating back to the Belgians in the early 1900s (Prunier, 1997; Fussell, 2001; Cooke, 2011). While the top-level organizers numbered only a handful, they relied upon a strictly organized administrative control system throughout the country to achieve their goals for widespread massacre with an estimated 80,000 to 100,000 people actively taking part in the killing (Prunier, 1997, p. 261).

#### **4.4.1.4 Rebuilding Rwanda Post - 1994**

The war technically ended when RPF forces, led by current President, RPF Major-General Paul Kagame, took control of Kigali in July 1994 (Cooke, 2011). However, despite the acknowledged cease-fire, revenge killings were common, with many perpetrated by uncontrollable RPF soldiers (Prunier, 1997). Individuals who had survived the genocide were often charged in carrying out the killings or sympathizing with those who did, causing additional violence and mistrust within communities for years following the war, further tearing at the remaining threads holding the country together (Prunier, 1997).

With much of the fighting over, many Internally Displaced Persons (IDPs) and refugees<sup>64</sup> in neighbouring countries tried to return to their own homes, assume rights to land of family members or even take the houses and land of those who would never return. Many of the returnees were those who had lived in neighbouring countries (namely Burundi and Uganda) for many years and returned after the genocide not only with money, but also without the incredible trauma of those who had stayed. These returnees (largely Tutsi refugees) were

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<sup>63</sup> Mandatory ID cards made it simple and easy to know the ethnic group of individuals in addition to the common practice of wearing hats, badges, or symbols of political parties supported. Thus, in every neighborhood, ethnicity and political affiliation were commonly known (Prunier, 1997, p. 231).

<sup>64</sup> It is estimated that up to 2.1 million people fled Rwanda with a further 1.3 to 1.8 million people internally displaced (Prunier, 1997, p. 312).

some of the first to aid in the re-start of the economy and remain key actors within the private sector today (Prunier, 1997; R\_1, 2014).

#### **4.4.1.5 Rwanda Today**

Through the Transitional Government and later ‘democratic elections’, the RPF, with the ascension<sup>65</sup> of Paul Kagame, has maintained a stronghold on power and continues to stifle any emergence of opposition. With the RPF and President Kagame firmly in power, dramatic change is not projected to be likely as long as economic progress, security and stability continue.

Action by the Government to suppress independent investigations<sup>66</sup> as well as refusal to acknowledge wrongdoing of its own actions in the war continues to be a source of strong resentment for many Rwandans today and is a cause for concern for future economic, political and social stability following an incomplete justice in the reconciliation process and deep vulnerabilities reportedly remain through mistrust between differing ethnic groups (Ansoms and Rostagno, 2010; Cooke, 2011). While national identification through ethnicity labelled identification cards has been outlawed since 1997, perception remains that a Tutsi Government is again in power at the expense of Hutu (Fussell, 2001; Cooke, 2011).

Today, the country and its society remain marked by deep-rooted tensions and unresolved resentments (Cooke, 2011). While the supposed stability and economic progress has drawn great attention, it is also considered by many to present a front for an authoritarian, restrictive Government and an economy marked by growing income disparity (Cooke, 2011). Questions remain as to whether President Kagame will step down following the constitutionally limited second term in 2017, and whether or not the country will face an ensuing power vacuum if he does. However at the time of writing, Rwandans had recently

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<sup>65</sup> In 2000, the President, Prime Minister and National Assembly Speaker resigned on allegations of corruption or divisionism with the former President being sentenced to 15 years in prison; Kagame, formally the Minister of Defence, elevated to the Presidency in March 2000 (Cooke, 2011).

<sup>66</sup> Independent studies report of continued widespread human rights abuses as the RPF forces hunted remaining génocidaires into neighbouring DRC (Cooke, 2011), however no official investigations or prosecution for war crimes have ever been brought against members of the Rwandan Government or other prominent RPF members. UNHCR believes RPF forces killed another 30,000 people after the war, many of which, in retrospect, were considered innocent of involvement in the genocide (Cooke, 2011).

voted in a constitutional amendment<sup>67</sup> (a 98% voter approval) allowing Kagame to run for a third, seven-year term, following with two additional five-year terms; ensuring the possibility for Kagame to serve as President through 2034, at least (P.A., 2015). With strictly limited tolerance for political dissent and the lack of a functional opposition, it is expected for Kagame to again be ‘democratically’ elected and serve at least a third presidential term; Rwanda’s Presidential Elections remain scheduled for late 2017.

#### **4.4.2 Building a Dynamic Private Sector**

With a lost generation, destroyed infrastructure, no governance system and a shattered social fabric, the self-described failed state of 1994, has since worked, and is succeeding to a large extent, to incubate and foster a renewed, dynamic private sector which aims to be characterized by the successes of local entrepreneurship (Isenberg, 2012; Crisafulli and Redmond, 2012). Following the war, Rwanda took a strong, Government-led, interventionist strategy to restart the economy, promoting three key local industries: coffee, tea and tourism, due to the potential to employ large segments of the population, but also garner much needed foreign exchange (Isenberg, 2010). As such, the country has embarked on an ambitious and comprehensive reform campaign aimed at stimulating private sector growth and entrepreneurship by improving its business climate, regulatory environments and investment attractiveness (Traore et al., 2013). As will be seen in Chapter 6, the Rwandan Government has worked hard to institute policies aimed at maximizing growth, while also harnessing local-level potential for micro and small-scale entrepreneurship.

The 2014 Doing Business Report named Rwanda the second best ‘improver’ globally and top in sub-Saharan Africa for its improved business climates and ease of doing business (World Bank, 2013b). Rwanda improved its global ‘ease of doing business’ ranking from 150<sup>th</sup> in 2008 to 46<sup>th</sup> in 2015 (World Bank, 2013a; 2014d). In 2013, Rwanda’s economic global competitiveness was ranked 66<sup>th</sup> (out of 148 countries) and Rwanda ranks far above the sub-Saharan average for ease of doing business (World Bank 2013a). Specifically for the improvements to its regulatory environments, reduced time for business registration and start-up, and improvement in obtaining the necessary permits according to specific business

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<sup>67</sup> Elections held December 18, 2015

type. Rwanda ranks high in terms of ease of obtaining credit, mainly due to the fact that collateral and bankruptcy laws are better designed to facilitate credit access and the level of credit information shared by lending institutions (World Bank, 2014d). However, while access to credit has improved, financial inclusion for poor, especially rural populations remains far behind actors in major urban areas (Murenzi, 2013). Additionally, hurdles remain for smaller actors or new entrants, largely resulting in some businesses choosing to remain or move into the informal sector. Incentives to support small business formalization have yet to see the widespread outcomes intended (Ansoms and Rostagno, 2012). Further detailed analysis of policy and regulation agendas in coordination with impact on entrepreneurship will take place throughout Chapter 6.

#### **4.4.3 Rwanda and Coffee**

Coffee has traditionally been one of Rwanda's most important production staples, foreign exchange earners and remains a major cash crop for more than 400,000 producing households across 35,000 hectares (Ministry of Trade and Industry (MTI), 2008; NAEB, 2012). While coffee accounts for more than 45% of the country's export earnings, Rwandan coffee makes up less than 1% of the global trade (Ministry of Agricultural and Animal Resources (MINAGRI), 2014; ICO, 2015).

Coffee is not an indigenous crop to Rwanda and was introduced by German missionaries in the early 1900s, with widespread cultivation further enforced by Belgian colonial authorities<sup>68</sup> in the 1930s (Bourdreaux, 2007; Selvarajah, 2012). Despite frustration from farmers, Rwanda's post-independence Governments continued the colonial requirement of coffee production; despite the fact that many wished to cultivate more profitable crops. From Independence through to the mid 1990s, the State purchased all coffee designated for export through state-owned monopsony companies (MTI, 2008; Boudreaux, 2007). Following Rwanda's coffee sector liberalization in 1995, the sector has since seen a relatively fast transformation, rebounding with higher prices for producers as well as the

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<sup>68</sup> The Colonial Government began the supply of seedlings and inputs but also introduced price restrictions, quality guidelines, and special licenses for firms to purchase coffee, imposing export taxes on sales and income taxes on farmers. Tutsi chiefs were responsible for collection of taxes for colonial government (Boudreaux, 2010).

emergence of new, private sector actors (national and international<sup>69</sup>) and privately owned exporting entities (Boudreaux, 2010). Liberalization of the sector involved removing a variety of trade barriers across the chain, encouraging vertical integration and incentivizing new investment across the spectrum which has facilitated entrepreneurship throughout the industry (Mutandwa et al., 2009; Boudreaux, 2010).

Recognizing the only way for Rwanda to be competitive on the international market was through a high quality product, concerted efforts to improve the country's quality stock resulted in local market incentives as well as technical improvements at farm level (R\_2, 2014). As such, the Government instituted a plan to radically increase the amount of quality coffee produced and exported. Making semi-washed or sun-dried coffee illegal in 2011, focus is now on the production and processing of fully washed cherries. Currently, 41% of all coffee produced is fully washed and of speciality grade (MINAGRI, 2014; NAEB, 2015b). However, tremendous value addition remains to be seized throughout the sector given Rwanda's ideal growing conditions and unique, marketable characteristics.

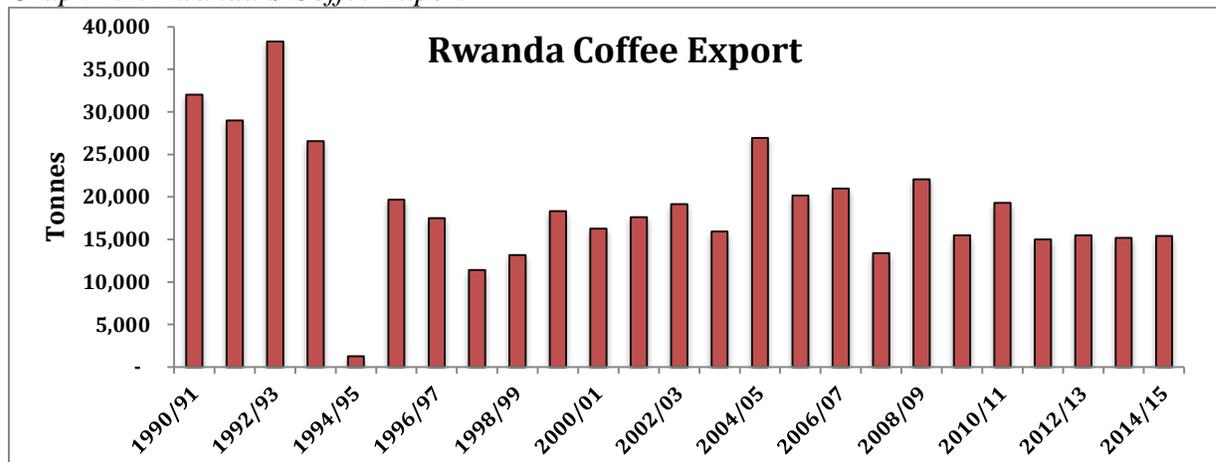
Graph 4.2, depicts the country's total annual export volumes<sup>70</sup> not differentiated by speciality or commercial grade. While production has been relatively static, it is believed that the proportion of speciality grade is increasing and makes up for the reduced quantity volumes through higher revenue quality. Total volume of green bean exported from the 2014 Season was 15,417 tonnes (ICO, 2015).

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<sup>69</sup> The major state-owned export company was sold to a US businessman who is part of the President's Economic Advisory Council in 2009 for \$2.3 million (Crisafulli and Redmond, 2012).

<sup>70</sup> Seasonal year counted from September to March

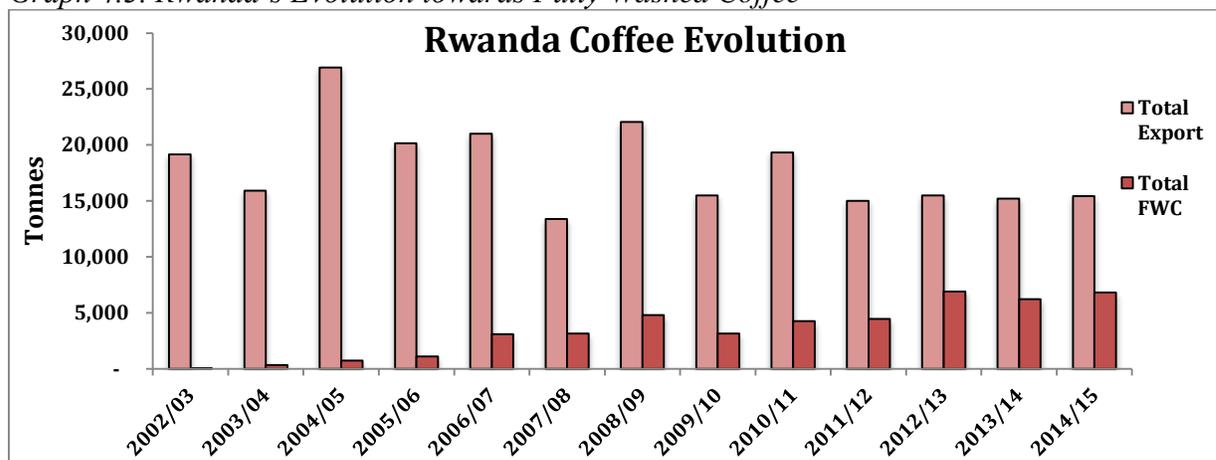
Graph 4.2. Rwanda's Coffee Export



(Source data: ICO, 2015)

Graph 4.3 below, presents the evolution of the sector in regards to the development of Fully Washed Coffee (FWC) as a proportion against total exports. Rwanda continues to support, as well as force, the increased production of FWC. In parallel promotion with increased marketability of Rwanda's high quality beans, attracted buyers are willing to pay price premiums (MTI, 2008). Given the increase in private sector led investment and the ever increasing fully-washed cherry volumes, broad efforts are being undertaken to increase awareness at the producer level as well as incentivize producers to improve quality of production in order to maximize price opportunity and improve operations and processing throughout the rest of the chain (MTI, 2008; MINAGRI, 2014).

Graph 4.3. Rwanda's Evolution towards Fully Washed Coffee



(Source data: NAEB, 2015a; ICO, 2015)

#### **4.4.3.1 Coffee Policy Development**

Over more than a decade long process, the Rwandan Government, in partnership with its private sector and international donors, has reshaped the industry through the development and implementation of regulatory frameworks for production, increasing the number and capacity of processing stations. Additional market support linkages were found between domestic production, processing and export, and foreign purchasers, facilitating demand by increasing private sector involvement with improved ability to cater to quality and marketing (Boudreaux, 2010). Rwanda's National Coffee Strategy was first developed in 2002 and specifically focused on the development of the 'speciality coffee product' through upgrading production quality at the farm level. The National Coffee Strategy (2009-2012)<sup>71</sup> looks to build upon the groundwork laid through the initial strategy as well as improve upon key lessons learned during the period (MTI, 2008, R\_3, 2014).

The National Agricultural Export Board is responsible for policy development and implementation for export crops and has placed emphasis on professionalizing the coffee sector through increasing volumes of fully-washed coffee, improving competitiveness and promoting Rwanda's coffee (Selvarajah, 2012). However, poor farming practices continue to hinder results with low as well as variable quality for farmers, adversely impacting not only the farmers' revenue, but also profitability for processing stations and exporters due to limited volumes of quality coffee cherries supplied.

Focused improvements within the speciality coffee sector have seen some success in recent years, however poor input distribution, increased soil acidity and inappropriate or inadequate use of fertilizers has resulted in Rwanda currently underachieving compared to the targets set (MTI, 2011). Inefficient processing capacity, poor business planning at the point of processing and high transportation costs continue to plague processing stations (MTI, 2008; Boudreaux, 2010; MINAGRI, 2014). While this is an inherent bottleneck for the chain, potential for improvement also offers opportunity for entrepreneurs.

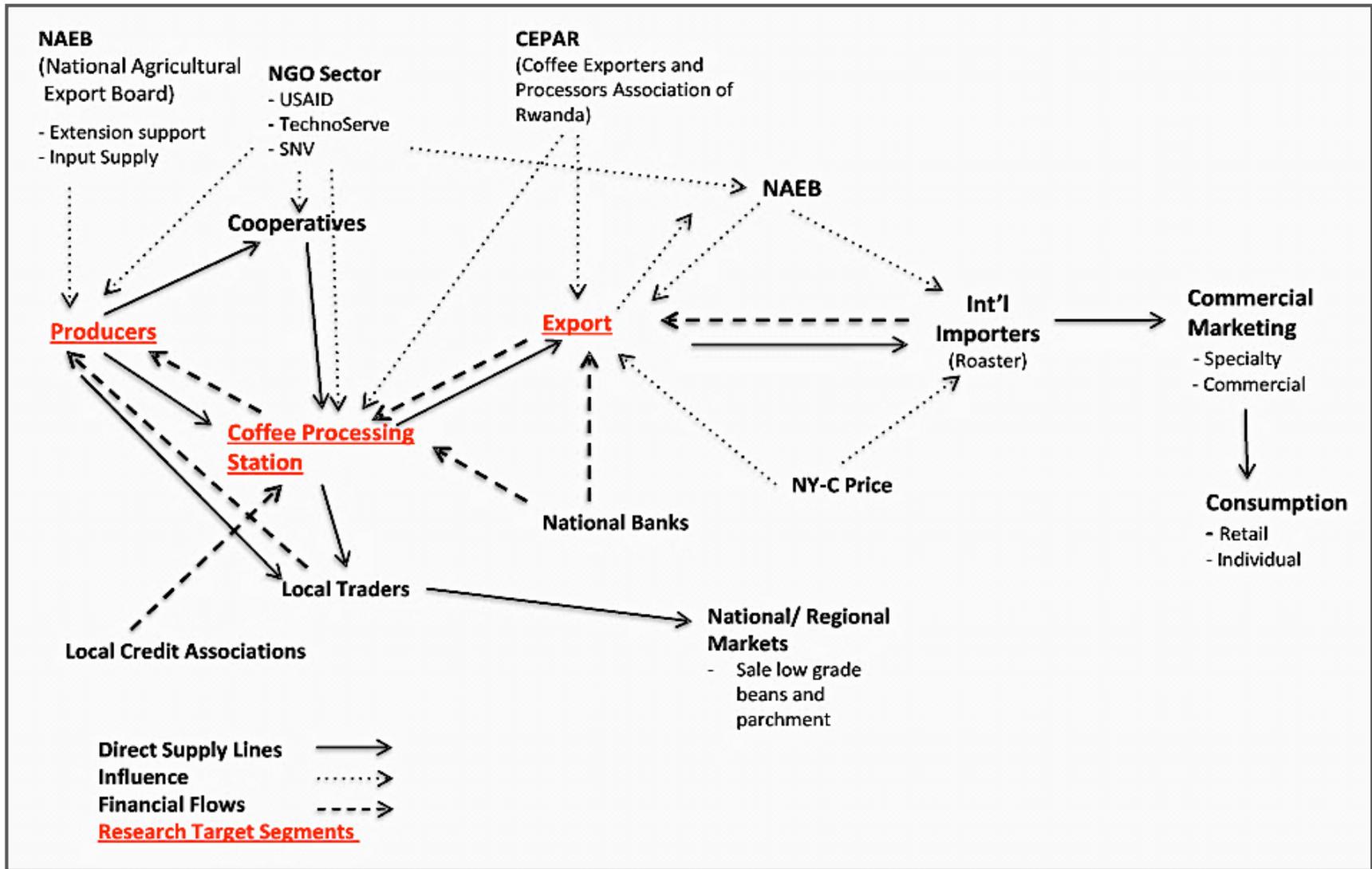
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<sup>71</sup> A National Coffee Strategy post 2012 had yet to be released at time of writing

#### 4.4.3.2 Coffee Chain Actors

The Rwanda coffee chain is comprised of a myriad of actors and influences. Figure 4.3 below, shows the supply chain flow from Producers to Processors and finally Exporters. Related influences from external, non-governmental forces as well as potential for financial flows among actors throughout the chain are common, if not encouraged. The enabled vertical integration of actors across the chain has resulted in greater financial flow, business overlap, influence and incentive structures among and between actors, often filling gaps left by the Public Sector. This diagram does not show market regulations, which is examined in detail in Chapter 6. The specific business segments selected for this research are identified in **red**: Producers, Processors and Exporters due to scalability across the chain, but also chosen because they form the main elements of the coffee chain, allowing for further study through comparison with Ethiopia.

Figure 4.3. Rwanda Coffee Chain and Sector Influences



(Source: Author Construct)

### **Smallholder Producers**

Similar to Ethiopia, small-scale producers dominate the Rwandan coffee sector. While relatively large farms exist<sup>72</sup>, unlike Ethiopia, large-scale private commercial farms are not classified differently than smallholder producers. Producers typically have three market options:

- a. Sell high quality cherries to cooperatives or private processing stations
- b. Sell lower quality cherries to local traders
- c. Illegally produce semi-washed coffee on farm and sell directly to local markets (Murekezi and Loveridge, 2009; Mujawamariya et al., 2013).

Given the multiple options for supply, producer decision-making habits often go beyond comparison of price and/ or a cost-benefit analysis. Importance of transaction costs as well as relationships in terms of trust and loyalty can weigh heavily on supply decisions (Mujawamariya et al., 2013). In addition, smallholder producers have high degrees of difficulty accessing formal financing (MTI, 2008; R\_1, 2014). As the sector has become more competitive, it was observed that entrepreneurial processors and exporters have begun to introduce payment tiers related to quality grades as incentives to producers. Improvements to grading and corresponding pricing systems have resulted in significant improvement in prices with premium coffee cherries more than doubling since 2003 (MTI, 2008).

### **Traders**

Traders can offer additional sales outlets for producers as well as competition to local cooperatives or washing stations. Considered as middlemen or opportunists, traders can absorb large volumes of lower grades, selling on to local or regional markets (Mujawamariya et al., 2013). A producer may decide to ‘side-sell’ to local traders for multiple reasons: better price for lower quality cherry, opportunity for credit, trust, shorter distances to market, payment in cash at an agreed spot-price or even personal relationships (Mujawamariya et al., 2013). Traders, while potentially entrepreneurial, are not used for research purposes within this specific study.

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<sup>72</sup> Largest farm reported in Rwanda was 25 hectares

## **Cooperatives**

Coffee Cooperatives started to emerge in Rwanda from the mid 1980s with the aim of improving producer livelihoods through the opportunity to benefit from economies of scale, pooled resources, and improved access to market information and customers, as well as a reconciliation mechanism for rural communities, post 1994 (Mujawamariya et al., 2013; TechnoServe, 2013b). However, it is estimated that only 20% of Rwandese coffee producers are members (Elder et al., 2012; Mujawamariya, et al., 2013). Despite the potential benefits, cooperative businesses can fail to become profitable due to insufficient planning, poor business decisions or improper management (TechnoServe, 2013b). Despite intensive efforts in capacity building by NGOs, many cooperatives remain “fragile, unorganized and dysfunctional” and the mishandling of finance from national banks has plagued the sector in attracting new or increased investment (Boudreaux, 2010, p. 6). Cooperatives are not considered an entrepreneurial entity and are thus not used as a research segment within this specific study.

## **Processors – Coffee Processing Stations**

Since 2002, Rwanda has significantly improved its national processing capacity. Strategic and directed investment, largely from the renewed private sector, significantly increased the number of processing stations throughout the country from just two in 2002 to 229 stations (both cooperative and privately owned) in 2014 (MTI, 2008; NAEB, 2014). However, during this research, only 38 privately owned processing stations were operational in the 2013/14 Season. The increase in number of processing stations resulted in reduced transportation costs for many producers and increased the amount of fully washed coffee able to be processed. However financial challenges felt by some stations can be traced to high operational costs (namely transportation and labour), micro-smallholders with limited (inefficient) supply volumes as well as poor management and inefficient financial structures and practices (MTI, 2008; Selvarajah, 2012).

While additional volumes are needed to ensure profitability, improvements can be done at the processing level such as improving selection techniques for low to high-grade cherries (MTI, 2008). Access to adequate water is also key to the capacity of Rwandan processing stations

in order to adequately process high-volumes of fully washed coffee (ITC, 2011). Low volumes of high-grade cherries and poor cash flows have at times incentivized washing stations to process commercial grade coffee for lower margin, but with quicker turn-around sales when prices are low or additional volumes are needed (MTI, 2008).

### **Exporters**

Prior to the sector's liberalization in 1995, the State exported all coffee and as such, the development of local, private coffee export businesses are a relatively recent phenomenon. Export of green beans prior to 2000 consisted solely of commercial grade (MTI, 2008). To a large degree, specific bean types and qualities of Rwandan export businesses are paired largely with the corresponding import contract demands, however more lucrative opportunity exists in exporting higher, speciality grades. In many respects the Government, in collaboration with new private Exporters, played a key role in enticing buyers to experience Rwanda's coffee with the private sector solidifying these relationships through product development (MTI, 2008).

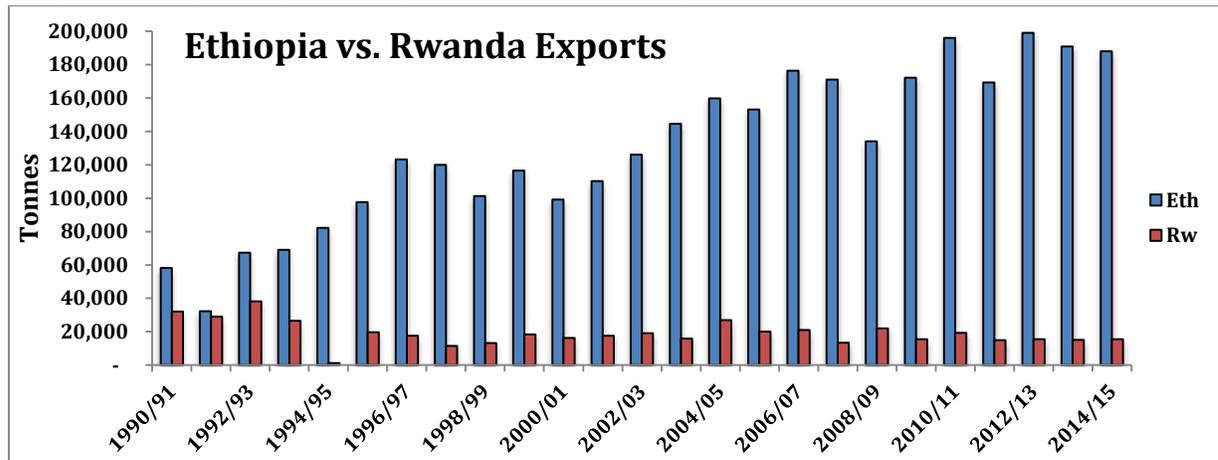
## **4.5 Comparison of Ethiopian and Rwandan Coffee Markets**

Comparisons between political environments, market structures, resource availability and historical socio-cultural influences will be discussed in greater detail in Chapters 6 and 7. However, a brief comparison of industry size and revenue generation is made here to demonstrate the differences between each industry.

As discussed, starting in the 1990s, both countries and coffee sectors underwent transitions from tightly controlled, state-led monopolies to varying degrees of liberalization and re-introduction of private sectors. As will be shown in the following chapters, while entrepreneurs operating in each country have similarities, structural differences and market forces also play a large roll in the extent of entrepreneurial willingness, opportunity pursuit and dynamism. In comparing industry scale and size, obvious differences exist upon a first glance at the coffee sectors of Ethiopia and Rwanda in terms of historical significance, international brand recognition and production capacity potential. While both countries have

similar levels of per hectare productivity<sup>73</sup>, as seen in Graph 4.4 below, Ethiopia’s export dwarfs that of Rwanda’s, with Ethiopia typically exporting near ten times more than Rwanda (NAEB, 2013).

Graph 4.4. Coffee Export Comparisons (Eth = Ethiopia, Rw = Rwanda)

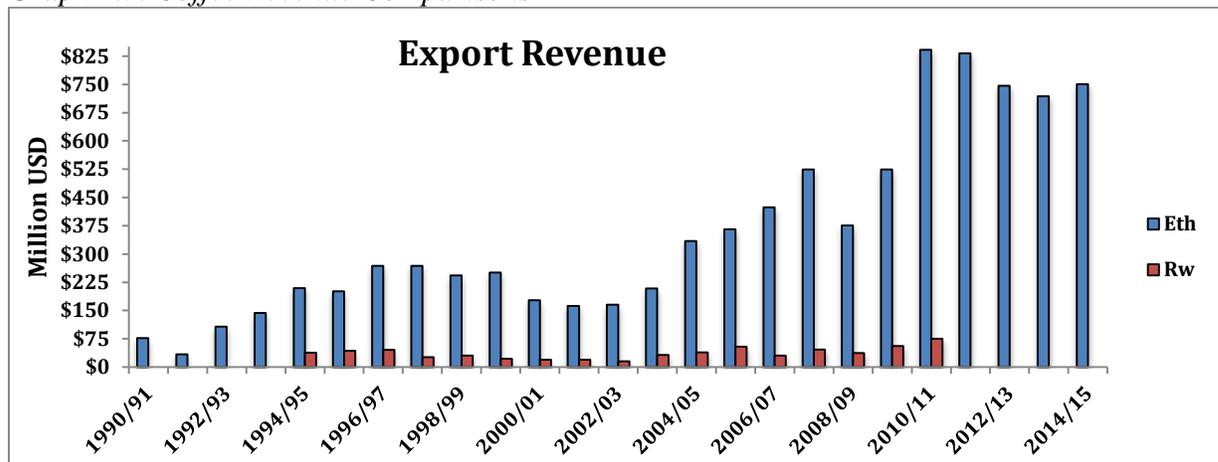


(Source data: NAEB, 2015a; MoT, 2015; ICO, 2015)

As will be seen throughout this discussion, coffee represents a significant revenue earner and comprises nearly half of foreign exchange for both countries. Graph 4.5 below, demonstrates again the large differences between the two economies and respective sectors in regards to national coffee export revenues. Export revenue for Rwanda could only be sourced through the 2011 season. For comparison, Ethiopia’s coffee revenue in 2011, equalled over \$841 million, with Rwanda’s coffee revenue are just \$75 million.

<sup>73</sup> Ethiopia’s productivity is estimated at 0.7kgs red cherry / tree (FAO, 2014; E\_5, 2015). Rwanda’s productivity is estimated at 1.35kgs red cherry / tree (NAEB, 2013; R\_5, 2014).

Graph 4.5. Coffee Revenue Comparisons

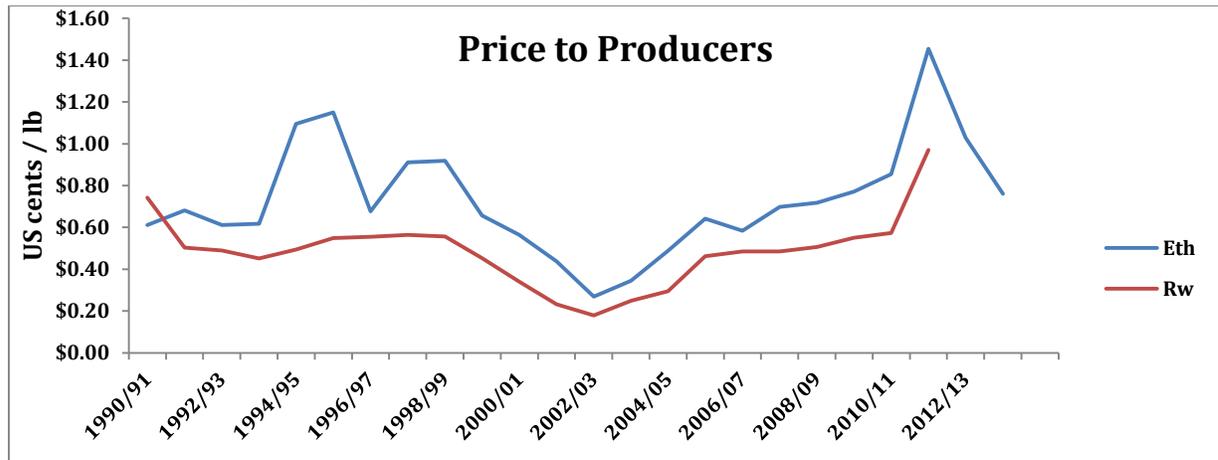


(Source data: NAEB, 2015a; MoT, 2015; ICO, 2015)

Price differences are of particular interest as Ethiopia typically commands higher prices than Rwanda. As discussed in Section 4.2, quality is objective but also subjective in regards to marketing and consumer demand for a respective country. As such, added value through marketability and consumer recognition is an important aspect of final price determination and the ensuing effects through the production, processing and export chain. Given the long history of Ethiopia’s coffee and distinct familiarity with consumers, it is able to demand higher prices as compared to relatively unknown Rwanda; despite the fact Rwanda is considered, in many cases, to have a generally superior quality to Ethiopia. This is reflected back to the producer level and while price to producer is admittedly influenced by market structure and national policies, comparison of garden gate prices earned provides evidence of price differentiation and volatility on the international market. Graph 4.6 below, presents average cherry prices paid to smallholder producers, as reported by governments, calculated against exporter prices. Prices are not differentiated by grade<sup>74</sup>.

<sup>74</sup> Coffee is traded internationally in US cents / lb.

Graph 4.6. Averaged Cherry Price to Producers



(Source data: ICO, 2015; MoT, 2015; NAEB, 2015a)

## 4.6 Conclusion

Ethiopia and Rwanda have taken different tracts in support and embrace of entrepreneurship as well as in pursuit of viability for respective coffee industries. Ethiopia continues to pursue a strategy of state-led market involvement, emphasising quantity over quality with an ever-entrenched position of commoditization over specialization. Rwanda, through its liberalized coffee market has used entrepreneurs as employment creators and service providers, focusing on specialization in its coffee sector as a means to compete within international markets. Given the approach to this research and the weight the operational context has within the overall conceptual framework and ensuing analysis, a strong understanding of markets as well as historical, political, economic and socio-cultural environments was considered crucial prior to receiving the remaining research presentation and analysis. Building from the contextual backgrounds delivered within this chapter, research will unfold in the following chapters to further detail specifics concerning the entrepreneurial actors of the respective coffee markets within wider research results and analyses.

## **Chapter 5 – Defining Drivers. Identifying the Individual Constructs that Separate the Entrepreneur from Non-Entrepreneur.**

### **5.1 Introduction**

The *Co-Evolving Entrepreneurship Nexus* used in this research approach provided a conceptual framework for understanding the interdependent and reflexive nature of the individual entrepreneur within a specific operational context. In order to fully understand the individual within the entrepreneurship nexus, this chapter deconstructed the nexus in order to analyse the construct of the entrepreneur. While the individual can be analysed through a multitude of means, this chapter understands ‘individual’ as an internal construct, involving a collection of drivers, which may predispose an individual to be more (or less) entrepreneurially orientated (Chell, 2008).

Within this chapter, analysis looks to understand the chosen drivers (internal, predisposed characteristics within each individual) of respondents in relation to specific business segments and along the *Entrepreneurial Range* of the coffee chains of Ethiopia and Rwanda. Understanding who and what the entrepreneur is in regards to internal characteristics requires understanding of not only the specific drivers, but also of the socio-demographic elements surrounding entrepreneurs tested through this research. This chapter presents, discusses and analyses findings of the more intimate make-up of the individual found to be an entrepreneur within the confines of this specific research paradigm.

Within the literature, several distinct characteristics are recognized as elements to the entrepreneurial makeup and are considered to influence outlook and behaviour; these are presented in Section 5.2.1 below. Throughout this chapter, differences between Entrepreneurs and Non-Entrepreneurs were found, however the nuanced differences of specific driver strengths and weaknesses of actors across business segments of the coffee chain remain critical to deciphering the individual entrepreneur and related potential for opportunity pursuit. This chapter combined analysis using both quantitative and qualitative

methods, but distinctly relied on quantitative analysis when deciphering similarities and/ or differences between business segments of the coffee chain and across the *Entrepreneurial Range* of respondents. As such, the chapter is built in three parts:

1. Explanation to the reasoning behind why and how specific drivers were chosen and how respondents were classified.
2. Presentation of socio-demographic elements discovered and analysed according to varying business segments and the *Entrepreneurial Range*.
3. Investigation using statistical analysis to decipher the similarity or difference between business segments and entrepreneur classification, per country. Determining the strength of specific drivers, identified by Driver Index Scores, allowed initial analysis of each specific driver to be tested across the *Entrepreneurial Range*, prior to the following analysis of Entrepreneurs and Non-Entrepreneurs within and between countries.

Specific market dynamics, cultural environments, resource allocation and regulatory constrictions are also believed to influence individual behaviours, actions and choices but will be addressed in the following chapter.

## **5.2 Classifying Entrepreneurs and Understanding Specific Drivers – How Were Respondents Classified?**

Analysing the individual entrepreneur required a distinct vetting process for selection and appropriate classification of respondents in order to test drivers against respondents to measure potential differences in an individual construct of actors within different business models or degrees of entrepreneurship. The process of understanding how to absorb and provide appropriate classification of entrepreneurs and business occurred in three steps:

1. Determination of specific drivers in which to test the individual, entrepreneurial construct, identified in Section 2.4.1 and discussed in 5.2.1.
2. Determination of business segments in the coffee chain, discussed in Section 5.2.2.
3. Determination of the *Entrepreneurial Range* and corresponding appropriate classification of respondents, discussed in Section 5.2.3.

### 5.2.1 The Individual Construct, Drivers of the Entrepreneur

A multitude of elements can be used to understand and determine individual entrepreneurialness, including many internal and external stimuli (Casson, 2003; Boso et al., 2013). As every potential stimulus obviously could not be tested, a handful of drivers, or characteristics understood to be inherent to an individual entrepreneur were used for this study. **Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation (OR+EO)** are some of the most universally referred to characteristics when discussing the inherent toolset of an entrepreneur. As discussed through the initial review of related literature in Section 2.4.1, potential drivers were initially tested for feasibility and viability for this research during the Research Pilot conducted in Rwanda (April-May, 2014). These final drivers were selected due to importance to entrepreneurship determination, but also for contextual tangibility within the specific contexts of research environments, used to better understand responses and actions.

While many individuals could be perceived as being entrepreneurial, a respondent had to have demonstrated specific, tangible action in pursuit of an opportunity, in order to be recognized as an entrepreneur. This could be as varied as expanding unique or new business operations, purchase of additional farmland, diversified product portfolios, production of specific, unique products, innovative sourcing models, unique financing mechanisms, or the establishment of business start-ups.

Table 5.1 is an outcome from the evidence of entrepreneurial action in relation to the specific drivers questioned and tested in this research in order to contextualize the universality of the selected drivers; as understood via Structuration Theory. These tangible outcomes, also provided a framework for grading responses used in classifying individuals by determining entrepreneurialness, which has also built from the initial parameters used in guiding entrepreneurial classification first introduced in Section 3.3.3.

Table 5.1. Driver Tangibility

Drivers	Evidence of Entrepreneur Driver Related Action
<b>Resilience</b>	Continuity of market presence despite: <ul style="list-style-type: none"> <li>- High price volatility and unpredictability</li> <li>- Negative histories of political involvement, state-owned sectors</li> <li>- Inability to access formal financing options</li> </ul> Return to business despite displacement and/ or conflict
<b>Self – Efficacy</b>	Strong belief in self to be able to continue to be successful in business despite: <ul style="list-style-type: none"> <li>- Volatility of global coffee market,</li> <li>- Dramatic, unpredictable seasonal price variation,</li> <li>- Mistrust in government,</li> <li>- Lack of government market regulations or support mechanisms</li> </ul> Very strong belief in current business strategy and direction Strong sense of self Feeling of control over own business, life Strong belief in self, more willing to trust own judgement, try/ attempt unique and/ or innovative strategies.
<b>Innovativeness</b>	Implementation of new, experimental practices such as: <ul style="list-style-type: none"> <li>- Different production, harvesting, processing techniques or practices</li> <li>- Financing options</li> <li>- Supply / sourcing strategies</li> <li>- Quality recognition and pursuit</li> <li>- Diversification of product base</li> <li>- Implementation of different business models</li> <li>- Social innovation: different ways of interacting and incentivizing suppliers via monetary and non-monetary benefits</li> </ul>
<b>Risk Tolerance</b>	Implementation of risk mitigating strategies to overcome/ adapt to: <ul style="list-style-type: none"> <li>- Lack of long-term guarantee for purchase orders</li> <li>- High price volatility and unpredictability</li> <li>- High likelihood of seasonal losses with low prices</li> <li>- Climate variability/ risks (changes in rainfall, rainy season onset, deforestation)</li> <li>- Unstable market conditions, inherent lack of market power</li> <li>- Limited land availability/ access</li> <li>- Limited/ restricted access to formal financing mechanisms</li> </ul>
<b>Opportunity Recognition</b>	Ability to perceive potential market gaps through: <ul style="list-style-type: none"> <li>- Recognition of new, unique opportunity through establishment/ evolution of sector and related markets</li> <li>- Use of existing knowledge stock to expand, diversify, change business strategy to maintain/ improve business standing from increased competition</li> <li>- Understanding emergence of domestic/ regional / international markets and new product development</li> </ul>
<b>Entrepreneurial Orientation</b>	Actively being pulled towards recognised market gap due to: <ul style="list-style-type: none"> <li>- High levels of market intelligence and high drive for pursuing success, via trying new activities, growing business and taking risks</li> <li>- Tendency to look for ways to pursue opportunity through unique, innovative means to maintain / improve business outlook</li> </ul>

(Source: Author Construct)

### 5.2.2 Coffee Chain Segments

The coffee chains of both Ethiopia and Rwanda are built from the same three elements: **Production, Processing and Export**. Within these elements, specific business segments

have been further unpacked to reveal the range of respondent types uncovered through data collection, presenting the full coffee chain analysed for this research. These business segments were extrapolated from the main elements of the coffee chain: production, processing and export, and defined from the organic diversification within existing coffee structures. Understanding these structures and related business models followed an in depth review of secondary sources, a pilot research trip to Rwanda and the actual data collection and field research. In doing so, this enabled a more complete understanding and opportunity for analysis of the differing actors involved. The business segments described below, are accepted terms and business classifications of the coffee sectors in both countries. While segments of the coffee production and supply chains were initially discussed in Sections 4.3.3.1 and 4.4.3.1, the information below presents an overview of the specific business segments used for analysis and the reasoning as to why and how respondents were classified. Additionally, entrepreneur classifications are listed after each business segment, for further clarification. The *Entrepreneurial Range* is again presented in Figure 5.1 and further discussed below in Section 5.2.2. Statements from respondents classified in each segment are presented in *italics* to provide a more grounded understanding of respondents.

#### **Coffee Business Segment, Entrepreneur Classification:**

- **Decaffeinated Producer, Unclassified** (Rwanda only): As initially discussed in Section 3.3.3, “Decaffeinated Producer” is the current phraseology used to describe smallholder producers in Rwanda who had previously produced coffee but had recently taken the conscious decision to uproot coffee trees (within the last ten years). The term does not describe a different type of coffee production or processing technique and should not be confused with the product of decaffeinated coffee. Decaffeinating fields is an illegal practice in Rwanda and highly discouraged by the Rwandan Government and local authorities. A variety of reasons were given by respondents for the drastic measure, such as inability to manage the crop due to household losses or death of family members, dislike of the difficulty to secure profits year on year, high resource cost of production (money, time, effort), unstable/ unpredictable market prices, or mistrust of Rwanda’s coffee market. Decaffeinated Producers are unclassified in the *Entrepreneurial Range*, as they no longer operate within the coffee sector.

Additionally, while these actors made the distinct choice to focus on alternative income generators, related entrepreneurialness in regards to those endeavours was not assessed within this study. Two Decaffeinated Producer respondents explained:

*My husband took care of coffee, it was one of the ways we were able to earn money, but after he died it was too much for me to manage and the washing station is very far. I paid a penalty to the municipality for stopping. (P\_R\_2, 2014)<sup>75</sup>*

*I inherited coffee on my farm from my father. I used to sell to Burundi, but with security now it is not possible to take across border. I do not trust the prices and when I was growing it, it was my lowest earner. I now focus on other crops and can now predict my income. (P\_R\_3, 2014)*

- **Smallholder Producer, Non-Entrepreneur:** Respondents currently producing coffee, but not actively pursuing opportunities to expand or maximize business holdings. These producers, largely at a subsistence level, continue to harvest and sell coffee seasonally as it exists merely as part of a wider production basket and used as a cash crop. Limited effort or resources are spent on this product and the lack of activity was reported to be due to the lack of interest in coffee as a viable business commodity, limited involvement or understanding of the market, disbelief in viability for income generation, lack of capacity or interest for investment in expansion or improvement to quality. Respondents also lacked ability or interest in developing creative ways to overcome barriers or to improve current business standing. These respondents were found to be highly vulnerable to shocks and it should be recognized that they perhaps did not consider themselves to be in a position to take risk due to current economic circumstances, given the highly volatile and unpredictability of the coffee market. Respondents classified as Non-Entrepreneurs were observed to be highly risk adverse and were visibly poorer than other actors across the chain, with the majority reporting to have relatively small production areas and land size. A Non-Entrepreneur explained,

*We have 200 trees, it pays for my children's school, but I cannot use that money to expand because I may not get it back and I cannot risk my children's school fees. Also, we have small land and do not have animals, so I cannot*

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<sup>75</sup> Interview coding is based on business segment, country and interview number within the segment and year of interview: (Segment\_Country\_Interview #, Year of Interview) For example the first Rwandan producer interviewed in 2014 would be coded as (P\_R\_1, 2014).

*use manure for fertilizer. We just harvest and sell what we have. (P\_R\_16, 2014)*

- **Smallholder Producer, Potential Entrepreneur:** Respondents who demonstrated an understanding of the market and how to maximize opportunities, however failed to demonstrate tangible steps in actual pursuit of opportunity. These respondents were comprised of both subsistence level producers and those slightly above a subsistence level. Many respondents reported to have specific goals or future plans, or were perceived to be market orientated and often demonstrated an understanding of the market, but again, failed to present tangible steps in pursuit of market opportunity. The lack of tangible steps towards opportunity pursuit is understood as a high-risk aversion, an inability to overcome barriers, or access means considered necessary to succeed with specific strategies for opportunity pursuit or business expansion. ‘Restrictions’ to this achievement was reported as the result of lack of access to financing, distance from markets, inherent market structure, and prohibitive regulations dictating individual, operational potential<sup>76</sup>. A Smallholder Producer Potential Entrepreneur explained,

*Coffee can make a lot of money, I would like to expand my trees, but I cannot get finance. When the coffee prices are low and I make losses I use money from other areas to cover and so I have not been able to buy more seedlings. Also the Government now makes us sell only to certain traders and I don't think they give a fair price. But that is coffee; you just have to accept it. (P\_E\_6, 2015)*

- **Smallholder Producer, Entrepreneur:** Respondents demonstrated clear, in depth understandings of the market as well as how to maximize opportunities. Respondents exhibited not only the capacity to take steps in overcoming barriers in pursuit of opportunity but reported to have used or developed unique means by which to pursue and achieve results. In addition to market and opportunity understanding, respondents demonstrated actual, often unique, tangible steps in pursuit of business opportunity such as acquisition of additional land, financial accessibility and product diversification

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<sup>76</sup> As will be shown, it was difficult to find and classify rural smallholder producers in Ethiopia. While many of these respondents had strong understanding of the marketplace and saw market opportunities, due to the limitations or inherent ceilings, were unable to pursue or take the tangible steps. As such the majority of Ethiopian Smallholders are classified as *Potential Entrepreneurs*.

(product supply, quality standards, certifications). Smallholder Producer Entrepreneurs, while still rural producers, were visibly wealthier than other Smallholder Producers interviewed. Some respondents reported to have relatively larger land sizes, with others reporting plantations of relatively small land size, yet all were able to work through barriers to take risk and implement unique, tangible action in pursuit of opportunity valued. Two Smallholder Producer Entrepreneurs explained,

*I have invested purposely in my coffee and bought additional land for more trees. I worked hard to expand when I make a profit. The problem is others (producers) are afraid to reinvest their earnings. From my coffee profits, I bought a motorbike and now use it as a moto-taxi in the village and make money off that as well. (P\_E\_24, 2015)*

*Coffee is very hard work, but you can make money. There is no more land left in this area, but I rent land from some other farmers so I can grow additional coffee. It is a risk if prices are low, but I usually do not make losses. I have hired extra workers so I can manage all my plantations in different areas and produce good quality and make better prices for the good quality. (P\_R\_62, 2014)*

- **Commercial Farmer, Entrepreneur** (Ethiopia only<sup>77</sup>): Respondents who own and operate formalized businesses purposely established for large-scale, commercial coffee production and export. Private, Commercial Farms are formally registered businesses and produce approximately 5% of Ethiopia's production with plantations of at least 50 hectares; often significantly larger<sup>78</sup>. The Commercial Farms are inclusive of production, harvesting, processing and the eventual export of the specific coffee produced on farm site. Businesses require large upfront capital investment to facilitate land acquisition<sup>79</sup>, plantation infrastructure and on site processing facilities. Business applications are made directly to the Ethiopian Government and were reported to be approved anywhere within three months to six years, with all land allocated in the Western Region of Ethiopia. Most Commercial Farmers are first generation owners,

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<sup>77</sup> Rwanda does not have farms of this size, due to land availability and regulation. No Rwandan respondents were found to have farms greater than 25 ha.

<sup>78</sup> The largest, privately held Commercial Farm in Ethiopia is 25,000 hectares. It used to be a state-owned plantation, but was purchased by MIDROC Ethiopia in 2013.

<sup>79</sup> Despite Ethiopia's land rights regulations, Commercial Farmer owners purchase land directly from the Ethiopian Government and are granted land ownership rights

having established plantations after 1991, of which only 14% reported to have inherited farms. Very few reported to have introduced an out-grower scheme with surrounding smallholders, instead sourcing solely from own plantations. Commercial Farms are allowed to export directly and are not mandated to sell on the Ethiopian Commodity Exchange. A Commercial Farmer explained,

*My grandfather and father were always involved in coffee on small plots and my father also worked as a coffee trader. I decided to invest in a large plantation because you can also export yourself and that is where the money is. We exported 576 tonnes (green) in 2014. (CF\_E\_1, 2015)*

- **Processor, Entrepreneur:** Respondents who own and operate privately held, formalized businesses established to process coffee from its post harvest cherry into parchment and later green bean ready for sale to Exporters for final export. Rwandan businesses involved in the study are all first generation start-ups. 42% of Ethiopian Processing businesses are first generation. Rwandan Processors can enter into the processing business at anytime and some entrepreneurs have ‘added’ this particular business phase to an existing portfolio, for example pairing production and processing or processing and export, to increase margins as well as market share. Ethiopian Processing businesses include both wet and dry methods. However, Ethiopian Processors are prohibited<sup>80</sup> from being involved in any other segment of the chain and are also prohibited from investing in other segments such as investing directly with smallholder producers. A Rwandan Processor explained,

*I was in University for two years and decided to drop out to start my own business. I have one washing station and buy from 5,000 farmers. I have invested to purchase another station that the bank seized through someone’s foreclosure; it should operate next year. I also plan to export my own coffee, but you need to be able to fill your own container (19.2 tonnes) and I don’t have enough volume, yet. (Pc\_R\_4, 2014)*

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<sup>80</sup> Ethiopian Government fear of monopolies created via vertical integration prohibits the same business entity from operating across multiple facets of the chain.

- **Exporter, Entrepreneur:** Respondents who own and operate formalized businesses established to market and sell green beans to importers on the international market. Rwandan Exporters involved in the study are all first generation business start-ups with 58% of Ethiopians as first generation start-ups. Rwandan coffee is sold directly from Exporters to international importers with Government oversight only to approve quality standards as agreed in purchase contracts. Ethiopian Exporters must buy and sell product 'blind' via the Ethiopian Commodity Exchange Auction. Importers of Ethiopian coffees purchase from these Exporters, however foreign investment to exporters, or any other segment of the chain, is prohibited. Rwandan and Ethiopian Exporters explained,

*I am a trained medical doctor, however after the war, in my area there were many orphans and widows to take care of and I could not manage on a doctor's salary so I invested in a washing station. I employ the widows and orphans in my businesses so they have their own income and can also get some business training. I now have three washing stations and an export business; I export certified, speciality grade coffee to the American market. (Ex\_R\_10, 2014)*

*Our family has been in coffee business for 60 years, although mainly within the domestic markets. I started the export business in 2005. About 65% of our business is coffee; the rest is other commodities and imported goods. Import businesses are very profitable here and coffee profits enable me to buy goods abroad for import. (Ex\_E\_18, 2015)*

### **5.2.3 The Entrepreneurial Range**

From a macro-perspective, actors within the coffee sectors of Ethiopia and Rwanda could be perceived to operate in highly similar fashions and with similar models. The coffee chains could be referred to as part of an industry culture of imitation due to similar functionalities, generalized business models, production techniques, and to some extent, the use or lack of technology (Ex\_R\_2, 2014). While from this macro-perspective much may appear to be similar, nuanced individual behaviours, business techniques and practices within specific market structures and varying control mechanisms are found to be different and unique, allowing for a deeper, more in depth appreciation of entrepreneurs and how each may operate within different market structures. For individuals operating within the same market

structure and political realm, operational requirements still differ due to the unique needs, environmental endowments and available infrastructures. Building from the coffee business segments described above in Section 5.2.1, a range of entrepreneurial classifications was established in order to classify respondents based on entrepreneurialness or perceived levels of entrepreneurship.

As presented in the literature review, one overarching definition for entrepreneurship does not exist. However, in an effort to ensure transparency, this research defined the entrepreneur as:

*An individual aimed at profit maximization through opportunity recognition and its pursuit, which has resulted in unique, tangible action towards opportunity recognized.*

Business success rates or exact profitability could not be obtained or verified within this research and as such were not used as a specific measurement for entrepreneurial classification. Additionally, profitability is interpreted as both a measure of monetary and non-monetary means<sup>81</sup>.

Demonstrated tangibility of entrepreneurial action is considered important, as respondents could not simply be asked, for example: “if they are an entrepreneur?”, or “if they are innovative?”. It was expected that the respondent would answer in absolute terms to these questions and may also have different understandings or perceptions of specific terms used. Therefore this researcher felt asking more generalized questions in relation to business activity or circumstances would result in more concrete evidence and more accurate responses, which could then be analyzed within the greater context. Outcomes were inferred from respondent responses in regards to the examples provided to actual strategies, actions or implementation taken, barriers overcome, histories survived, as well as current market perceptions.

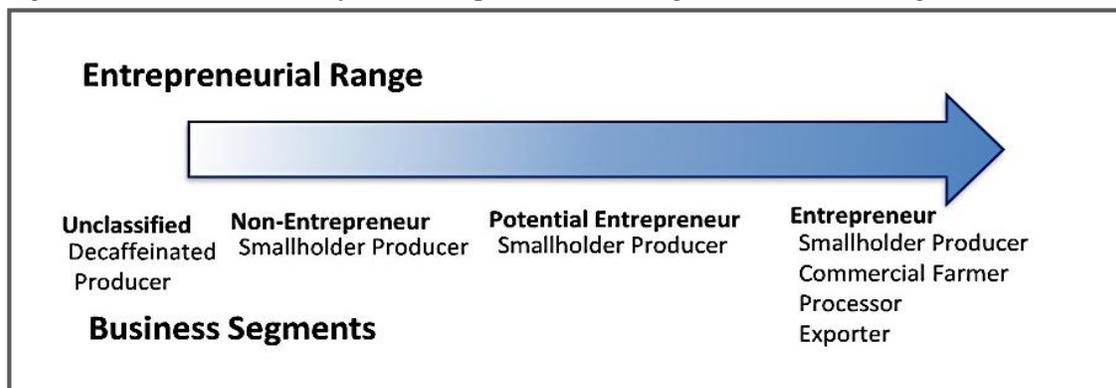
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<sup>81</sup> Profitability is addressed through both monetary and non-monetary means due to the fact that respondents, especially smallholder producers, were observed to typically analyse and assess their overall success or failure in regards to earnings as a more complete package, i.e., what overall was received for their work. This included payment in-kind via labour provision, payment through foodstuffs, training received, relationships built etc. Additionally, no smallholder producer respondents were found to maintain P&L statements, financial records, or receipts of purchases/ sales. As such, success in regards to ‘earnings’ or profit had to be assessed through more than just physical cash revenue earnings.

Understanding entrepreneurship within these contexts requires an acceptance that some examples may seem obvious or elementary in some respects, however as entrepreneurship is relative to specific settings and contexts, actions that may be considered entrepreneurial within the given research area, may not be in alternative settings. For example, portfolio diversification for enhanced financial security and improved profitability may seem obvious and not especially entrepreneurial within some environments. However, for a rural, small scale producer with limited business and/ or academic training, operating with restricted market access, in a traditionally risk adverse environment, taking risks to attempt new action for a unique business plan and portfolio diversification is entrepreneurial within that context, and is considered so within this research. While not every action can be reported, the most observed types as well as and unique occurrences, actions and perceptions are presented here.

As mentioned above, it became evident that producer groups could not be equitably defined simply as Entrepreneur or Non-Entrepreneur and additional segments were developed to reflect findings. As such, additional segments emerged to further classify ranges of entrepreneurship across the *Entrepreneurial Range*, resulting in Non-Entrepreneur, Potential Entrepreneur and Entrepreneur. Commercial Farmers, Processors and Exporters were more easily classified as Entrepreneurs as they had undertaken clear pursuit of an opportunity as demonstrated through current coffee businesses. The visualization of the range of entrepreneurial classifications and related business segments is presented in Figure 5.1 below.

*Figure 5.1. Visualization of the Entrepreneurial Range and Business Segments*



(Source: Author Construct)

As shown in Section 3.3.3, respondents were classified using strategic parameters built from distinct understanding of the literature and interpretation of respondent actions. The classification of respondents was based on answers to a variety of questions conducted through semi-structured interviews looking to assess market perspective, business operation, portfolio compilation, future plans (or lack thereof), unique and innovative business models and methods, product portfolio, unique financing attraction and lending schemes, as well as risk taking and risk management measures in relation to their coffee businesses. It is feasible that respondents could be classified as Entrepreneurs despite having failed in previous attempts at opportunity pursuit, as Entrepreneurs were not measured by success or failure, but by opportunity recognition and its ensuing unique, tangible pursuit.

This *Entrepreneurial Range* was developed out of the research and interview process and aids as a framework in testing results and drivers against business segments. The range will be used throughout this research to discuss, analyse and showcase differences and similarities not only across the coffee chains of Ethiopia<sup>82</sup> and Rwanda but to also demonstrate the differences and similarities between Non-Entrepreneurs, Potential Entrepreneurs and Entrepreneurs.

### **5.3 Socio-Demographic Results**

As individuals obviously do not operate in a vacuum, additional socio-demographic characteristics were collected and analysed in the attempt to better understand particular make-ups and traits inherent to Entrepreneurs and related choice making behaviours. While larger contextual and operating environments will be further dissected in Chapter 6, personal findings include age, gender, education, business inheritance, familial history with coffee, cooperative involvement, perceived importance of coffee as a business, and current investment. Results are presented in Tables 5.2 through 5.5.

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<sup>82</sup> Research in Ethiopia was conducted in the months building up to and during the May 2015 National Elections, with respondents visibly on edge about talking to ‘outsiders’ or talking about Ethiopian politics, the regime, or how this impacted daily life.

### 5.3.1 Age, Gender and Education

Table 5.2. Demographics: Age, Gender and Education

N: (221)	Age (Mean)		Gender (% Male)		Education (% over Primary level)	
	Ethiopia	Rwanda	Ethiopia	Rwanda	Ethiopia	Rwanda
<b>Decaffeinated Producer</b> (Rwanda) Unclassified (14)		43		93%		29%
<b>Smallholder Producer</b> Non-Entrepreneur (35)	46	48	100%	84%	25%	19%
<b>Smallholder Producer</b> Potential Entrepreneur (32)	47	41	100%	100%	24%	33%
<b>Smallholder Producer</b> Entrepreneur (29)	40	48	100%	96%	33%	26%
<b>Commercial Farmer</b> (Ethiopia) Entrepreneur (22)	51		77%		100%	
<b>Processor</b> Entrepreneur (46)	40	47	96%	95%	100%	60%
<b>Exporter</b> Entrepreneur (43)	50	49	95%	83%	100%	83%

(Source: Author Questionnaire)

#### 5.3.1.1 Age

Analysis of age across the ranges and between both countries does not reveal wide-ranging differences. One element of note, however is that mean respondent ages were between 40 and 50 years of age, indicating that heads of businesses tended to be older in both countries as compared against life expectancies of 63 and 64 for Ethiopia and Rwanda, respectively.

#### 5.3.1.2 Gender

The majority of respondents in this study were men and this corresponds with socio-cultural norms in both countries where business leaders, as well as heads of households are typically, traditionally, men, regardless of entrepreneurial classification. The coffee sector dominance by men is thus more related to wider cultural influences, than a sector specific rarity or entrepreneurial phenomenon. The observed dominance of men as entrepreneurs was triangulated from the use of additional methods throughout the study and does reveal a current reality within these specific research contexts. However, this is also a result of the non-gender stratified sampling technique used in this study, as discussed in Section 3.4.3. Without accounting specifically for gender, the sampling strategy facilitated men as respondents and as such, specific analysis into the related power dynamics, which may

prevent women from pursuing entrepreneurial action, were unable to be distinctly analysed. Through further discussion with respondents it was a common discussion point that men tend to be empowered in business and head of household activities; as is culturally appropriate. Women respondents typically expressed pride that as a woman, they were able to manage their own businesses and be successful. Some women recognized additional hardships in regards to being taken seriously as an entrepreneur and businessperson, especially through interaction with other (male) actors.

Ethiopian Commercial Farmers had the highest proportion of women respondents at 23%. It is unknown exactly why there is a relatively high female representation in this segment. However, in theory, anyone can be allowed to purchase land for the specific use of private commercial farming once a business plan is approved by the Ministries of Agriculture and Trade, as well as by the Ethiopian Commercial Bank. In a growing economy that has seen wealth echelons expand, women are also, obviously, looking to maximize this opportunity.

Rwandan respondents resulted in an overall higher proportion of women across business segments than Ethiopian counterparts. Women interviewed in Rwanda who ran their own business all reported to have started following the war in 1994 in which husbands or family members were killed and they were left to rebuild; some had remarried, others had not. One such example is described below in Case Study 5.1. Overall, Rwanda is seen to have strong gender equity across many sectors, particularly within politics. Much of gender equity has come from the aftermath of the 1994 genocide in which women, as a means of survival, took up new roles in public and private sectors (Ansoms and Rostagno, 2012).

#### ***Case Study 5.1. Women in Business***

The Founder and Managing Director of a highly successful coffee export business, lost her farm and husband in the war in 1994. After the war she began to work for Ugandan traders, sourcing area coffee for cross-border trade; paid RWF 10 per kg of red cherry (\$0.04/kg). As a Sourcing Agent she built large networks and close relationships with farmers and saw an opportunity to make additional money from processing and exporting. She applied for support to the Rwandan Government during the ‘new-movement of coffee’ in the early 2000s. She has received additional support from Oxfam and USAID and currently owns her own farm, 2 washing stations and an export business. One of the country’s largest exporters, she now sources from over 7,000 farmers. When asked if there are any additional challenges to being a woman in business, she coyly smiled and responded “they (men) used to not take me seriously, but now they come to me for advice.” (Ex\_R\_4, 2014)

### 5.3.1.3 Education

As could be anticipated, Smallholder Producers in both countries, regardless of entrepreneur classification, had low proportions of respondents completing and or reaching education levels above the primary level; similar to national trends (World Bank, 2014c; 2015). Overall, just 27% of Smallholder Producers received education above the primary level. Respondents classified as Entrepreneurs in both countries, had higher levels of education.

As seen in Table 5.2, Rwandan respondents saw progressively increasing rates of education levels between the Producer, Processor and Exporter segments. Respondents classified as Non-Entrepreneurs had the lowest rate of individuals attaining education above the primary level. Ethiopian respondents also saw progressively increasing rates of education from Producer, Processor and Exporter segments. Interestingly, Ethiopian respondents operating formalized businesses: Commercial Farms, Processing and Export, resulted in 100% of respondents achieving education levels above primary level as a further breakdown in Table 5.3 shows:

*Table 5.3. Ethiopia, Higher Education*

<b>N: (68)</b>	<b>Completed Primary School</b>	<b>Completed High School</b>	<b>Received University Degree</b>
<b>Commercial Farmer (22)</b>	100%	95%	68%
<b>Processor (26)</b>	100%	81%	35%
<b>Exporter (20)</b>	100%	85%	45%

(Source: Author Questionnaire)

As will be discussed throughout this research and specifically addressed in Section 6.2.2.1, many economic sectors in Ethiopia are populated with individuals benefiting from an innate reward of opportunity and access, being better equipped to access support mechanisms such as education, financing and markets, than those born into situations without similar, innate benefits. The discrepancy between education rates of respondents within Smallholder Producers and individuals operating formalized businesses presents evidence to that case.

### 5.3.2 Inheritance and Family History

Further analysis of backgrounds or perceptions about the coffee sector is used to provide a clearer picture into business mind-sets, starting points and perceived points of value for Entrepreneurs and respondents across the chain as seen in Table 5.4 below.

Table 5.4. Demographics: Inheritance and Family History

N: (221)	% Inherited		Family History with Coffee	
	Ethiopia	Rwanda	Ethiopia	Rwanda
<b>Decaffeinated Producer</b> (Rwanda) Unclassified (14)		93%		79%
<b>Smallholder Producer</b> Non-Entrepreneur (35)	100%	68%	100%	84%
<b>Smallholder Producer</b> Potential Entrepreneur (32)	82%	53%	82%	87%
<b>Smallholder Producer</b> Entrepreneur (29)	17%	17%	33%	74%
<b>Commercial Farmer</b> (Ethiopia) Entrepreneur (22)	14%		45%	
<b>Processor</b> Entrepreneur (46)	58%	5%	69%	80%
<b>Exporter</b> Entrepreneur (43)	42%	13%	50%	48%

(Source: Author Questionnaire)

### 5.3.2.1 Inheritance and Family History with Coffee

The number of respondents that inherited their current coffee farm or business presented across both countries show lower rates of inheritance among entrepreneur segments. With respondents classified as Non-Entrepreneurs or Potential Entrepreneurs having much higher rates of inheritance.

Individuals, who *did not* inherit, had to make the conscious choice and take tangible steps to start a business; incurring start up costs and persevering through greater learning curves. Case Study 5.2 below, presents a Smallholder Producer in Rwanda choosing to get into the coffee business, despite his non-inheritance. Inheritance rates in Ethiopia were higher at every classification stage than Rwandan counterparts. Research found that Ethiopian Entrepreneurs involved in processing and exporting businesses are also from long lineages of family involvement in the sector, currently part of 2<sup>nd</sup>, 3<sup>rd</sup> or 4<sup>th</sup> generation businesses.

### ***Case Study 5.2. Coffee Despite Lack of Inheritance***

A Rwandan Smallholder Producer Entrepreneur explained why he chose to go into coffee:

“I grew up on a farm, but we did not grow coffee. I am one of the younger children and did not receive land from my father. I worked as a laborer for a while and was able, with some support from my father, to invest in a small plot. But I decided to plant coffee as I have seen others in the area be very successful. I continued working as a laborer until my first harvests came in and I invested my earnings back into my coffee. It is difficult to find more land, so I rent plots from other farmers in the area. I do not intercrop on these plots and re-invest all profit into my plantations. I live far from the nearest (washing) station, but I always take my coffee directly to the station to make sure it is sold the right way and I get my right price. Some people only produce what their parents did, but I believe coffee is a better option for me. Last season (2014) was a low (price) season, but I am in the process of taking a loan so I can continue to expand my production.” (P\_R\_62, 2014)

While the individual at the helm of these inherited businesses may not have established the business on their own, entrepreneurial behaviour was found through their own work to expand business models in order to successfully manage a business through changing market and political climates, as well as continually work to evolve product viability within the international market<sup>83</sup>. An example of family history described by an Ethiopian Exporter is below:

*My family has been involved in the coffee business for a very long time. My great-grandfather was a trader in the 1940s. He, my grandfather and father all worked in coffee, but informally, trading beans from the countryside into the city; later my father started selling machinery to the coffee processing stations. My family knows coffee very well, but I started the export business. We exported over 500 tonnes green in 2014. My family’s long history and connections with area farmers and traders has been very beneficial in helping us scale rapidly and continue to be successful. (Ex\_E\_6, 2015)*

Conversely, an Ethiopian Smallholder Producer, Non-Entrepreneur, who also has a long family history with coffee, described his inheritance experience:

*I finished High School, but could not find a job and returned to inherit our family farm; I am the oldest. Our farm was somewhat involved in coffee production; we are in a coffee area so everyone has always grown it. I have added a few trees and we now have 60 trees. Coffee is there so I harvest and sell (it), but we focus most on other crops. (P\_E\_21, 2015)*

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<sup>83</sup> The international market has consistently undergone great transformation as consumer preferences change, logistic possibilities widen and coffee’s global reach stretches ever farther.

### 5.3.3 Business Strategies: Cooperatives, Asset Valuation and Investment Plans

Table 5.5 presents respondent data on cooperative membership, coffee's perceived asset value and current investment strategies.

*Table 5.5. Business Strategies: Cooperatives, Asset Values and Investment Plans*

N: (221)	Member of Co-op		Coffee is Main Income Earner / Most Valuable Asset		Currently Investing in Farm /Business	
	Ethiopia	Rwanda	Ethiopia	Rwanda	Ethiopia	Rwanda
<b>Decaffeinated Producer</b> (Rwanda) Unclassified (14)		36%				36%
<b>Smallholder Producer</b> Non-Entrepreneur (35)	50%	58%	25%	68%	0%	0%
<b>Smallholder Producer</b> Potential Entrepreneur (32)	47%	40%	81%	87%	18%	67%
<b>Smallholder Producer</b> Entrepreneur (29)	17%	35%	83%	96%	83%	91%
<b>Commercial Farmer</b> (Ethiopia) Entrepreneur (22)	0%		86%		68%	
<b>Processor</b> Entrepreneur (46)			81%	75%	50%	75%
<b>Exporter</b> Entrepreneur (43)			70%	87%	45%	83%

(Source: Author Questionnaire)

#### 5.3.3.1 Cooperative Membership

Cooperatives are strong forces within both countries and operate similarly in that the cooperative structure, in theory, should avail to the smallholder producer the opportunity to increase returns via volume sales and collective bargaining power; as opposed to minimal individual sale by a single producer. Smallholder Producer Non-Entrepreneurs in Ethiopia and Rwanda are members of a cooperative at 50% and 58% respectively. However only 17% and 35% of Smallholder Producer Entrepreneurs for Ethiopia and Rwanda are members of a cooperative. Indicating that the more entrepreneurial an individual, the less likely they are to be a member of a cooperative. Insight into the thought process and values of the individual Entrepreneur shows that Entrepreneurs clearly value the ability to assess opportunity and to supply their product to different buyers offering the best value and benefits, with Entrepreneurs not wanting to be forced into supplying only one buyer. This also demonstrates evidence to the Entrepreneurs' ability in reading market options and potential. This can shed light as to personal feelings on trust, effectiveness, or ineptitude of

cooperatives as both countries have highly effective, as well as highly inept, corrupt and mismanaged cooperatives.

### **5.3.3.2 Coffee Valuations**

Questions were posed as to whether or not respondents considered their coffee business to be the largest income earner or most valuable asset in the attempt to understand industry perceptions, market valuations and future business strategies. Traditionally, Smallholder Producers focus available land on the production of cash crops and crops for household consumption. Owners of Processing and Exporting businesses reported to also own or be involved with other enterprises, either within the coffee sector or externally; an example is shown below in Case Study 5.3. Analysis of this data from respondent interviews found that the more entrepreneurial a Smallholder Producer, the more highly valued coffee was as it was also more likely to be the main income earner. Despite high market volatility and constant threat of low prices, coffee was still reported to be the most highly valued commodity by Smallholder Producer Entrepreneurs<sup>84</sup> in both countries.

#### ***Case Study 5.3. Coffee Valuations***

Some entrepreneurs have chosen to diversify away from coffee for a variety of reasons. An Ethiopian Exporter described how and why his coffee business fits into his larger portfolio:

“When I was a child I used to sell coffee on the street and got inspired by seeing the larger businessmen. I started as an informal trader but was able to scale my businesses quickly when the Emperor was in power. I did have a farm, but it was taken by the Derg, so now I just focus on sale and supply, not production. The sector is much more difficult now, I am not sure it is better. To protect myself I have diversified my business and invested in other areas. I now own shares in 5 different banks, several buildings that I rent out and have a fleet for 40 transport trucks for rent. I am not sure if coffee is my most valuable business. It probably means the most to me, but it is a financially less secure option now.”

(Ex\_E\_12, 2015)

Formal business owners of Processing and Exporting businesses also saw a high proportion of respondents reporting coffee business to be the most valuable. Interestingly, these proportions are lower than smallholder producer segments, indicating that greater choice or investment opportunities are available and taken by individuals wishing to establish and

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<sup>84</sup> Through visual mapping techniques used during field research, it was evident that smallholders involved with coffee production, especially those that reporting to be relatively successful were wealthier. Additionally, communities with a higher density of coffee producers were observed to be relatively wealthier as compared to communities with lower levels of coffee producers.

expand formal businesses, providing evidence into entrepreneurial perceptions and recognition.

### 5.3.3.3 Current Investment Strategies

Not surprisingly, the more entrepreneurial an individual, the more likely respondents were to be actively investing in their coffee business. For Rwandan Smallholder Producer Non-Entrepreneurs, 0% reported to be currently investing, while 67% of Smallholder Producer Potential Entrepreneurs were investing, and 91% of Smallholder Producer Entrepreneurs reported to be investing. In addition, Rwandan Processors and Exporters reported high levels of respondents currently investing at 75% and 83%, respectively. Strategies reported by Rwandan Smallholder Producer Entrepreneurs as to why current investment was important or needed for their business resulted in the following reasons: understanding of the business as a long-term activity opposed to a single seasonality and focus on product differentiation through improved quality requiring year round work and maintenance, as described by a Rwandan Smallholder Producer Entrepreneur,

*Through coffee I realized I could be very successful, and it is a way to improve yourself and your family, but only if you are exceptional in your production, volume and quality – you have to be recognizable to make buyers want to support you. Coffee can be difficult year to year, but if you approach coffee with a long-term strategy you will be successful. But that means continuing to invest in your business; too many people stop (investing) after low prices and they hurt themselves the following season. (P\_R\_80, 2014)*

Rwandan Non-Entrepreneurs in contrast, reported to consider themselves not to be in the financial position to invest in this way and perceived continual investment as a waste of resources or were reluctant to invest following a year of low pricing<sup>85</sup>; an example can be seen in Case Study 5.4 below. Much of coffee's off-season corresponds with typical 'hungry-seasons' and understandably, some actors did not have the means to spare additional resources during this time to invest in coffee production.

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<sup>85</sup> Trends of involvement and or investment in coffee at a typical Smallholder Producer level follow pricing trends. Years of low prices result in limited involvement and/ or years of high prices are followed by large investment and involvement in the sector from current and new entrants (also creating reduced prices due to unexpected higher volumes/ oversupply). Entrepreneurial respondents, while accepting this volatility and market influx, approached understanding of their business from a longer term perspective in which individual season successes were weighted less in regards to overall profitability from the life of a plantation.

In contrast, Ethiopia saw much lower levels of current investment across the chain with 0% of Smallholder Producer Non-Entrepreneurs, 18% of Smallholder Producer Potential Entrepreneurs, and 83% Smallholder Producer Entrepreneurs investing. Likewise 68%, 50% and 45% of Commercial Farmers, Processors and Exporters, respectively, reported to be investing currently. Through respondent

#### **Case Study 5.4. Coffee Investments**

A Rwandan Smallholder Producer Non-Entrepreneur, described difficulty with investing:

“I inherited from my father 200 trees, but have had to remove many to grow crops for the household; we have just 60 trees now. Growing coffee is also very hard and people don’t like all the work for the little gain. I do invest my energy on coffee at harvest time, but cannot invest money other times. All our money is used for home (consumption) and not expansion because we do not have much. I cannot get a loan and cannot expand land and you never know the price of coffee, so why would I invest?” (P\_R\_17, 2014)

interviews, reasons for this appear to be threefold: a lack of available capital or financing mechanisms to enable investment, low rates of confidence in the ability to recoup money and a high risk aversion to external interference in their businesses. An Ethiopian Smallholder Producer Potential Entrepreneur discussed his reasons for not being able to invest:

*There is no way to get money. Recently a micro-finance business has come to our area, but they will not lend to coffee farmers, as prices are not predictable and they will not use (coffee) trees as collateral; I have no other assets they want. I will not take a loan from a bank. I do not trust it and I do not like them having all my information. (P\_E\_18, 2015)*

### **5.3.4 Entrepreneurship Probability**

This section looks to combine a selection of the socio-demographic elements shown to be most impactful in Section 5.3 to determine if and what relationships exist and how this may influence entrepreneurship probability. The analysis uses Binary Logistic Regression Models<sup>86</sup>, to test for the influenced probability of entrepreneurship. Respondents are tested by country only.

#### **5.3.4.1 Socio-Demographics**

Education levels, inheritance and financial access were all found to have a significant relationship in determining the probability of entrepreneurship when modelled. Models

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<sup>86</sup> Binary Logistic Regressions correspond with variables that only have two possible outcomes (i.e. success / failure). The controlled variables are Binary – thus only account for datasets inclusive of 0 and 1 to determine the expected value or probability (P-Value) of the model (Landau and Everitt, 2004; Montgomery et al., 2012).

controlling for gender, age, cooperative membership and investment strategies were not found to have a statistical significance and thus are not considered influences to entrepreneurship probability. However, as will be seen below, education, inheritance and financial access all maintained significance in the model and are considered to be influential to entrepreneurship probability.

Tables 5.6 and 5.7 present the results of the regression model for entrepreneurship probability when accounting for inheritance, years of education, and degrees of financial access for Ethiopia and Rwanda respectively.

*Table 5.6. Ethiopia, Socio-Demographic Probabilities*

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
<b>Inherit (No)</b>	2.209	0.974	5.148	1	<b>0.023</b>	9.11
<b>Education (Years)</b>	0.551	0.14	15.555	1	<b>0.000</b>	1.735
<b>High Degree of Financial Access</b>	1.791	0.909	3.880	1	<b>0.049</b>	5.995

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

(Source: Author Questionnaire)

### **Ethiopia**

Respondent inheritance is significant. Through testing the relationship of entrepreneurs who *did not inherit*, this model found that Ethiopian respondents that did not inherit, increased probability of being an entrepreneur by more than nine times. While not shown in the above table, respondents that *did inherit* coffee businesses were found to have a reduced probability of entrepreneurship by 10%.

Education is also significant to entrepreneurship probability. This model found that for each additional year of schooling, an individual is 1.7 times more likely to be an entrepreneur. Ten years of schooling, or reaching the end of Secondary School, results in a 17% increase in the probability of entrepreneurship.

Finally, the degree of financial access was also found to be significant in determining entrepreneurship probability. Analysis into the degree of financial access, used cross-tabulation to consolidate responses of financial accessibility into either ‘low’ or ‘high’. A

*low degree* response is interpreted as a result of one, two or three on the likert scale questionnaire and a *high degree* response is interpreted as a four or five; likert scales used will be discussed in greater detail in Section 5.4.1. The above model found that a high degree of financial access increases the probability of entrepreneurship nearly six times. A further analysis of respondent financing availability and accessibility can be found in Section 6.5.1.1.

Table 5.7. Rwanda, Socio-Demographic Probabilities

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
<b>Inherit (No)</b>	2.658	0.626	18.037	1	<b>0.000</b>	14.27
<b>Education (Years)</b>	0.208	0.072	8.338	1	<b>0.004</b>	1.231
<b>High Degree of Financial Access</b>	2.615	0.613	18.20	1	<b>0.000</b>	13.667

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

(Source: Author Questionnaire)

## Rwanda

Within Rwanda, this model found that those who *did not inherit* were 14 times more likely to be an entrepreneur. Conversely, respondents that *did inherit* were found to have entrepreneurship probability reduced by 1/10<sup>th</sup>. Years of education were found to also be significant, whereas each additional year of schooling results in 1.2 times more likely to be an entrepreneur. A high degree of financial access was also found to be statistically significant to entrepreneurship, increasing its probability over 13 times. A further analysis of respondent financing availability and accessibility can be found in Section 6.5.1.2.

## 5.4 Investigating Similarities and Differences of Drivers per Business Segment and Along the Entrepreneurial Range

### 5.4.1 Likert Scale Testing Explained, Driver Indexes Employed

Likert Scales are the most commonly used method when testing range, dimension and depth of individual characteristics such as resilience, self-efficacy, risk tolerance, and opportunity recognition (Chen et al., 1998; Bernard, 2000; Zhao et al., 2005; Bullough et al., 2013). These tests were used to better understand and quantify elements of the individual construct

from results of drivers tested. As research did not want to merely gauge driver strength as simply *yes* or *no*/ *low* or *high*, corresponding Driver Indexes were developed from the results of the likert scale to determine the strengths or weakness of specific drivers for each segment and along the *Entrepreneurial Range*.

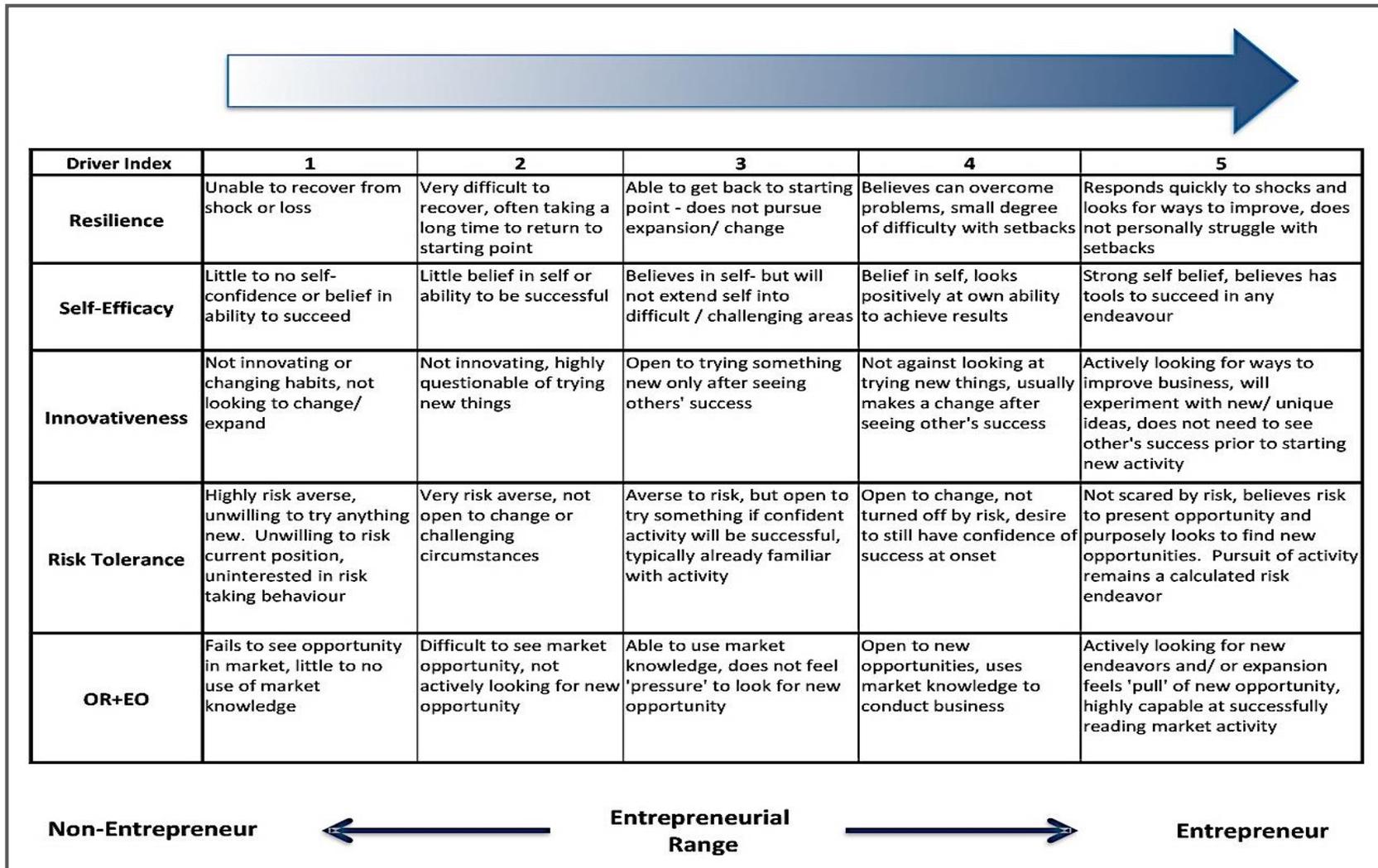
The likert scale developed and used for this research offered respondents a range of choices from one to five, (*Absolutely Never* to *Definitely Always*). Answers at the low end of the scale (one) show a low degree of the tested driver, or low Driver Index, and answers at the high end of the scale (five) show a high degree of the tested driver, or high Driver Index. Respondents were asked to complete a structured questionnaire in the form of a likert scale in which reactions and individual perceptions were ranked against sets of generalized questions related to a specific driver. The complete Likert Scale Questionnaire used in testing drivers can be found in Appendix D. It is important to note that respondents were classified following analysis of responses<sup>87</sup> to semi-structured interviews and were then asked to complete the likert scale test (i.e. the respondent was not classified along the *Entrepreneurial Range* based on their specific results of the likert scale). Analysis of likert test responses was conducted only after individual classification was completed, in the attempt to provide the truest, unbiased measurement of each specific segment outcomes.

As discussed in Section 5.2.1, the specific drivers used in this analysis are Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation (OR+EO). Results from the likert scale test and corresponding analysis of Driver Indexes was used to determine if specific drivers are more likely to provide a foundation or predisposition within the individual construct for entrepreneurship. Looking to further understand the more nuanced picture from each driver index point, Figure 5.2 below, presents each of the Driver Indexes (a range of one to five) per each driver tested, providing descriptive context for each driver index point along the index scale.

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<sup>87</sup> Segment and range classifications described and defined in Sections 5.2.2 and 5.2.3

Figure 5.2. Driver Index Scale Descriptions



(Source: Chen et al. 1998; Sinclair and Wallston, 2004; Zhao et al., 2005; Smith et al., 2008; de Jong and den Hartog, 2010; Bullough et al., 2013; Author Construct)

### 5.4.2 Likert Scale Preliminary Analysis

While more detailed analysis of the Driver Indexes will be found in Section 5.4.3, an initial, preliminary analysis of the likert scale results are presented below. This initial analysis of respondent responses to the likert scale tests used mode to determine an initially presumptive score for each tested driver, per business segment, by country. Mode was used as it is the ordinal measurement for the most common response answer. Given that analysis was looking to understand the most common choice for each question, mode was used instead of mean, which is the measurement of the central tendency (Boone and Boone, 2012). Section 5.4.4 presents additional, more in depth analysis of the exact Driver Index scores for specific segments through statistical analysis of likert scale results.

Through an initial look at these preliminary results in the tables below, a difference can be seen between the varying business segments as well as between Non-Entrepreneurs and Entrepreneurs. While greater variation was initially expected between different business segments, i.e. between Producers, Processors and Exporters, this initial review indicates a split along Non-Entrepreneur and Entrepreneur classifications as opposed to business type. Tables 5.8 and 5.9, show the mode score of drivers for the range of business segment classifications. As can be seen, scores tend to increase (one as low and five as high) as entrepreneurial classifications increased from Non-Entrepreneur to Entrepreneur.

*Table 5.8. Ethiopia Preliminary Analysis of Drivers using Mode*

<b>Ethiopia</b> N: (95)	<b>Resilience</b>	<b>Self-Efficacy</b>	<b>Innovativeness</b>	<b>Risk Tolerance</b>	<b>Opportunity Recognition + Entrepreneurial Orientation</b>
<b>Non-Entrepreneur</b> Smallholder Producer (4)	4	3	1	2	2
<b>Potential Entrepreneur</b> Smallholder Producer (17)	4	4	2	2	4
<b>Actual Entrepreneur</b> Smallholder Producer (6)	4	5	5	3	5
<b>Entrepreneur</b> Commercial Farmer (22)	4	4	4	3	5
<b>Entrepreneur</b> Processor (26)	5	4	5	3	5
<b>Entrepreneur</b> Exporter (20)	5	4	5	3	5

(Source: Author Questionnaire)

In both countries, results show a similar picture with higher scores of drivers resulting from segments classified as Entrepreneurs as compared to Non-Entrepreneurs. This however is clearer in Rwanda and it is thought to be an outcome of Rwanda's open market structure, which enables entrepreneurial mobility across the chain. Ethiopia, in contrast is marked by a restrictive market structure that does not allow for free movement of businesses and entrepreneurs across the chain. Therefore individual actors, while potentially having the mind-set to be an entrepreneur, may not actually be able to take tangible pursuit. Ethiopians had a lower Risk Tolerance across all segments than their Rwandan counterparts and this may be another outcome of the market structure.

*Table 5.9. Rwanda Preliminary Analysis of Drivers using Mode*

<b>Rwanda</b> N: (126)	<b>Resilience</b>	<b>Self-Efficacy</b>	<b>Innovativeness</b>	<b>Risk Tolerance</b>	<b>Opportunity Recognition + Entrepreneurial Orientation</b>
<b>Unclassified</b>					
Decaffeinated Producer (14)	2	4	2	1	3
<b>Non-Entrepreneur</b>					
Smallholder Producer (31)	2	2	2	2	2
<b>Potential Entrepreneur</b>					
Smallholder Producer (15)	5	4	2	4	5
<b>Actual Entrepreneur</b>					
Smallholder Producer (23)	4	5	5	4	4
<b>Entrepreneur</b>					
Processor (20)	5	5	5	4	5
<b>Entrepreneur</b>					
Exporter (23)	4	5	4	4	4

(Source: Author Questionnaire)

The analysis as seen above in Tables 5.8 and 5.9, hints to a difference between Non-Entrepreneurs and Entrepreneurs, however this preliminary analysis is not yet enough to fully understand the significance of the driver indexes and relationships between segments. With the selected drivers clarified and an understanding of how the likert scale test will be used to determine scores for the specific drivers tested, the next section looks deeper into the specific driver strengths by conducting statistical analysis of comparisons per business segments, across the *Entrepreneurial Range* and by country.

### 5.4.3 Driver Indexes – Explanations, Comparisons and Results

The following analysis presented in Section 5.4.4 works to determine an actual depth of each Driver Index as well as the significance of comparisons between business segments. Figure 5.3 below, depicts the Author’s conceptualization of the Driver Index Scale, with high scores (five) interpreted as a higher degree for a specific driver and low scores (one) interpreted as a lower degree of a driver.

Figure 5.3. Driver Index Scale

Driver Index	Score				
	Low	→	→	→	High
<b>Resilience Index</b>	1	2	3	4	5
<b>Self-Efficacy Index</b>	1	2	3	4	5
<b>Innovativeness Index</b>	1	2	3	4	5
<b>Risk Tolerance Index</b>	1	2	3	4	5
<b>OR+EO Index</b>	1	2	3	4	5

(Source: Author Construct)

By determining the specific scores of each Driver Index per business segment and comparing Index Scores between segments, analysis was taken following these three steps:

1. Exploratory descriptive statistics were used to determine the specific Driver Index Score for each classified business segment by calculating the mean of the mode for all respondents per segment and by country.
2. Driver Index Score results, for each business segment, were compared across the *Entrepreneurial Range*. Statistical significance tests were conducted to determine similarities and/or statistical differences between segment comparisons.
3. Driver Index scores were entered in graph form for visual comparison of varying business segments by entrepreneur classification, per country and driver.

Statistical analysis was done through Non-parametric, 2-Independent Sample tests; using the Mann-Whitney U<sup>88</sup> statistical significance test to determine the statistical significance of comparisons between business segments and/ or entrepreneur classifications. A statistically significant result indicates a difference in driver scores, interpreted as a difference in the

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<sup>88</sup> This type of significance test works to understand the significance between two unrelated variables within a sample to determine if samples consist of similar or statistically different cases (Bryman and Cramer, 2009). Significance testing taken at 95% confidence is understood as an arbitrary measurement and used as a guide for comparisons of similarity.

degrees of the Driver Indexes of the compared business segments. A result finding no statistical difference is understood to indicate that no driver difference exists between the two compared segments and thus, the segments have a similar degree of the Driver Index. Comparison of segments was important as it allowed analysis to determine if differences of the individual construct exist between respondents in different business segments or entrepreneurial types such as Non-Entrepreneur and Entrepreneur. Statistical significance was taken at the 95% confidence level, unless otherwise noted.

#### **5.4.4 Segment Comparisons**

This chapter looked to identify if the specific drivers tested in the following sections are indeed more prominent within Entrepreneurs. As such, the specific driver investigations conducted in Sections 5.4.4.1 to 5.4.4.5 test the degree of specific driver strengths or weaknesses across the *Entrepreneurial Range*, per business segment and between countries. Following the understanding of the degree of a specific driver index per segment, analysis conducted in Sections 5.4.5.1 to 5.4.5.3 builds from these findings to analyse and showcase the nuanced differences between Entrepreneurs and Non-Entrepreneurs within a specific country and for comparison between countries. Analysis was designed in this way in order to determine: the significance and strength of the specific drivers tested to the individual entrepreneurial construct, the potential differences of Entrepreneurs across differing business segments, the existence of differences between Entrepreneurs and Non-Entrepreneurs, and finally the differences of Entrepreneurs operating in different country contexts.

The ensuing analyses of the specific Drives Index results are presented separately for each driver across corresponding business segments. Comparison outcomes for each driver are presented in table format to show results of statistical significance testing revealing the similarity or difference between compared segments. The following graphs are used to present the exact scores of each Driver Index for business segments, enabling the reader to visualize the strength or weakness as well as similarity in the drivers tested for varying business segments and across the *Entrepreneurial Range* as presented in Figure 5.1.

Analysis presented below shows results, per segment, by country according to each driver. As discussed previously, Decaffeinated Producers were only found in Rwanda and Commercial Farmers were found only in Ethiopia, and while each is presented though these findings, no cross-country comparisons are possible.

#### **5.4.4.1 Resilience**

Resilience is described in Section 2.4.1.1, as the ability to positively rebound from, and adapt to, adverse situations, specifically relying on effective coping and adaptation mechanisms to overcome difficulty (Sinclair and Wallston, 2004; Bullough and Renko, 2013). As such, the continual perseverance through volatile impacts from innate market structures as well as international dynamics of the coffee sector provide tangible evidence as to the actualities of a Resilience Index for Entrepreneurs. Elements of resilience were observed directly through the responses to price volatility and its unpredictability from daily and seasonal fluctuations in international and corresponding domestic markets. However, greater obstacles have existed for both Ethiopian and Rwandan markets including war, internal conflict and drastic (often violent) political regime changes as will be discussed further in Sections 6.2.2 and 6.3.1. Many producers in Rwanda reported having to rebuild households, farms and businesses following the war in 1994, which saw much of the national infrastructure and the majority of rural farmland, including over 60% of coffee farms destroyed (MINAGRI, 2014). Operators in Ethiopia, particularly older entrepreneurs involved in the coffee sector since the 1970s and 80s reported having to operate through political phases of the nationalization schemes and redistribution of wealth and businesses (farms as well as private business) during the Derg Regime. Respondents discussed the challenges of continuing business operations or having to re-establish businesses following conflict and/ or regime change. As such, Entrepreneurs with a high degree of resilience are perceived to be better equipped to continue business operations and persevere through market volatility within current contexts.

Tables 5.10 and 5.11 below present the comparisons for Ethiopian and Rwandan Resilience Indexes respectively, with comparisons per each segment. Statistical significance is taken at the 95% confidence level, unless otherwise stated and comparisons found to be statistically significant are **bold** in the table.

## Ethiopia

Table 5.10. Ethiopia, Resilience Segment Comparisons and Significance

ETHIOPIA – Resilience	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
Non- Ent (Smallholder) vs. Potential Ent (Smallholder)	25.000	-0.883	0.377
Non- Ent (Smallholder) vs. Ent (Smallholder)	6.500	-1.326	0.185
<b>Non Ent (Smallholder) vs. Ent (Commercial Farmer)</b>	14.500	-2.339	<b>0.019</b>
<b>Non Ent (Smallholder) vs. Ent (Processor)</b>	8.000	-3.104	<b>0.002</b>
<b>Non Ent (Smallholder) vs. Ent (Exporter)</b>	11.500	-2.420	<b>0.016</b>
Potential Ent (Smallholder) vs. Ent (Smallholder)	40.500	-0.821	0.411
<b>Potential Ent (Smallholder) vs. Ent (Commercial Farmer)</b>	100.500	-2.708	<b>0.007</b>
<b>Potential Ent (Smallholder) vs. Ent (Processor)</b>	70.000	-4.101	<b>0.000</b>
<b>Potential Ent (Smallholder) vs. Ent (Exporter)</b>	82.000	-2.914	<b>0.004</b>
Ent (Smallholder) vs. Ent (Commercial Farmer)	46.000	-1.277	0.201
<b>Ent (Smallholder) vs. Ent (Processor)</b>	33.000	-2.528	<b>0.011</b>
Ent (Smallholder) vs. Ent (Exporter)	37.000	-1.531	0.126
<b>Ent (Commercial Farmer) vs. Ent (Processor)</b>	201.000	-2.031	<b>0.042</b>
Ent (Commercial Farmer) vs. Ent (Exporter)	201.500	-0.527	0.598
Ent (Processor) vs. Ent (Exporter)	206.000	-1.406	0.160

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

(Source: Author Questionnaire)

No statistical difference (at the 95% level) was found when comparing Smallholder Producers (Non, Potential and Entrepreneurs), indicating similar levels of resilience for all Smallholder Producers. Additionally, Smallholder Producer Entrepreneurs were found to have no statistical difference between Commercial Farmers or Exporters showing a similar level of resilience among entrepreneur classifications. However, statistically significant differences were found when comparing Smallholder Producer Non, and Potential Entrepreneurs with Commercial Farmers, Processors and Exporters, indicating a difference in Resilience Indexes between Non-Entrepreneurial respondents and those classified as Entrepreneurs.

## Rwanda

Table 5.11. Rwanda, Resilience Segment Comparisons and Significance

RWANDA – Resilience	Mann-Whitney U	Z	Asymp. Sig (@95%)
Decaff vs. Non Ent (Smallholder)	146.500	-1.780	0.075
Decaff vs. Potential Ent (Smallholder)	72.000	-1.500	0.134
<b>Decaff vs. Ent (Smallholder)</b>	65.000	-3.207	<b>0.001</b>
<b>Decaff vs. Ent (Processor)</b>	62.000	-2.867	<b>0.004</b>
<b>Decaff vs. Ent (Exporter)</b>	70.500	-3.003	<b>0.003</b>
<b>Non Ent vs. Potential Ent (Smallholder)</b>	100.000	-3.242	<b>0.001</b>
<b>Non Ent vs. Ent (Smallholder)</b>	85.000	-4.914	<b>0.000</b>
<b>Non Ent vs. Ent (Processor)</b>	36.500	-5.421	<b>0.000</b>
<b>Non Ent vs. Ent (Exporter)</b>	25.000	-5.952	<b>0.000</b>
Potential Ent (Smallholder) vs. Ent (Smallholder)	165.500	-0.219	0.827
Potential Ent (Smallholder) vs. Ent (Processor)	122.000	-1.007	0.314
Potential Ent (Smallholder) vs. Ent (Exporter)	134.000	-1.248	0.212
<b>Ent (Smallholder) vs. Ent (Processor)</b>	154.000	-2.001	<b>0.045</b>
<b>Ent (Smallholder) vs. Ent (Exporter)</b>	167.000	-2.320	<b>0.020</b>
Ent (Processor) vs. Ent (Exporter)	223.000	-0.190	0.849

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

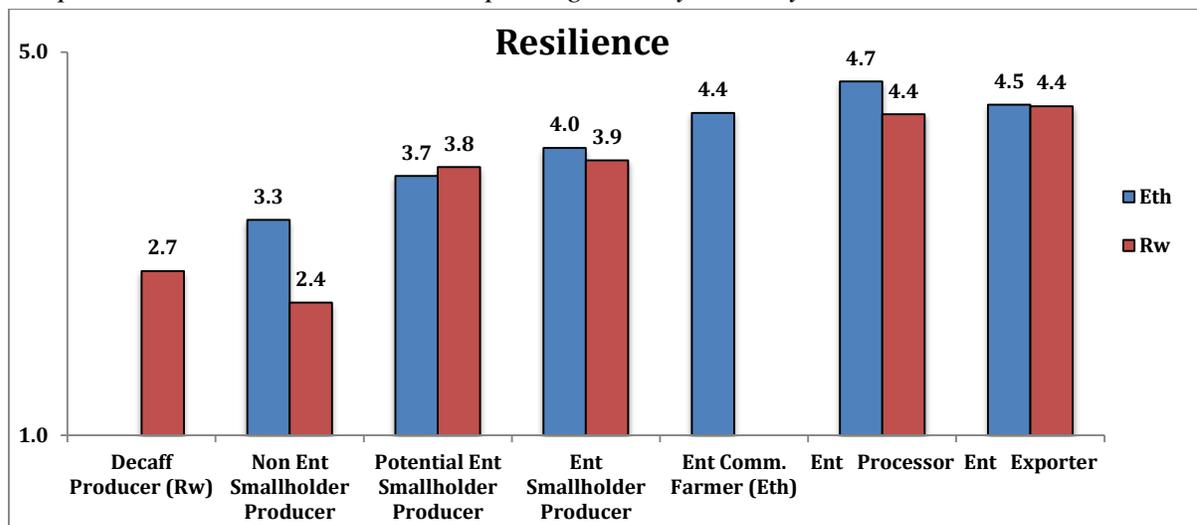
(Source: Author Questionnaire)

Decaffeinated Producers<sup>89</sup> revealed no statistically significant difference to Smallholder Producer Non or Potential Entrepreneurs, showing those segments to have a similar Resilience Index. Additionally, no significant difference was found between Smallholder Producer Potential or Smallholder Producer Entrepreneurs, Processors and Exporters indicating a similar Resilience Index for all segments above the Smallholder Producer Non-Entrepreneur classification. However, statistical differences were found between Smallholder Entrepreneurs, Processors and Exporters, indicating a difference in levels of resilience. Comparison of Processors and Exporters did not find a statistical difference, showing Processors and Exporters to have a similar level of resilience.

Graph 5.1 below, presents the Resilience Index score for each segment, with comparison by country. This depiction attempts to visually demonstrate the strength or weakness of the Resilience Driver Index within each segment.

<sup>89</sup> Interestingly, many Decaffeinated Producer respondents reported to not believe the coffee sector was viable and were uncomfortable with the unpredictable prices and as such preferred to focus on other, multi-harvest crops (such as banana, maize, sorghum, inset and on occasion, specific vegetables) which had more stable, albeit lower, prices, perhaps revealing evidence to market perception and resilience in pursuing opportunity.

Graph 5.1. Resilience Driver Scores, per Segment, by Country



(Source: Author Questionnaire)

Rwandan Smallholder Producer Non-Entrepreneurs tested lower on the Resilience Index at a score of 2.4, than any other segment, demonstrating a distinctly lower degree of resilience capability than other actors. All other segments showed a higher level of Resilience as compared to Smallholder Non-Entrepreneurs. A higher Resilience Index could also be interpreted to show a higher self-belief in the ability to overcome the decision to decaffeinate as shown through the higher Resilience Index Score for Decaffeinated Producers as compared to Rwanda Smallholder Non-Entrepreneurs.

Overall, Ethiopian Entrepreneurs registered a slightly higher degree of resilience as compared to their Rwanda counterparts. As previously discussed, the coffee sector requires high capital investment and a prolonged timeline for financial return and business life throughout and often, in spite of market volatility. Ethiopian entrepreneurs working within the sector reported to have taken a long-term perspective as opposed to short-term, seasonal comparisons, which may have bearing upon Resilience Indexes and an aided predisposition to persevere and continue the business, despite difficulties.

Overall, differences were found in the Resilience Index between Ethiopian Non-Entrepreneur and Entrepreneur respondents, with Entrepreneurial segments showing a higher degree of resilience.

#### **5.4.4.2 Self – Efficacy**

As described in Section 2.4.1.2, Self-Efficacy, or the belief in one’s self, is an individual construct that can be motivating or de-motivating and is continuously influenced through preferences, actions, choices and experiences built by the entrepreneur (Zhao et al., 2005; Bullough and Renko, 2013; Douglas, 2013). Respondents from both countries reported having low confidence in being successful in coffee also scored lower on the Self-Efficacy Index: Smallholder Producer Non-Entrepreneurs.

If market structures are restrictive and in essence, result in the de-motivation of entrepreneurial action, it could result in lower individual self-efficacy in the entrepreneur’s ability and self-belief to break through boundaries and pursue opportunity. Through respondent interviews, Ethiopian actors across the chain perceived a limit on choice and ability to pursue growth aspirations; reportedly being “leashed” or experiencing ceilings due to market structure and regulatory constraints, as will be further discussed in Section 6.4.1.1. Conversely, Rwanda has an open market structure and wider supporting environment, as will be seen in Sections 6.3.1.2 and 6.4.1.2, leading to an inherently more motivating environment. As will be seen in Graph 5.2, Ethiopian respondents had lower levels of self-efficacy as compared to Rwandan counterparts. Tables 5.12 and 5.13, below present the significance comparisons for Ethiopian and Rwandan Self-Efficacy Indexes, respectively.

## Ethiopia

Table 5.12. Ethiopia, Self-Efficacy Segment Comparisons and Significance

ETHIOPIA – Self-Efficacy	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
Non- Ent (Smallholder) vs. Potential Ent (Smallholder)	24.500	-0.885	0.376
Non- Ent (Smallholder) vs. Ent (Smallholder)	10.000	-0.452	0.651
Non Ent (Smallholder) vs. Ent (Commercial Farmer)	34.000	-0.771	0.441
Non Ent (Smallholder) vs. Ent (Processor)	48.500	-0.222	0.824
Non Ent (Smallholder) vs. Ent (Exporter)	35.000	-0.406	0.684
Potential Ent (Smallholder) vs. Ent (Smallholder)	30.000	-1.525	0.127
<b>Potential Ent (Smallholder) vs. Ent (Commercial Farmer)</b>	103.000	-2.512	<b>0.012</b>
Potential Ent (Smallholder) vs. Ent (Processor)	156.000	-1.657	0.097
Potential Ent (Smallholder) vs. Ent (Exporter)	111.500	-1.850	0.064
Ent (Smallholder) vs. Ent (Commercial Farmer)	63.000	-0.183	0.855
Ent (Smallholder) vs. Ent (Processor)	72.000	-0.302	0.762
Ent (Smallholder) vs. Ent (Exporter)	58.000	-0.128	0.898
Ent (Commercial Farmer) vs. Ent (Processor)	256.000	-0.659	0.510
Ent (Commercial Farmer) vs. Ent (Exporter)	204.500	-0.420	0.675
Ent (Processor) vs. Ent (Exporter)	251.000	-0.209	0.835

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**. @ 0.1 = significance at 90% and is highlighted

(Source: Author Questionnaire)

Ethiopian Self-Efficacy Index comparisons reveal the only statistically significant result to be the comparison between Smallholder Potential Entrepreneur and Commercial Farmer. However these results are thought to have more to do with the sample size than actual response difference. All other comparisons revealed no statistically significant differences in regards to Self-Efficacy Indexes. As such, results reveal that Ethiopian actors all have a similar level of self-efficacy, regardless of business type, operating environment or entrepreneurial classification.

## Rwanda

Table 5.13. Rwanda, Self-Efficacy Segment Comparisons and Significance

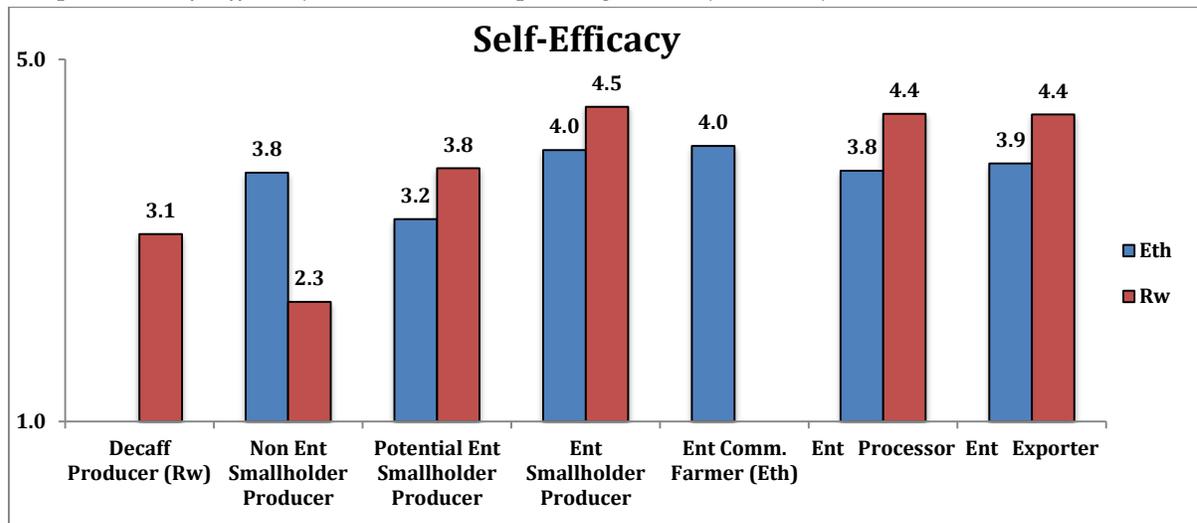
RWANDA –Self Efficacy	Mann-Whitney U	Z	Asymp. Sig (@95%)
Decaff vs. Non Ent (Smallholder)	146.500	-1.780	0.075
Decaff vs. Potential Ent (Smallholder)	72.000	-1.500	0.134
<b>Decaff vs. Ent (Smallholder)</b>	65.000	-3.207	<b>0.001</b>
<b>Decaff vs. Ent (Processor)</b>	62.000	-2.867	<b>0.004</b>
<b>Decaff vs. Ent (Exporter)</b>	70.500	-3.003	<b>0.003</b>
<b>Non Ent (Smallholder) vs. Potential Ent (Smallholder)</b>	86.000	-3.535	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Smallholder)</b>	28.500	-5.871	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Processor)</b>	42.000	-5.293	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Exporter)</b>	45.000	-5.573	<b>0.000</b>
Potential Ent (Smallholder) vs. Ent (Smallholder)	121.000	-1.683	0.092
Potential Ent (Smallholder) vs. Ent (Processor)	106.000	-1.582	0.114
Potential Ent (Smallholder) vs. Ent (Exporter)	126.000	-1.509	0.131
Ent (Smallholder) vs. Ent (Processor)	230.000	0.000	1.000
Ent (Smallholder) vs. Ent (Exporter)	258.500	-0.149	0.882
Ent (Processor) vs. Ent (Exporter)	224.000	-0.164	0.870

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**. @ 0.1 = significance at 90% and is highlighted

(Source: Author Questionnaire)

The Rwandan Self-Efficacy Index reveals statistically significant differences between Decaffeinated and Smallholder Producer Non-Entrepreneurs when compared to segments across the rest of the chain. Conversely, no statistical difference was found between comparisons of any other segment, indicating similar levels of self-efficacy from respondents above the Smallholder Producer Non-Entrepreneur classification. Graph 5.2 below depicts the strength and weakness found in the Self-Efficacy Index Scores for each segment, by country.

Graph 5.2. Self-Efficacy Driver Scores, per Segment, by Country



(Source: Author Questionnaire)

Ethiopian respondents scored lower across all segments as compared to Rwandan counterparts, except for Rwandan Smallholder Producer Non-Entrepreneurs. This could be due to the fact that pursuing business activity and the ability to at least to some degree control the outcome, is more difficult in Ethiopia and thus, a reduced self belief developed by the individual respondent due to a demotivating environment. Ethiopian actors all have a similar Self-Efficacy Index, regardless of business type, operating environment or entrepreneurial classification.

Similar to the Rwandan Resilience Index, Decaffeinated Producers also resulted in a higher Self-Efficacy Index score as compared to Smallholder Non-Entrepreneur respondents, with a score of 3.1 to 2.3 respectively. Decaffeinated Producers reported to feel strongly about the decision to uproot and focus on other income generators, despite the practice’s illegality, providing evidence to higher degrees of self-assurance and belief in actions taken. Reviewing Graph 5.2, a distinct difference can be seen in the degree of Self-Efficacy for Non-Entrepreneurs and the rest of the Rwandan chain, showing Non-Entrepreneurs to have a relatively low self-belief as compared to Entrepreneur segments.

Overall, segments above the Smallholder Non-Entrepreneur classification showed higher levels of Self-Efficacy, with Rwandans revealing a higher Self-Efficacy Driver Index than

Ethiopians. Considering the continually evolving construct of Self-Efficacy, the higher degree for Rwandans could be due to a motivating environment and positive outlook on a sector that has supported and enabled positive results and business expansion without the restrictions occurring in the Ethiopian market.

#### **5.4.4.3 Innovativeness**

Innovativeness, introduced in Section 2.4.1.3, provides the individual with creative capacity to perceive needed improvements to a structure or market in order to develop ‘unique combinations’ in solving problems or driving growth (Schumpeter, 1934; Janssen, 2000; Hall et al., 2012). Innovativeness can be revealed not only through new products, but also through efficiency improvements, or improvements to services, management, business models or technologies (Okpara, 2007). As will be shown, differences revealed in the analysis of the Innovativeness Index are observed between Non-Entrepreneur segments and Entrepreneur segments. Considering this result within research contexts, a distinct split in respondent innovativeness indicates an entrepreneur’s ability to understand obstacles to expansion and more specifically, overcome obstacles by unique combinations. Admittedly, a low score for innovativeness could also be due to lack of awareness, market information, market nearness or technological advancement. Tables 5.14 and 5.15, below, present the comparisons for Ethiopian and Rwandan Innovativeness Indexes, respectively.

## Ethiopia

Table 5.14. Ethiopia, Innovativeness Segment Comparisons and Significance

ETHIOPIA – Innovativeness	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
Non- Ent (Smallholder) vs. Potential Ent (Smallholder)	30.500	-0.326	0.744
Non- Ent (Smallholder) vs. Ent (Smallholder)	5.500	-1.489	0.137
Non Ent (Smallholder) vs. Ent (Commercial Farmer)	27.500	-1.237	0.216
Non Ent (Smallholder) vs. Ent (Processor)	30.000	-1.440	0.150
Non Ent (Smallholder) vs. Ent (Exporter)	26.000	-1.142	0.254
<b>Potential Ent (Smallholder) vs. Ent (Smallholder)</b>	12.000	-2.833	<b>0.005</b>
<b>Potential Ent (Smallholder) vs. Ent (Commercial Farmer)</b>	72.000	-3.377	<b>0.001</b>
<b>Potential Ent (Smallholder) vs. Ent (Processor)</b>	80.000	-3.639	<b>0.000</b>
<b>Potential Ent (Smallholder) vs. Ent (Exporter)</b>	72.000	-3.094	<b>0.002</b>
Ent (Smallholder) vs. Ent (Commercial Farmer)	47.500	-1.110	0.267
Ent (Smallholder) vs. Ent (Processor)	64.000	-0.740	0.459
Ent (Smallholder) vs. Ent (Exporter)	42.000	-1.185	0.236
Ent (Commercial Farmer) vs. Ent (Processor)	254.000	-0.701	0.483
Ent (Commercial Farmer) vs. Ent (Exporter)	206.000	-0.373	0.709
Ent (Processor) vs. Ent (Exporter)	220.000	-0.945	0.345

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

(Source: Author Questionnaire)

No statistical difference<sup>90</sup> is found in comparing Smallholder Non-Entrepreneurs to all other segments, however, as will be seen in Graph 5.3, Ethiopian Smallholder Non-Entrepreneurs reveal a much lower Innovativeness Index Score. No statistical significance was found for business segments considered as Entrepreneurs, indicating that Ethiopian Entrepreneurs, regardless of business type or environment have similar degrees of innovativeness.

Interestingly, comparisons between Smallholder Potential Entrepreneurs and all other Entrepreneur segments were found to be statistically significant, showing a difference in innovativeness degrees. As such, respondents classified as Potential Entrepreneurs may have the potential to be classified as an entrepreneur, but had yet to take tangible steps forward. Reasons for the lack of tangible action could be due to lower levels of innovation as well as other inherent drivers or external influences prohibiting individuals from innovating around barriers.

<sup>90</sup> This is believed to have more to do with sample size than result outcome.

## Rwanda

Table 5.15. Rwanda, Innovativeness Segment Comparisons and Significance

RWANDA – Innovativeness	Mann-Whitney U	Z	Asymp. Sig (@95%)
Decaff vs. Non Ent (Smallholder)	190.000	-0.949	0.343
<b>Decaff vs. Potential Ent (Smallholder)</b>	33.500	-3.433	<b>0.001</b>
<b>Decaff vs. Ent (Smallholder)</b>	1.500	-5.17	<b>0.000</b>
<b>Decaff vs. Ent (Processor)</b>	0.000	-5.136	<b>0.000</b>
<b>Decaff vs. Ent (Exporter)</b>	2.000	-5.148	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Potential Ent (Smallholder)</b>	89.500	-3.950	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Smallholder)</b>	12.500	-6.397	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Processor)</b>	4.000	-6.352	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Exporter)</b>	15.500	-6.342	<b>0.000</b>
<b>Potential Ent (Smallholder) vs. Ent (Smallholder)</b>	107.000	-2.066	<b>0.039</b>
<b>Potential Ent (Smallholder) vs. Ent (Processor)</b>	72.000	-2.801	<b>0.005</b>
Potential Ent (Smallholder) vs. Ent (Exporter)	118.000	-1.714	0.086
Ent (Smallholder) vs. Ent (Processor)	180.000	-1.367	0.172
Ent (Smallholder) vs. Ent (Exporter)	238.000	-0.635	0.526
<b>Ent (Processor) vs. Ent (Exporter)</b>	156.000	-1.999	<b>0.046</b>

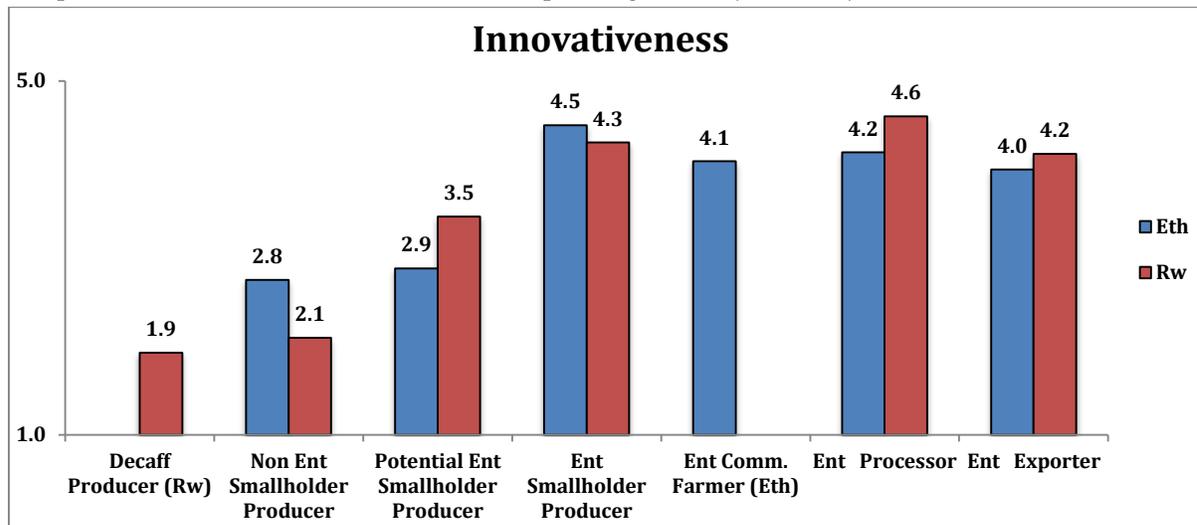
\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

@ 0.1 = significance at 90% and is highlighted

(Source: Author Questionnaire)

Rwandan Smallholder Producer Non-Entrepreneurs again, showed statistical differences when compared to all other segments, indicating Non-Entrepreneurs to have a different Innovativeness Index. A statistical difference is also seen when comparing Smallholder Producer Potential Entrepreneurs to Smallholder Entrepreneurs. This difference in innovativeness could be an additional reason as to why Rwandan Potential Entrepreneurs also had not been able to take tangible steps towards opportunity pursuit. Finally, no statistical difference was observed between Entrepreneurial segments of Smallholder Producer, Processor and Exporter, indicating a similar level of innovativeness for Entrepreneurs. Graph 5.3 below, depicts the strength and weakness through Innovativeness Index Scores.

Graph 5.3. Innovativeness Driver Scores, per Segment, by Country



(Source: Author Questionnaire)

A distinct difference is apparent when looking at Ethiopian Entrepreneur segments to Non-Entrepreneur segments. A statistical difference was found in comparisons between Ethiopian Smallholder Producer Potential and Smallholder Producer Entrepreneurs, with Smallholder Producer Entrepreneurs showing a much greater score for innovativeness (4.5) than Potential Entrepreneurs (2.9). These results reveal additional evidence as to why Ethiopian actors classified as Potential Entrepreneurs are unable to take tangible steps towards opportunity pursuit due to a low degree of innovativeness.

Rwanda Smallholder Non-Entrepreneurs again, revealed a very low Innovativeness Index score of 2.1. A distinct difference is also seen between Smallholder Potential Producer Entrepreneurs and Smallholder Producer Entrepreneurs, with a score 3.5 to 4.3 respectively, with Entrepreneurs having a higher degree of innovativeness. Decaffeinated Producers resulted in the lowest score for the Innovativeness Index at 1.9, perhaps shedding light on reasons why decaffeinated respondents were unable to be successful with coffee, choosing to uproot as opposed to investigate alternative options to improve coffee's viability.

#### 5.4.4.4 Risk Tolerance

An individual's tolerance to, and relationship with, risk as well as the ability to manage it is one of the most definitive areas for entrepreneurship (Fairlie and Holleran, 2012), as

discussed in Section 2.4.1.4. While both countries showed relatively lower levels of the Risk Tolerance Index, Ethiopians overall, tested lower across the spectrum as compared to Rwandan counterparts. To be discussed in Sections 6.4.1.1 and 6.4.2.1, in relation to the restrictive coffee market structure in Ethiopia and the high levels of top-down control and regulatory oversight, respondents reportedly appeared to be influenced through a reduced risk propensity (Entrepreneurs and Non) and thus pursued less risky actions in the efforts to maintain business stability and existence. Conversely, Rwandan respondents reported to have higher feelings of control over businesses than Ethiopian counterparts and likewise a higher feeling to have the ability to determine own business path. Tables 5.16 and 5.17, below present the comparisons for Ethiopian and Rwandan Risk Tolerance Indexes, respectively.

## Ethiopia

*Table 5.16. Ethiopia, Risk Tolerance Segment Comparisons and Significance*

ETHIOPIA – Risk Tolerance	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
Non- Ent (Smallholder) vs. Potential Ent (Smallholder)	26.000	-0.797	0.426
Non- Ent (Smallholder) vs. Ent (Smallholder)	6.000	-1.316	0.188
Non Ent (Smallholder) vs. Ent (Commercial Farmer)	28.500	-1.136	0.256
Non Ent (Smallholder) vs. Ent (Processor)	37.000	-0.937	0.349
Non Ent (Smallholder) vs. Ent (Exporter)	27.000	-1.034	0.301
Potential Ent (Smallholder) vs. Ent (Smallholder)	29.500	-1.608	0.108
Potential Ent (Smallholder) vs. Ent (Commercial Farmer)	145.500	-1.230	0.219
Potential Ent (Smallholder) vs. Ent (Processor)	187.500	-0.863	0.388
Potential Ent (Smallholder) vs. Ent (Exporter)	138.500	-0.999	0.318
Ent (Smallholder) vs. Ent (Commercial Farmer)	51.000	-0.870	0.384
Ent (Smallholder) vs. Ent (Processor)	59.500	-0.916	0.360
Ent (Smallholder) vs. Ent (Exporter)	46.500	-0.849	0.396
Ent (Commercial Farmer) vs. Ent (Processor)	276.500	-0.202	0.840
Ent (Commercial Farmer) vs. Ent (Exporter)	215.000	-0.130	0.896
Ent (Processor) vs. Ent (Exporter)	256.000	-0.901	0.927

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.  
(Source: Author Questionnaire)

Investigation into Ethiopia's Risk Tolerance Index found no statistically significant difference across any comparison pairing, showing all business segments and entrepreneur classifications to have similar degrees of Risk Tolerance. As will be seen in Graph 5.4 below, Ethiopian Risk Tolerance was the lowest mean score for any driver index, with a mean result score of 3.1.

## Rwanda

Table 5.17. Rwanda, Risk Tolerance Segment Comparisons and Significance

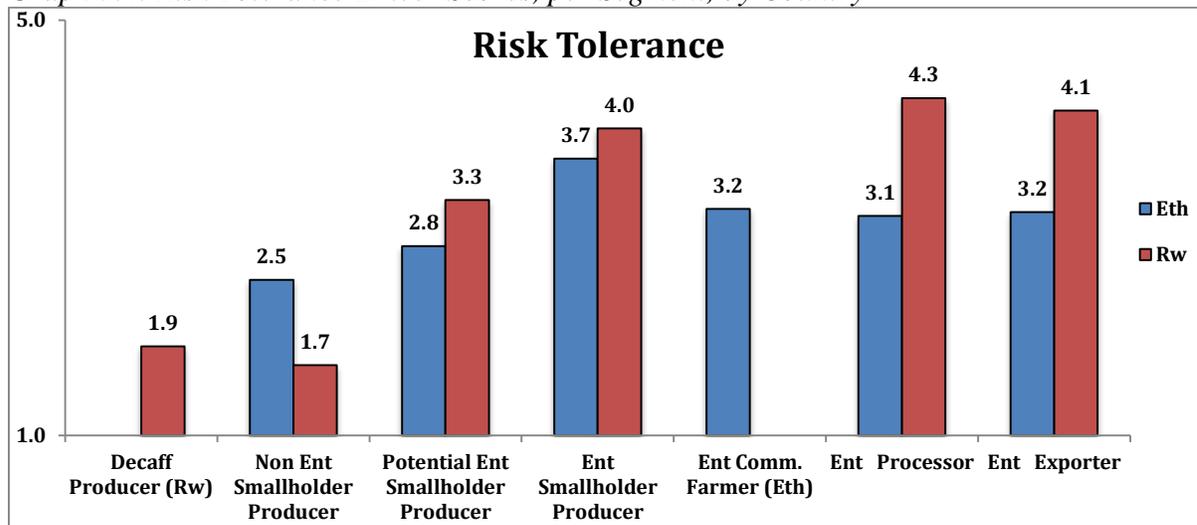
RWANDA -- Risk Tolerance	Mann-Whitney U	Z	Asymp. Sig @ 95%
Decaff vs. Non Ent (Smallholder)	216.000	-0.028	0.978
<b>Decaff vs. Potential Ent (Smallholder)</b>	36.000	-3.161	<b>0.002</b>
<b>Decaff vs. Ent (Smallholder)</b>	30.000	-4.367	<b>0.000</b>
<b>Decaff vs. Ent (Processor)</b>	17.000	-4.464	<b>0.000</b>
<b>Decaff vs. Ent (Exporter)</b>	24.000	-4.410	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Potential Ent (Smallholder)</b>	53.500	-4.574	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Smallholder)</b>	31.500	-5.986	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Processor)</b>	11.000	-6.019	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Exporter)</b>	22.500	-6.081	<b>0.000</b>
<b>Potential Ent (Smallholder) vs. Ent (Smallholder)</b>	107.500	-2.180	<b>0.029</b>
<b>Potential Ent (Smallholder) vs. Ent (Processor)</b>	70.500	-2.852	<b>0.004</b>
<b>Potential Ent (Smallholder) vs. Ent (Exporter)</b>	93.000	-2.494	<b>0.013</b>
Ent (Smallholder) vs. Ent (Processor)	186.500	-1.203	0.229
Ent (Smallholder) vs. Ent (Exporter)	228.000	-0.875	0.381
Ent (Processor) vs. Ent (Exporter)	221.500	-0.224	0.823

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

(Source: Author Questionnaire)

Analysis of Rwandan segments revealed statistically significant differences in comparisons between Smallholder Producer Non-Entrepreneurs to all other segments. Significant differences were also found between Smallholder Producer Potential and Smallholder Producer Entrepreneurs, presenting an additional point of evidence as to why Potential Entrepreneur respondents differ from Entrepreneurs and perhaps reasons as to why Potential Entrepreneurs remain unable, or unwilling to take risk through tangible action towards opportunity. No statistical difference was found in comparisons between Entrepreneur segments, indicating that Entrepreneurs have similar degrees of Risk Tolerance. Decaffeinated Producers and Smallholder Producer Non-Entrepreneurs in Rwanda revealed very high aversions to risk and a distinct, lower score when compared to entrepreneur segments. Graph 5.4 below, depicts the strength and weakness of the mean Risk Tolerance Index scores for each segment.

Graph 5.4. Risk Tolerance Driver Scores, per Segment, by Country



(Source: Author Questionnaire)

Ethiopia’s Risk Tolerance Index revealed a mean Risk Tolerance Index score of 3.1. Across all segments, regardless of business type or operating environment, respondents all had a similarly high aversion to risk and low degree of Risk Tolerance. It is believed this is a direct outcome not only of the restrictive market environment, but also stems from complicated histories of an oppressed, controlled society and risky economic climate.

Rwandans had a higher overall score for Risk Tolerance and showed a higher Risk Tolerance Index across nearly all business segments as compared to Ethiopian counterparts<sup>91</sup>. No differences were found in comparisons between entrepreneur segments, indicating that Rwandan Entrepreneurs have similar degrees of Risk Tolerance with a mean score of the Entrepreneur segments of 4.1, as compared to Ethiopia. While respondents in both countries revealed lower Risk Tolerance Indexes in comparison to other drivers tested, Ethiopian respondents had by far the lowest scores as compared to Rwandan counterparts.

#### 5.4.4.5 Opportunity Recognition and Entrepreneurial Orientation (OR+EO)

Section 2.4.1.5, discusses Opportunity Recognition (OR) as an individual’s ‘pull’ or alertness to market opportunity (Webb et al., 2009). Comparatively, Entrepreneurial Orientation (EO) is a specific interest by an individual to pursue alerted opportunity through an innate desire to

<sup>91</sup> Only Ethiopian Smallholder Producer Non-Entrepreneurs scored higher.

explore these opportunities (Boso et al., 2013). Both are recognized as inherent traits to the entrepreneur and have much overlap. Given this natural overlap, testing was joined to develop a combined OR+EO Driver Index. Considering these inherent characteristics outside of a theoretical assessment and inside the operational research, individuals may be alerted to opportunity, however despite willingness, may still be unable to transform that into tangible action due to restrictions or barriers inherent to a market structure. Tables 5.18 and 5.19, below present the significance levels for each comparison for Ethiopian and Rwandan Opportunity Recognition and Entrepreneurial Orientation Indexes (OR+EO), respectively.

### Ethiopia

Table 5.18. Ethiopia, OR+EO Segment Comparisons and Significance

ETHIOPIA – OR+EO	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
<b>Non- Ent (Smallholder) vs. Potential Ent (Smallholder)</b>	9.500	-2.301	<b>0.021</b>
<b>Non- Ent (Smallholder) vs. Ent (Smallholder)</b>	0.000	-2.657	<b>0.008</b>
<b>Non Ent (Smallholder) vs. Ent (Commercial Farmer)</b>	0.500	-3.335	<b>0.001</b>
<b>Non Ent (Smallholder) vs. Ent (Processor)</b>	1.000	-3.334	<b>0.001</b>
<b>Non Ent (Smallholder) vs. Ent (Exporter)</b>	2.000	-3.075	<b>0.002</b>
<b>Potential Ent (Smallholder) vs. Ent (Smallholder)</b>	21.000	-2.246	<b>0.025</b>
<b>Potential Ent (Smallholder) vs. Ent (Commercial Farmer)</b>	78.000	-3.312	<b>0.001</b>
<b>Potential Ent (Smallholder) vs. Ent (Processor)</b>	108.000	-3.023	<b>0.003</b>
<b>Potential Ent (Smallholder) vs. Ent (Exporter)</b>	104.000	-2.133	<b>0.033</b>
Ent (Smallholder) vs. Ent (Commercial Farmer)	64.500	-0.096	0.924
Ent (Smallholder) vs. Ent (Processor)	72.000	-0.325	0.745
Ent (Smallholder) vs. Ent (Exporter)	48.000	-0.794	0.427
Ent (Commercial Farmer) vs. Ent (Processor)	259.000	-0.628	0.530
Ent (Commercial Farmer) vs. Ent (Exporter)	174.000	-1.276	0.202
Ent (Processor) vs. Ent (Exporter)	228.000	-0.777	0.437

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

(Source: Author Questionnaire)

Statistically significant differences were found when comparing Smallholder Producer Non-Entrepreneurs and Smallholder Producer Potential Entrepreneurs with the rest of the chain. These results indicate that respondents within these segments had a lower propensity for recognizing opportunity and were less orientated towards entrepreneurial behaviour as compared to other segments of the chain. In addition, no statistically significant differences were found in comparing Entrepreneur business segments of the chain (Smallholder Producer, Commercial Farmer, Processor and Exporter). This is understood to indicate

similar degrees of OR+EO within entrepreneur segments. These results also show a clear distinction in entrepreneur actors being innately more entrepreneurially inclined and more able to recognize opportunity.

## Rwanda

Table 5.19. Rwanda, OR+EO Segment Comparisons and Significance

RWANDA – OR + EO	Mann-Whitney U	Z	Asymp. Sig (@95%)
Decaff vs. Non Ent (Smallholder)	173.500	-1.143	0.253
Decaff vs. Potential Ent (Smallholder)	63.500	-1.873	0.061
<b>Decaff vs. Ent (Smallholder)</b>	57.000	-3.388	<b>0.001</b>
<b>Decaff vs. Ent (Processor)</b>	44.000	-3.521	<b>0.000</b>
<b>Decaff vs. Ent (Exporter)</b>	39.500	-3.996	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Potential Ent (Smallholder)</b>	94.000	-3.386	<b>0.001</b>
<b>Non Ent (Smallholder) vs. Ent (Smallholder)</b>	55.500	-5.416	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Processor)</b>	40.000	-5.373	<b>0.000</b>
<b>Non Ent (Smallholder) vs. Ent (Exporter)</b>	16.500	-6.123	<b>0.000</b>
Potential Ent (Smallholder) vs. Ent (Smallholder)	127.500	-1.437	0.151
Potential Ent (Smallholder) vs. Ent (Processor)	96.500	-1.923	0.054
Potential Ent (Smallholder) vs. Ent (Exporter)	107.000	-2.124	<b>0.034</b>
Ent (Smallholder) vs. Ent (Processor)	196.500	-0.909	0.363
Ent (Smallholder) vs. Ent (Exporter)	230.500	-0.845	0.398
Ent (Processor) vs. Ent (Exporter)	223.000	-0.195	0.845

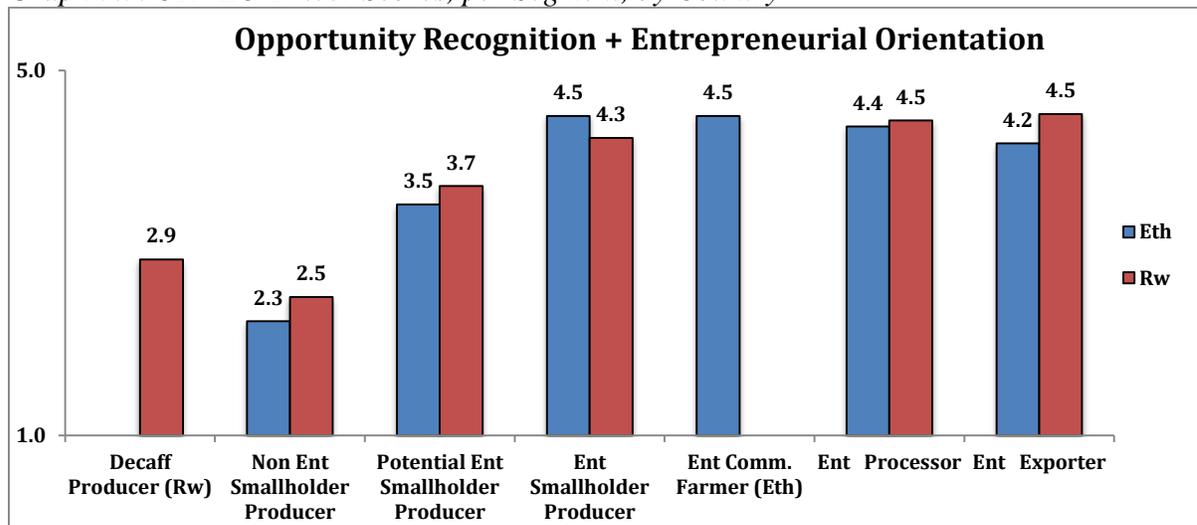
\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

@ 0.1 = significance at 90% and is highlighted

(Source: Author Questionnaire)

Significant differences were found between Rwandan Smallholder Producer Non-Entrepreneurs and comparison with the rest of the chain. However, no statistical difference was found between Smallholder Producer Potential and Smallholder Producer Entrepreneurs, Processors and Exporters revealing a similar level of opportunity recognition and entrepreneurial alertness for respondents classified as Potential Entrepreneurs and Entrepreneurs. These results present evidence that respondents may be equally able to recognize opportunity, but for other reasons are unable to take tangible action towards it. No statistically significant difference was found between Entrepreneur segments of the chain, revealing a similar propensity for opportunity alertness and inherent orientation among all Entrepreneurs. Graph 5.5 below, depicts the strength and weakness of the mean OR+EO Index scores for each country.

Graph 5.5. OR+EO Driver Scores, per Segment, by Country



(Source: Author Questionnaire)

Ethiopian Smallholder Producer Non-Entrepreneurs have the lowest score on the OR+EO Index at 2.3. The mean Index Score for Ethiopian Entrepreneur segments is 4.4, demonstrating a clear difference between those less able to recognize opportunity and those more inclined to.

Rwandan Smallholder Producer Non-Entrepreneurs had the lowest OR+EO Index score at 2.5. Decaffeinated Producers were found to have a higher index score than Smallholder Non-Entrepreneurs: 2.9 to 2.5 respectively. This could be attributed to the fact that Decaffeinators saw different, unique opportunities outside of the coffee sector and took action to pursue the opportunity recognized. Additionally, Rwanda Entrepreneur segments had similarly high levels of the OR+EO index. Higher levels of OR and EO are also known to result in individuals with higher levels of innovativeness (Boso et al., 2013). Comparisons between Innovativeness Indexes, Section 5.4.4.3 and OR+EO Index scores identified above do show similarities in Entrepreneur segments for both Ethiopian and Rwandan respondents. The difference observed between Potential Entrepreneurs and Entrepreneurs for each country provided additional evidence that Entrepreneurs do in fact recognize and are pulled towards opportunity in a more significant manner than Non-Entrepreneurs or Potential Entrepreneurs.

This analysis showed the specific Driver Index results for actors across varying business segments of the coffee chains of Ethiopia and Rwanda, and also demonstrated elements of the individual construct of Entrepreneurs operating within each marketplace. The following analysis builds from these findings to compare Entrepreneurs and Non-Entrepreneurs within and between countries.

#### **5.4.5 Nuanced Results from Driver Indexes**

The previous analysis investigated the degrees of each Driver Index, per segment and by country. The following phase of analysis looks to understand the more nuanced relationships by running additional comparisons using varying compilations of aggregated business segments along the *Entrepreneurial Range*, such as comparing Non-Entrepreneurs to Entrepreneurs or comparing Ethiopian Entrepreneurs to Rwandan Entrepreneurs. Statistical analysis was again preformed using Nonparametric, 2-Independent Sample Tests and Mann-Whitney U Statistical Significance Tests.

##### **5.4.5.1 Entrepreneurs vs. Non-Entrepreneurs, Irrespective of Country**

The following analysis looks to build on the outcomes revealed thus far to actually determine if differences exist between Non-Entrepreneurs and Entrepreneurs, regardless of country or business environment. As first presented in the literature, the selected drivers are recognized as common entrepreneurial characteristics and as such it should be expected for entrepreneurial individuals to achieve a higher degree of the drivers tested as compared to non-enterprising individuals and will be further investigated in the ensuing section. As seen through Section 5.4.4, analysing the differences across business segments and between different market structures has provided further evidence that Entrepreneurs do have similar levels of drivers (and generally higher Driver Index scores) as compared to Non-Entrepreneurs.

For a final determination whether or not differences exist, segments have been grouped as Non-Entrepreneur and Entrepreneur, irrespective of country or business segment. The *Non-Entrepreneur* (Non-Ent) grouping is comprised of Smallholder Producer Non and Potential Entrepreneurs. The *Entrepreneur* (Ent) grouping is comprised of Smallholder Producer

Entrepreneurs, Processors and Exporters. Decaffeinated Producers were excluded from analysis. Table 5.20, presents statistical significance testing for Entrepreneur groupings as compared to Non-Entrepreneur groupings. Graph 5.6, shows the mean driver scores of selected drivers.

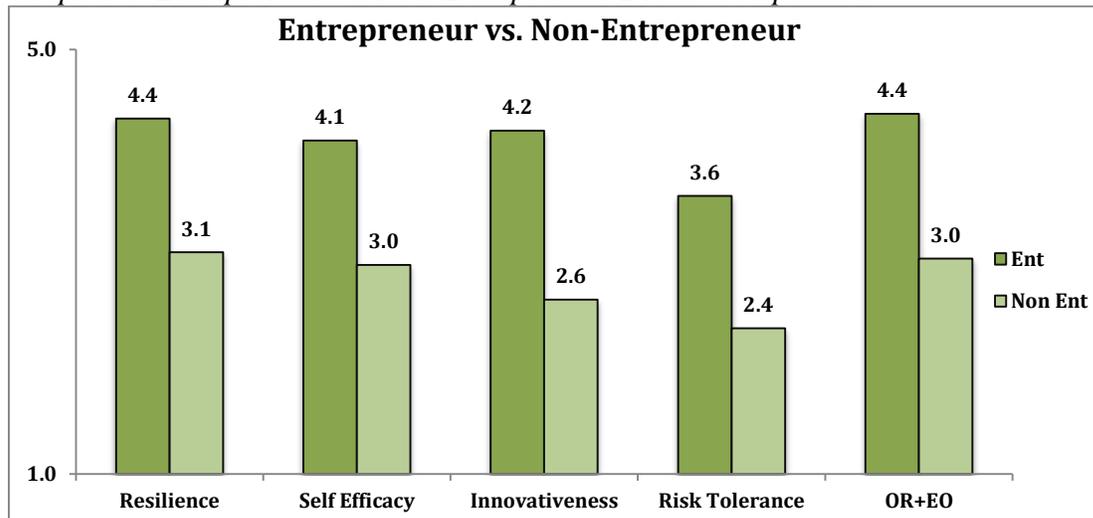
Table 5.20. Entrepreneur vs. Non- Entrepreneur, irrespective of country

	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
<b>Resilience (Ent vs. Non-Ent)</b>	1816.000	-7.519	<b>0.000</b>
<b>Self Efficacy (Ent vs. Non-Ent)</b>	2163.000	-6.528	<b>0.000</b>
<b>Innovativeness (Ent vs. Non-Ent)</b>	1373.000	-8.55	<b>0.000</b>
<b>Risk Tolerance (Ent vs. Non-Ent)</b>	2138.500	-6.515	<b>0.000</b>
<b>OR+EO (Ent vs. Non-Ent)</b>	1523.000	-8.285	<b>0.000</b>

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**. (Source: Author Questionnaire)

As seen in Table 5.20, a clear, high statistically significant difference is found in comparisons between Entrepreneurs and Non-Entrepreneurs for each driver, indicating differences in the driver index for Entrepreneurs and Non-Entrepreneurs, irrespective of country. Graph 5.6, shows the degrees of difference for each Driver.

Graph 5.6. Entrepreneur vs. Non-Entrepreneur Driver Comparison



(Source: Author Questionnaire)

As shown through this analysis, Entrepreneurs show a distinctly higher Driver Index Score for each of the drivers tested. The differences observed are statistically significant, providing evidence that overall, the individual construct of the entrepreneur does indeed have higher

degrees of Resilience, Self Efficacy, Innovativeness, Risk Tolerance, and OR+EO drivers, than a non-entrepreneur irrespective of business type, operating environment or country. While Non-Entrepreneurs have lower scores across all Indexes, Innovativeness and Risk Tolerance are the lowest, providing evidence as to why some individuals may be unable to take entrepreneurial action given the very low propensity or tolerance for risk and are unwilling or unable to pursue innovative action in pursuit of opportunity.

#### 5.4.5.2 Non-Entrepreneur vs. Entrepreneur, by Country

Given the distinct difference between Entrepreneurs and Non-Entrepreneurs as demonstrated above, this section looks to investigate further through an analysis of Non-Entrepreneurs and Entrepreneurs within the specific countries. The following analysis tranche has again aggregated segments into *Non-Entrepreneur* and *Entrepreneur* groupings, analysing by country. *Non-Entrepreneur* groupings consisted of Smallholder Producer Non-Entrepreneurs and Potential Entrepreneurs. *Entrepreneur* groupings were comprised of Smallholder Producer Entrepreneurs, Commercial Farmers (Ethiopia only), Processors and Exporters. Decaffeinated Producers were excluded from analysis. Table 5.21, presents the statistical significance testing for each driver for comparisons between Ethiopian Non-Entrepreneur and Entrepreneur groupings.

#### Ethiopia

Table 5.21. Ethiopia, Non-Entrepreneur vs. Entrepreneur, per Driver Index

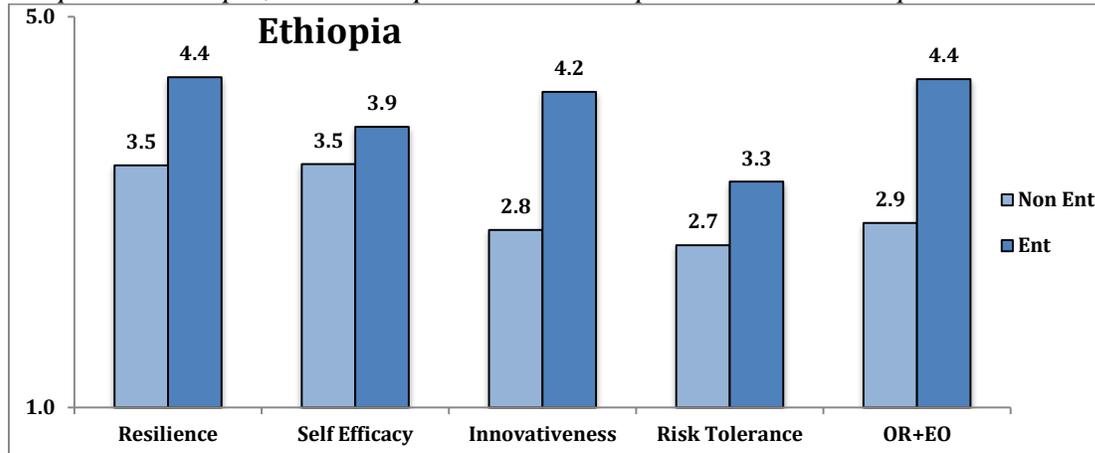
Ethiopia	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
<b>Resilience (Non-Ent vs. Ent)</b>	333.500	-4.379	<b>0.000</b>
<b>Self Efficacy (Non-Ent vs. Ent)</b>	528.500	-2.335	<b>0.020</b>
<b>Innovativeness (Non-Ent vs. Ent)</b>	325.000	-4.234	<b>0.000</b>
Risk Tolerance (Non-Ent vs. Ent)	599.500	-1.639	0.101
<b>OR+EO (Non-Ent vs. Ent)</b>	314.500	-4.462	<b>0.000</b>

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**. (Source: Author Questionnaire)

Comparisons of each Driver Index between Ethiopian Non-Entrepreneurs and Ethiopian Entrepreneurs show statistically significant differences for each Driver except Risk Tolerance. Risk Tolerance results for Ethiopians for any comparison along the *Entrepreneurial Range* did not reveal a significant difference and thus degrees of Risk

Tolerance are considered to be similar for Ethiopian Non-Entrepreneurs and Entrepreneurs. Graphs 5.7, below presents the comparisons of Driver Index scores for Ethiopian *Non-Entrepreneur* and *Entrepreneur* groupings.

Graph 5.7. Ethiopia, Non-Entrepreneur vs. Entrepreneur Driver Comparison



(Source: Author Questionnaire)

From this analysis it is understood that Ethiopian Entrepreneurs have different, and higher degrees of Resilience, Self Efficacy, Innovativeness, and Opportunity Recognition and Entrepreneurial Orientation than Ethiopian Non-Entrepreneurs. However degrees of Risk Tolerance are considered similar. Table 5.22 presents the statistical significance testing for each driver for comparisons between Rwandan *Non-Entrepreneur* and *Entrepreneur* groupings.

## Rwanda

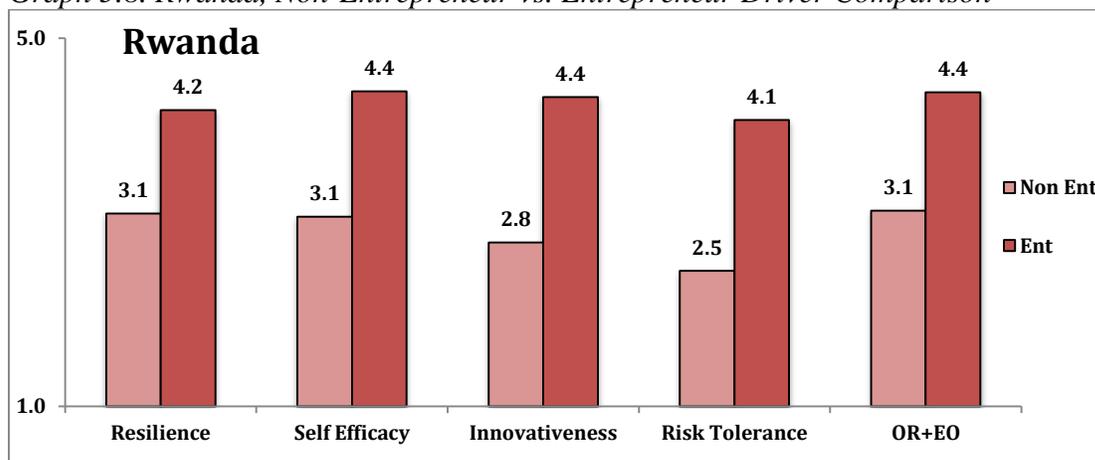
Table 5.22. Rwanda, Non-Entrepreneur vs. Entrepreneur, per Driver Index

Rwanda	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
Resilience (Non-Ent vs. Ent)	582.000	-5.727	<b>0.000</b>
Self Efficacy (Non-Ent vs. Ent)	468.500	-6.472	<b>0.000</b>
Innovativeness (Non-Ent vs. Ent)	329.000	-7.317	<b>0.000</b>
Risk Tolerance (Non-Ent vs. Ent)	336.000	-7.271	<b>0.000</b>
OR+EO (Non-Ent vs. Ent)	443.000	-6.628	<b>0.000</b>

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.  
(Source: Author Questionnaire)

Comparisons for each Driver Index between Rwandan Non-Entrepreneurs and Entrepreneur groupings showed statistically significant differences for all drivers. As such, Rwandan Entrepreneurs do have different, and higher degrees of Resilience, Self Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation when compared to Rwandan Non-Entrepreneurs. As seen in Graph 5.8 below, Index Score results show that regardless of business type or environment, Rwandan Entrepreneurs had higher degrees of selected Drives.

Graph 5.8. Rwanda, Non-Entrepreneur vs. Entrepreneur Driver Comparison



(Source: Author Questionnaire)

#### 5.4.5.3 Ethiopian Entrepreneur vs. Rwandan Entrepreneur

This next analysis compares only the Entrepreneurs from each country to determine what, if any differences exist between entrepreneurial respondents of different country and market structures. Each driver tested is considered a key element or characteristic of an entrepreneur and as such, it could be expected for the resulting Driver Indexes to be highly similar. Interestingly, this is not entirely the case. *Entrepreneur* groupings for both Ethiopia and Rwanda are comprised of Smallholder Producer Entrepreneurs, Processors and Exporters. Commercial Farmers are included within the Ethiopian Entrepreneur grouping. Table 5.23 presents the statistical significance testing for each Driver, per country.

Table 5.23. Ethiopian Entrepreneur vs. Rwanda Entrepreneur

	Mann-Whitney U	Z	Asymp. Sig (@ 95%)
Resilience (Eth Ent vs. Rw Ent)	2061.000	-1.764	0.078
<b>Self Efficacy (Eth Ent vs. Rw Ent)</b>	1688.000	-3.377	<b>0.001</b>
Innovativeness (Eth Ent vs. Rw Ent)	2200.500	-1.090	0.276
<b>Risk Tolerance (Eth Ent vs. Rw Ent)</b>	1364.500	-4.667	<b>0.000</b>
OR+EO (Eth Ent vs. Rw Ent)	2312.000	-0.606	0.544

\* Significance levels < 0.05 = statistical significance and are considered statistically different, **marked bold**.

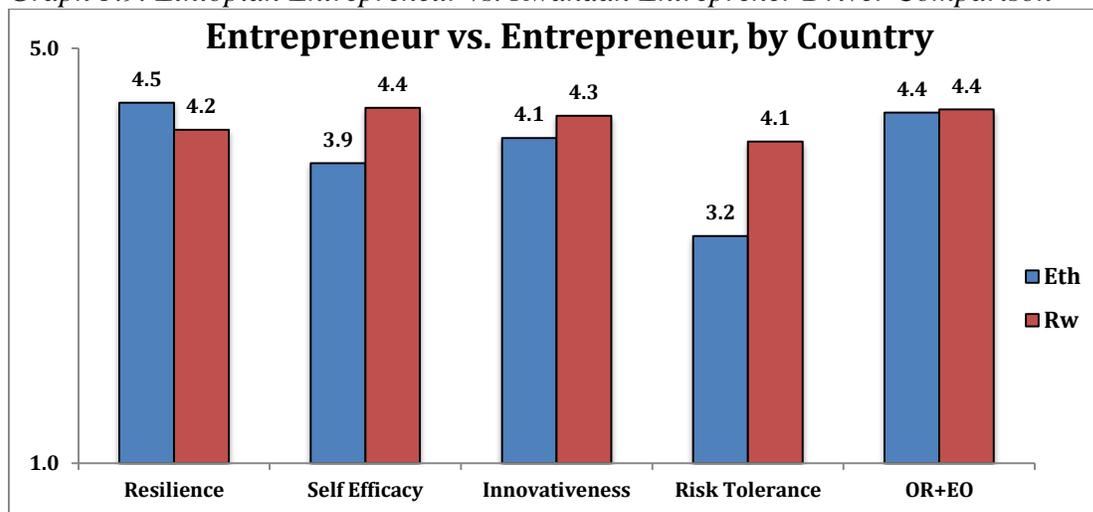
@ 0.1 = significance at 90% and is highlighted

(Source: Author Questionnaire)

Testing between Entrepreneurial groupings for each country revealed no statistically significant difference for Resilience, Innovativeness, and OR+EO Indexes, indicating similar driver strengths for Entrepreneurs in Ethiopia and Rwanda. However, statistical differences were found for Self Efficacy and Risk Tolerance, revealing different driver degrees for Entrepreneurs within each country. In both cases, Rwandan Entrepreneurs revealed higher Index scores than Ethiopian counterparts, as will be seen in Graphs 5.9.

While the literature has presented these drivers as key entrepreneurial elements, given these results, external influences, environments or operating structures are believed to have resulted in adverse impacts for some Entrepreneurs, and will be discussed in greater detail in Chapter 6.

Graph 5.9. Ethiopian Entrepreneur vs. Rwandan Entrepreneur Driver Comparison



(Source: Author Questionnaire)

As seen in Graph 5.9 above, Ethiopian Risk Tolerance and Self – Efficacy are noticeably low. Interestingly, Entrepreneurs in both countries scored the same for the Opportunity Recognition and Entrepreneurial Orientation Index (OR+EO). Clearly, Entrepreneurs have a highly similar capacity to recognize opportunity however, as seen through evidence from Section 5.4.5.3 and will be seen in Chapter 6, all entrepreneurs are not always able or permitted to pursue opportunity recognized.

Sections 5.4.5.1 to 5.4.5.3, built from the specific Driver Index findings per segment to specifically analyse Entrepreneurs within and between countries in order to understand if similarities and/ or differences exist between Entrepreneurs operating within differing contexts. Additional analysis was made between Non-Entrepreneurs and Entrepreneurs, showing Entrepreneurs to have a statistically significant, and higher, degree of the Driver Indexes as compared to Non-Entrepreneurs.

#### **5.4.6 Entrepreneurship Probability**

This final section looks to build from results found through the Driver Indexes by using regressions to model entrepreneurship probability in regards to driver strengths as revealed above for Entrepreneurs within each country. Again, the analysis uses *Binary Logistic Regression Models*, to test for the influenced probability of entrepreneurship when controlling for certain variables. Respondents are tested by country only.

##### **5.4.6.1 Drivers**

As each of the selected drivers analysed is recognized to be an element to entrepreneurship, the tests below looked to understand driver probability influence on entrepreneurs analysed in this study. Controlling for the selected drivers tested in this study, Binary Logistic Regressions were used to model the significance of a selected driver on entrepreneurship. Again, cross-tabulation was used to consolidate likert scale results into low and high degree scores. Tables 5.24 and 5.25 present the results of the regression model when accounting for Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and OR+EO for Ethiopia and Rwanda, respectively. Significance is again taken at a 95% confidence level.

*Table 5.24. Ethiopia Driver Index Probabilities*

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
<b>High Degree of Resilience</b>	1.756	0.836	4.418	1	<b>0.036</b>	5.791
High Degree of Self Efficacy	1.171	0.649	3.251	1	0.071	3.224
<b>High Degree of Innovativeness</b>	1.526	0.735	4.312	1	<b>0.038</b>	4.599
High Degree of Risk Tolerance	-0.26	0.733	0.126	1	0.723	0.771
<b>High Degree of OR+EO</b>	1.688	0.677	6.214	1	<b>0.013</b>	5.406

(Source: Author Questionnaire)

Ethiopian Entrepreneurs were found to have statistically significant relationships with high degrees of the following drivers: Resilience, Innovativeness and OR+EO. Similar to the earlier results showing Ethiopian Entrepreneurs and Non-Entrepreneurs having no statistical difference to Risk Tolerance and Self-Efficacy, this model has demonstrated that high degrees of Risk Tolerance and Self-Efficacy do not influence entrepreneurship probability in Ethiopia, although Self – Efficacy could be seen as significant at 90% confidence. As seen in the Table 5.24, respondents with a high degree of Resilience have an increased entrepreneurship probability of nearly six times. A high degree of Innovativeness increases the probability of entrepreneurship four and a half times. And finally, a high degree of OR+EO increases the probability of entrepreneurship by more than five times.

*Table 5.25. Rwanda Driver Index Probabilities*

	<b>B</b>	<b>S.E.</b>	<b>Wald</b>	<b>df</b>	<b>Sig.</b>	<b>Exp(B)</b>
<b>High Degree of Resilience</b>	1.355	0.68	3.974	1	<b>0.046</b>	3.878
High Degree of Self Efficacy	0.934	0.777	1.442	1	0.230	2.543
High Degree of Innovativeness	1.447	0.75	3.728	1	0.054	4.252
High Degree of Risk Tolerance	1.079	0.726	2.207	1	0.137	2.942
<b>High Degree of OR+EO</b>	1.837	0.794	5.352	1	<b>0.021</b>	6.276

(Source: Author Questionnaire)

Rwandan entrepreneurs were found to have statistically significant relationships with high degrees of the following drivers: Resilience and OR+EO. A high degree of resilience was found to have an increased probability of entrepreneurship by nearly four times. Additionally, a high degree of OR+EO was found to have an increased probability of entrepreneurship of more than six times. Considered significant at 90% confidence, a high degree of Innovativeness can also be seen to increase entrepreneurship probability.

## 5.5 Conclusion and Emerging Findings

This chapter worked to create a better understanding of the individual construct of the entrepreneur operating within the coffee sectors of Ethiopia and Rwanda in the attempt to determine if a difference does exist between Entrepreneurs and Non-Entrepreneurs. Within this research, the individual construct was tested concerning inherent characteristics, or drivers, which if possessed in a high degree, are believed to predispose an individual towards entrepreneurial action. In order to answer this, respondents were classified along business segments within the coffee sector and were analysed according to the developed *Entrepreneurial Range*. Socio-demographic data was also used to provide more personal insight into Entrepreneurs operating varying business models and in different business climates. Designing research analysis in this way aimed to lend clarity and credence to results in terms of how respondents and Entrepreneurs were received and analysed within the premise of this research. Understanding these results, within the wider confines of this research approach and aim allowed for a more intimate understanding of the individual entrepreneurial construct through the deconstruction of one element within the greater *Co-Evolving Entrepreneurship Nexus*.

The analysis conducted, resulted in the investigation of the individual element of the entrepreneurship phenomenon through a fuller, more personal as well as empirical capacity. Deconstructing the entrepreneurship nexus in order to analyse just the individual construct of the entrepreneur, as seen in this chapter, enabled research to understand an element of the nexus in order to more fully understand and appreciate other aspects to the conceptual framework, the *Co-Evolving Entrepreneurship Nexus* in its entirety. Chapters 6 and 7 will build from the information gathered through this investigation of the individual construct of the entrepreneur. Chapter 6 goes on to analyse the how elements of an operational context influence entrepreneurship and Chapter 7 examines the reflexive nature of the entrepreneur and entrepreneurial action on wider systems and structures.

Results of research conducted and presented in this chapter, have focused on understanding the individual construct of the Entrepreneur and determining if and how certain elements

predispose an individual towards entrepreneurial action. Key findings and research contributions from this chapter are presented below.

### **Emerging Findings of Chapter 5:**

- Entrepreneurship and entrepreneurial action is relative and while the individual entrepreneur can be analysed in a multitude of ways (Lee and Peterson, 2000; Chell, 2008), this investigation proves viability to the conceptual framework used, reinforced through the presentation of grounded, tangible evidence showing the predisposition of entrepreneurial behaviour. However, empirical findings of this analysis are highly contextualized to actors in the Ethiopian and Rwandan coffee markets and as such, may hold less applicability for alternative sectors.
- The tested drivers: Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation (OR+EO), analysed in detail in Sections 5.4.4.1 to 5.4.4.5, are understood as inherent components of entrepreneurship (Chen et al., 1998; Bernard, 2000; Zhao et al., 2005; Bullough et al., 2013). Accordingly, research analysis resulted in the development of specific Driver Indexes to measure strengths of the tested drivers per business segment, across the *Entrepreneurial Range* and by country. Research findings have not only reinforced, through empirical evidence, the understanding that Entrepreneurs do indeed have higher degrees of the tested drivers when compared to Non-Entrepreneurs, but also results have reaffirmed the understanding of the specific drivers in regards to predisposition of entrepreneurialness. Additional nuanced investigations provided a clearer understanding as to why.
- Results of each Driver Index shed light onto varying reasons an individual may or may not actually be able or willing to take tangible action towards opportunity pursuit. Driver Index results in Section 5.4.5.1, clearly showed that Entrepreneurs, irrespective of country, to have a higher propensity for Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and OR+EO as compared to Non-Entrepreneurs. Additionally, Innovativeness and Risk Tolerance were found to be particularly low for Non-Entrepreneurs, irrespective

of country, providing evidence as to why Non-Entrepreneurs are unable or unwilling to take tangible steps towards opportunity pursuit.

- Interestingly, comparisons of Entrepreneurs between each country, in Section 5.4.5.3, revealed the same OR+EO scores for both Ethiopian and Rwandan Entrepreneurs, proving Entrepreneurs to have a similar ability to perceive opportunity, however the ability to achieve tangible pursuit remains another matter. Additional analysis between Potential Entrepreneurs and Entrepreneurs from both countries revealed similar scores for OR+EO Indexes, but statistically significant differences in Self-Efficacy and Risk Tolerance, indicated that recognizing opportunity as a clear indicator towards the potential for entrepreneurial behaviour, but other factors such as higher risk aversion or a lower self-belief can prohibit the actual pursuit; admittedly, this may also be impacted by alternative driver strengths or external influences.
- The drivers tested are believed, theoretically at least, to predispose individuals towards entrepreneurial action and as such, similar results could expect to be found. However results from this chapter did not fully support that hypothesis; as seen in the country differences presented in Section 5.4.5.2:
  - Ethiopian Entrepreneurs were found to also have statistically significant differences to Non-Entrepreneurs, but only for Resilience, Innovativeness and OR+EO. Non-Entrepreneurs and Entrepreneurs revealed similar degrees for Self-Efficacy and Risk Tolerance. Ethiopian respondent's low degrees of Self-Efficacy and Risk Tolerance could be traced to outcomes of restrictive operational contexts, perhaps demonstrating impacts from a demotivating economic environment.
  - Rwandan Entrepreneurs were found to have statistically significant differences to Non-Entrepreneurs for all tested drivers. The country's more open market structure and support for entrepreneurship in the coffee sector is believed to be impactful in enabling entrepreneurial opportunity pursuit and thus, enabling separation of Entrepreneurs from Non-Entrepreneurs.

- The major socio-demographic elements found to have significant influence on entrepreneurial behaviour were education level achieved, non-inheritance of current business and degree of financial access.
  - In both countries, education was found to be influential to entrepreneurship as presented in Section 5.3.1. Education is a contributing factor to human capital development and can improve one's ability in recognizing, attaining and using information to pursue opportunity (Shane, 2003; Vaghely and Julien, 2008). Within these research contexts, higher attainment of education influences entrepreneurship probability, but also revealed evidence to potential differences in starting points or inherent opportunity, as will be discussed in Section 6.2.2.1.
  - A lack of inheritance was revealed to have significant influence on Entrepreneurs, as presented in Section 5.3.2. Respondents reporting to have *not inherited* business were found to be much more likely to be an entrepreneur and these respondents consciously chose to become involved within the coffee sector. Non-Entrepreneurs in both countries resulted in a higher proportion of having *inherited* businesses.
  - High degrees of financial access also proved to be impactful and influential for entrepreneurs, as seen in Section 5.3.4. Improved financial access was impactful in supporting entrepreneur achievement in opportunity pursuit, but also speaks to wider impacts of political and market structures. Greater investigation into financial access and usage will be presented in Sections 6.5.1.1 and 6.5.1.2.

#### **Research Contributions of Chapter 5:**

- Currently, existing empirical evidence as to the individual construct of an entrepreneur is limited for actors in developing economies (Rogerson, 2001; Chell, 2008; Boso et al., 2013; Thai and Turkina, 2013). In this regard, this research has made important contributions through the empirical research conducted, showing a higher degree of the tested driver to be more present in Entrepreneurs than Non-Entrepreneurs. This result reinforces theoretical thought by presenting empirical evidence that certain elements have

been proven to predispose entrepreneurial action within the individual construct, however results remain highly contextualized to the specific coffee sectors analysed.

- This research reinforced theory on varying predispositions towards entrepreneurial behaviour (Chell, 2008), but also contributed to it by providing empirical results demonstrating statistically significant differences between Entrepreneurs and Non-Entrepreneurs for the drivers tested, with Entrepreneurs achieving higher Driver Index Scores and thus a higher degree of the tested drivers: Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation, than Non-Entrepreneurs.
- The conceptual framework developed for this analysis, the *Co-Evolving Entrepreneurship Nexus*, has shown viability at this initial analysis stage, in providing an actionable framework in which to approach entrepreneurship and the study of its components, particularly through analysis of the internal construct of the entrepreneur.

Understanding the individual as an interdependent element within the entrepreneurship nexus provides a basis for ensuing analysis of the individual entrepreneur's interdependence to and influence from a specific operational context. While Driver Index Scores could be anticipated to be the same for all tested drivers, this was not found to be the case for Entrepreneurs analysed within these two countries. As such, results are interpreted as Entrepreneurs within this study have a similar ability to recognize opportunity, however may be prevented from doing so due to alternative characteristics or external, contextual influences that enable or prohibit entrepreneurial opportunity pursuit. Differences are thought to stem, in part, from the external influences of different contextual operating environments, and whether or not individuals can use these drivers towards the pursuit of opportunity within different operational contexts will be explored in greater detail in the following chapter.

## **Chapter 6 - Defining Determinants. Identifying the Contextual Operating Environments that Shape Entrepreneurship.**

### **6.1 Introduction**

Investigations in Chapter 5 resulted in a deeper understanding to the make-up and individual construct of the entrepreneur, particularly within the contexts of the Ethiopian and Rwandan coffee markets. Understanding this internal make-up included analysis of socio-demographics of respondents as well as the determination of specific driver strengths as tested per business segment and across the *Entrepreneurial Range*. While the drivers<sup>92</sup> tested could be expected to unanimously result in similar results for all entrepreneurs, regardless of country or context, results from Section 5.4 showed otherwise. With this knowledge, attention is now turned to the second element of the deconstructed *Co-Evolving Entrepreneurship Nexus*: the operational context. Chapter 5 showed differences of the individual construct and are perceived to be influenced, in part, either positively or negatively by elements of the operational context. In addition, the operational context has the potential to shape entrepreneurship outlook, ability and action and will be investigated in this chapter.

While a macro-level analysis presented a distinct split along tested Driver Indexes between Non-Entrepreneurs and Entrepreneurs, nuanced differences were found across the varying business segments and entrepreneur classifications within each country. As such, results indicate potential for differences of Driver Indexes to be shaped by different socio-cultural environments or operational contexts. Specifically, differences were found showing Ethiopian Entrepreneurs and Non-Entrepreneurs to have statistically similar, and relatively low degrees of Self-Efficacy, Innovativeness<sup>93</sup> and Risk Tolerance. Rwanda showed statistically significant and relatively higher degrees for Self-Efficacy and Risk Tolerance than Ethiopian counterparts.

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<sup>92</sup> Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation (OR+EO)

<sup>93</sup> Analysis results showed a statistically significant difference, however the Innovativeness Driver Index also proved to be relatively low.

This chapter now looks to investigate the external dynamics and operational contexts, or determinants, of entrepreneurs within each country in order to analyse and present a clearer picture of what and how specific structures and systems influence and shape entrepreneurship. The unique environment an entrepreneur operates within is a complex mixture of socio-economic factors inclusive of the distinct political, legal and market systems (Chell, 2008). As described in Sections 2.2 and 2.3.2, entrepreneurship informed by Structuration Theory, is a continual process of evolution between an entrepreneurial orientated individual and a specific operational context (Sarason et al., 2006). Entrepreneurship is viewed as an interdependent part of a larger social system and not a separate entity operating independently (Sarason et al., 2006; Chell, 2008). As such, information in this chapter builds from the specific country profiles detailed in Sections 4.3 and 4.4, which presented the complicated histories, political evolutions and coffee market developments of Ethiopia and Rwanda, respectively. Understanding these determinants not only aids in the broader understanding of entrepreneurs (internal elements and external influences) operating within these marketplaces, but also presents an opportunity to discuss and investigate how external influences can support or impede private sector expansion and entrepreneurial growth.

Through results found in Chapter 5, empirical evidence was put forward to support the notion that the individual construct of the entrepreneur and operational contexts are interdependent. Results from Chapter 5 demonstrated the existence of differences between the individual construct of Entrepreneurs and Non-Entrepreneurs as well as indicating the operational context does influence entrepreneurial outlook and action. Discussed in Section 2.5, the operational context for entrepreneurs is a combination of socio-economic factors inclusive of political, legal, regulatory, economic, market and socio-cultural systems (Acs et al., 2008; Chell, 2008). As such, entrepreneurship is believed to be influenced by these systems through resource availability, political outlook as well as market and regulatory enhancement or interference (Gregoire et al., 2010; Herrington and Kelley, 2012). The specific determinants selected for this research, initially presented in Sections 2.5.1 and 2.5.2: **political environments, market structures, available resources, and historical, socio-cultural settings**, represent broad themes identified from current literature and were selected

due to applicability for this research. The examination and comparative analysis of how these elements influence entrepreneurship within these themes are the specific outcomes and results of this research.

This chapter conducts a comparative analysis through the examination of potential influences to entrepreneurship from nuanced elements discovered within these broader themes and is designed in order to address:

1. Underlying historical relationships and socio-cultural settings
2. Current political environments
3. Operational market and corresponding regulatory structures
4. Availability of resources

Evidence presented in this chapter stems largely from the use of qualitative tools and is written as an investigative narrative, using aspects of the coffee sectors and related economic and political climates to show examples towards entrepreneurial influence and corresponding entrepreneur actions. Information was gained from secondary sources reviewed before, during and after data collection, with evidence examined through a systematic, analytical approach. This chapter also relied heavily on primary data obtained in data collection through respondent and key informant interviews<sup>94</sup> and information from primary sources are referenced throughout this discussion.

## **6.2 What Are the Historical and Socio-Cultural Influences to Entrepreneurship?**

Historical, social and cultural influences have created complex and unique environments in which entrepreneurs must navigate today. Given each country's history, socio-cultural dynamics were found to affect entrepreneurs in not only business operation, but also in how opportunity pursuit is perceived as well as who is enabled to pursue it. This section highlights some of the main influences observed and recognized through this research in regards to domestic relationships with coffee, historical influences and cultural appreciation for entrepreneurial success. Specific analysis surrounding the equitable accessibility or

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<sup>94</sup> Similar to respondent coding, key informant interviews are coded by country of operation, number of key informant and year of interview. For example the first key informant interview held in Ethiopia in 2015 is coded as: E\_1, 2015.

inaccessibility of women's pursuit of entrepreneurial opportunity was not specifically researched within the wider socio-cultural analysis of entrepreneurship within these specific research settings, however women entrepreneurs found through this research are featured.

Table 6.1 below, has distilled elements of the historical, socio-cultural influences per business segment discussed throughout this section in order to provide an overview of the differing, specific elements found to have influenced entrepreneurship within Ethiopia and Rwanda. Information presented in the table represents a synthesis of data gathered from observation, respondent responses, key informants and secondary source data.

Table 6.1. Historical and Socio-Cultural Influences, per Segment

	Ethiopia	Rwanda
<b>Smallholder Producers</b>	<ul style="list-style-type: none"> <li>- Strong historical and cultural ties to coffee</li> <li>- Typical long history of family involvement in production</li> <li>- Coffee a major part of life and livelihood, difficult for producer to leave, fear of ostrization if cease production</li> <li>- Nationalization of Derg Era, forced participation in rural cooperatives, remaining distrust/ reluctance</li> <li>- Significant population pressure in coffee producing areas, steady reduction in land holdings (specifically in areas of research focus)</li> <li>- Successful producers are perceived to have link to current Regime</li> <li>- Lack of entrepreneurial incentives, inability to advance business to alternative business segments</li> </ul>	<ul style="list-style-type: none"> <li>- Limited cultural ties with coffee, recognized history of introduction and forced cultivation by colonizers and past governments</li> <li>- Destroyed crop, farm land, rural infrastructure from 1994 war</li> <li>- Many coffee producers killed/ fled during '94</li> <li>- Need to rebuild, coffee promoted as way forward</li> <li>- Returnees brought unique entrepreneurial skills post '94</li> <li>- Coffee businesses, cooperatives promoted as means of reconciliation</li> <li>- Current perception of high earning potential despite price volatility</li> <li>- Successful actors / entrepreneurs regarded &amp; respected for hard work</li> <li>- Path for self-improvement/ entrepreneurial business expansion, increasing support mechanisms and eased regulation to support doing so</li> </ul>
<b>Commercial Farmers</b>	<ul style="list-style-type: none"> <li>- Strong historical and cultural ties to coffee</li> <li>- History of family involvement via production, trading, (private commercialized farming, a new legal entity allowed in sector)</li> <li>- Post '91 encouragement in specific business areas, specifically for large scale land purchase for agri-business</li> <li>- GoE support of Export Sector results in attractive business investment incentives, for those of means</li> <li>- Business success, perceived link to current Regime</li> </ul>	
<b>Processors</b>	<ul style="list-style-type: none"> <li>- Strong historical and cultural ties to coffee, family history in trading</li> <li>- Business holdings nationalized during Derg Era</li> <li>- Difficulty in reclaiming business/ land nationalized</li> <li>- Post '91 support for investment into economy, however Processors currently not recognized with preferred export status</li> <li>- Business success, perceived link to current Regime</li> </ul>	<ul style="list-style-type: none"> <li>- Limited cultural ties with coffee, recognized difficulty in securing supply, however still perceived to be lucrative</li> <li>- Returnees brought unique entrepreneurial skills post '94</li> <li>- Coffee businesses, cooperatives promoted as means of reconciliation</li> <li>- Top-level promotion of sector, popularity. Implementation of business incubation and support strategies enacted to help new actors</li> <li>- Path for self-improvement/ business expansion, shown via actor expansion</li> </ul>
<b>Exporters</b>	<ul style="list-style-type: none"> <li>- Strong historical and cultural ties to coffee, family history in trading</li> <li>- Business holdings nationalized during Derg Era</li> <li>- Difficulty in reclaiming business/ land nationalized</li> <li>- Post '91 support for investment into economy, easier/ more attractive options to invest within specific sectors, Export recognized with preferred business status due to ability to generate foreign exchange (Private Export is relatively new business)</li> <li>- Business success, perceived link to current Regime</li> </ul>	<ul style="list-style-type: none"> <li>- Limited cultural ties with coffee, perceived as lucrative business</li> <li>- Path for self-improvement/ business expansion, shown via actor expansion</li> <li>- Private Export is new business sector to be involved with since removal of Sate Market Agency. GoR support/ advocacy of re-emergence of Rwanda Coffee to International Market/ Buyers</li> <li>- Successful actors highly regarded for hard work, but also for willingness to use success to help others/ those less fortunate</li> </ul>

(Source: Author Construct)

## **6.2.1 Domestic Relationships with Coffee and Entrepreneurship**

Entrepreneurship and coffee are understood and internalized differently within these two countries, however the respective domestic relationships are critical in order to appreciate related action and preferences. This analysis presents additional differences in which to review entrepreneurship as Ethiopia and Rwanda have distinctly different histories with, and public perceptions of, coffee.

### **6.2.1.1 Ethiopia**

Ethiopia, the birthplace of coffee, is currently the 5<sup>th</sup> largest exporter in the world as well as largest producer and exporter in Africa. Discussed in Section 4.3.3, the country's coffee sector includes an estimated 4.2 million smallholder producers, directly reliant on coffee, with an additional 15 to 20 million people involved across the industry through employment in transportation, processing, trading, financing and marketing (Herhaus et al., 2014a). While many coffee-producing countries have already reached natural coffee endowments in terms of available quality varieties and attainable production volumes, Ethiopia is estimated to have reached just 60% of its perceived potential (E\_5, 2015). Coffee is of significant importance to Ethiopia not only economically, but also culturally. One of only two producing countries to be a major consumer of its own production, annual consumption nears two hundred thousand tonnes, an estimated 50% of total production<sup>95</sup>. As such, there is a thriving domestic market<sup>96</sup> and corresponding demand, and local consumption forms an important part of everyday life, ritual or ceremony (Tefera and Tefera, 2013).

This strong cultural attachment is recognized in this research to have the potential to skew individual relationships with, or perspectives of coffee in terms of impacting entrepreneurial choice mechanisms in regards to coffee as a 'way of life' as opposed to a 'business'. For example, this research found no individuals within Ethiopian coffee areas that had decaffeinated fields and the act of decaffeinating was unheard of for respondents within producing zones, with a distinct fear of being ostracized for the removal of coffee trees.

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<sup>95</sup> Total production figures remain difficult to determine exactly, as much of what is produced becomes consumed at household and never makes it to market or is officially accounted for.

<sup>96</sup> Due to Government export mandates, only the very lowest quality is available for domestic consumption today.

Coffee, it seems is a business people live and die by, but will never leave. Explained by a Smallholder Producer Potential Entrepreneur in the Yirgacheffee production zone,

*In this area, we must grow coffee; it is what people do. I believe coffee is my most valuable crop for getting cash, but ensete<sup>97</sup> is the most valuable crop for my family because it will sustain us even if we do poorly with coffee. For coffee, the prices are too low for the work required and yes, people make losses, but you cannot remove it; you are not a real farmer in this area if you do not have coffee. We do as our father's did. (P\_E\_9, 2015)*

Within the traditional high-intensity coffee zones (Yirgacheffee and Sidama regions) visited during data collection, smallholder producers were found to mainly produce ensete for household consumption and coffee as a cash crop; wealthier households also had livestock. While coffee production zones have increased as the sector has grown and reintegrated with the international market, producers in the heart of coffee producing areas, reported income generation to be centred on coffee. However smallholder producers operating on the fringes of the production zones reported more flexibility in producing alternatives to coffee, such as khat, maize, teff and some vegetables.

Coffee is widely perceived to be a lucrative business, however this is largely dependent upon who is asked and within which specific business segment. While Ethiopia does not enforce a mandate to produce coffee like Rwanda, the social pressure to do so is evident and individuals are expected to continue production and investment in the country's most prominent product. Due to coffee's long history, actors in the sector also have high rates of family history and involvement, as initially discussed in Section 5.3.2. 66% of Smallholder Producers (regardless of entrepreneurial classification) reported to have inherited coffee plantations, with 60% of Processors and Exporters reported to come from 2<sup>nd</sup>, 3<sup>rd</sup> and even 4<sup>th</sup> generation coffee businesses.

This intense and long experience with coffee certainly can be seen to add to the entrepreneurial knowledge stock. However, respondents located in areas considered as 'traditional coffee zones' were observed to show lower levels of entrepreneurial tendencies,

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<sup>97</sup> Ensete is the key staple consumable for households in Southern Ethiopia

such as innovation, risk taking or new opportunity pursuit, perhaps unwilling to try or test new methods for fear of societal backlash. These reduced entrepreneurial tendencies were observed through comparisons with individuals operating in ‘fringe’ areas or areas more recently undergoing coffee cultivation, which tended to show more unique and dynamic business models. Newer coffee entrants were reported to consciously choose to get involved with the sector and work to implement strategic measures to mitigate perceived challenges, rather than just continuing production out of a perceived social obligation. Given the restrictive nature of the market, the relatively low Innovation, Self-Efficacy and Risk Tolerance Index results (presented in Section 5.4.5.3) point to an outcome of market dynamics as well as an adverse influence on an individual entrepreneur’s ability and choice behaviour given coffee’s long history and product dominance within an area. Many respondents reported to have continued coffee cultivation due to social pressures, despite recognized low returns. An example is provided below in Case Study 6.1.

***Case Study 6.1. Coffee Expansion***

A Smallholder Producer Entrepreneur explained coffee’s recent expansion and the differences he has seen.

“Coffee production has expanded in the area since my involvement (15 years ago). Most of the land that was previously bare is now cultivated with coffee. It (coffee) used to grow wild in the forest in this area, but with people now farming in this area, it is added as a cash crop. Coffee is valuable to have if you can harvest enough (volume). I have several income activities and now have added coffee. I feel fortunate living here as the soil allows me to be able to produce more crops; I am adding khat that is now getting a better price than coffee. People are not producing good quality coffee; that is why our prices are down over the last years.” (P\_E\_27, 2014)

Given the social pressures of continuing coffee production, despite its questionable economic viability, it becomes evident why the six Smallholder Producer Entrepreneurs found in this research, were diversifying to other sectors. As will be seen throughout this chapter, challenges for the Ethiopian smallholder coffee producer were observed to have become increasingly difficult given the restrictive market environment, limiting many actors from being able to improve business prospects, despite seeing opportunity (Potential Entrepreneurs) as well as prohibiting many of the potential benefits of the coffee chain from flowing back to actors most in need.

### 6.2.1.2 Rwanda

As presented in Section 4.4.3, Rwanda's coffee industry, which accounts for less than 1% of global trade, involves an estimated 400,000 people. While the country's history with coffee is comparatively, relatively new, its economic importance is widely recognized in the country despite the slow growth of cultural significance within the traditionally tea drinking nation. Significant value addition and business opportunity is perceived to be possible by increasing domestic consumption, however this is occurring mainly within the urban centre of Kigali and not at a household producer level. The newfound domestic taste for coffee currently exists as a drink of wealthier Rwandans, as other commercial drinks are not only cheaper, but also more widely available throughout the country (R\_2, 2014; R\_3, 2014). Efforts are being made to increase coffee's domestic marketability, mainly led through local coffee shops, however progress is slow. Several entrepreneur respondents reported to have started locally roasting and packaging their coffees for sale in the domestic market, but this remains largely targeted to the local expat community. Case Study 6.2 below, shows how one Rwandan business is scaling and trying to capture greater market share.

#### ***Case Study 6.2. Capturing Additional Market Share via Growing Local Interest***

This Exporter focuses on producing high quality, single-origin coffees, from a peninsula jutting into Lake Kivu, along Rwanda's western border, mainly for export to European and North American Markets. The business began in the early 2000s with his father, a former Rwandan Senator and member of the President's Economic Council. Recently he has been working to develop innovative ways to tackle barriers to improve domestic demand and develop a presence in the local Rwandan market.

"We have been successful within the international market, but really, the lucrative, untapped market is here in Rwanda. We started a local roasting facility in 2006 in order to be able to sell our coffee directly to the market. In 2006 we sold 300 kg of roasted beans, in 2013 we sold 3.5 tonnes, but we believe most of that is purchased by expats. Now we are trying to find easy and inexpensive ways for Rwandans to be able to drink our coffee. While most people drink tea here, the Nescafé sachets (instant coffee) are popular so we have been experimenting with several recipes for our coffee to be manufactured into the sachets of instant coffee. So far market response is favourable. I believe the key will be to make a product that the 'normal Rwandan' can appreciate in taste and price. Currently coffee is a drink of the upper class because it is still so expensive for most people." (Ex\_R\_23, 2014)

Given the intense and widespread growth of the coffee sector in Rwanda since the mid 1990s, the sector is now widely regarded for its high-earning potential. However, as seen in Graph 4.6 in Section 4.5, the garden gate cherry price for Rwandan Smallholder Producers

averages 20% to 40% less than Ethiopian Smallholder Producers<sup>98</sup>. Truth behind coffee's perceived lucrative earning potential for smallholder producers is highly questioned and the perception of high profitability is thought to stem from the sector norm of a lump-sum payment for cherries delivered. Many producers reported that this relatively large, one time payment made them believers in coffee's high profitability. However, it is recognized that coffee may still be more profitable when compared to other more, traditional crops. Smallholder Producer Entrepreneurs reported and were observed to have a stronger capacity for financial management of their business and financial returns. Additionally, Smallholder Producer Entrepreneurs reported continuing to believe in the sector's profitability, despite market price variability and many entrepreneurs perceived coffee's profitability in terms of re-investment and wider benefit potential, viewing coffee as a long-term, vested business interest, as opposed to a year-by-year income generator.

Rwandan smallholder producers are in a similarly difficult position to their Ethiopian counterparts in terms of coffee's low prices, however, as will be seen throughout this chapter, despite low economic returns, given Rwanda's open market structure and freer movement of actors and benefits, entrepreneurs were observed to be orientating business models and operational strategies in order to capitalize on benefits and new market opportunity, resulting in an overall improved product and increased benefit flow to traditionally hard to reach areas.

While some smallholder producers may struggle with profitability, the lucrative potential attached to the sector continues to entice entrepreneurs as Producers, Processors and Exporters continue to look to establish businesses and capitalize within the re-emerged sector. As evidenced in Section 5.3, 88% of Rwandan Entrepreneurs are operating first generation businesses. Described by a Smallholder Producer Entrepreneur,

*You can make good money from coffee and it is a secure investment. Year to year it can be difficult, but over the lifetime of your trees (40-50 years) you can be very successful. From my coffee earnings, I have put four children through university with two more in university now. (P\_R\_65, 2014)*

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<sup>98</sup> Largely due to demand, consumer recognition and high cost of export related transportation in Rwanda

## **6.2.2 Historical and Socio-Cultural Impacts on Entrepreneurship**

Examining historical and socio-cultural environments provides an understanding of not only where and how entrepreneurs operate, but also how entrepreneurs are integrated into a society; forming an understanding as to the wider level of acceptance and promotion. Recent histories also continue to play a significant role in current politics, influencing entrepreneurial action as well as providing insight as to who specifically is, or can be, an entrepreneur. As discussed in Sections 4.3.1 and 4.4.1, and as will continue to be detailed throughout the rest of this chapter, both countries are characterized by histories of control, oppression and political influence into the private sector sphere. However, these histories also provide insight into backgrounds of selected entrepreneurs and what specific individual starting points may have been.

For example, many entrepreneurs currently involved with formal businesses (Processing and Export) in Rwanda are former refugees. Discussed further in Section 6.2.2.2, many had lived for years if not decades in neighbouring countries and returned following the war in 1994, bringing unique experience and greater comparable wealth, business connections and knowledge from lives abroad (Prunier, 1997). These returnees were integral in re-starting the Rwandan economy, providing evidence to outcomes and potential benefits from necessity entrepreneurship as first presented in Section 2.6.2.

Similarly, in Ethiopia, a class of ‘new entrepreneurs’ have emerged through connections with current state-leadership, many with Tigrean lineage. This ‘preferential’ treatment for individuals was evident in the respondents operating formal businesses (Commercial Farms, Processing and Exporting businesses) who reported familial or heritage linkages with Tigray, which will be further discussed in Section 6.2.2.1.

Socio-cultural environments looked to the desirability for entrepreneurship or business success within a specific sphere as well as how societal or cultural perceptions may impact entrepreneurial action. This may be presented through perceptions of business successes, strategic targeting of entrepreneurs and cultural beliefs regarding the success and failure of opportunity exploitation (Goetz and Freshwater, 2001; Shane et al., 2003). Given the often-

complex cultural environments of Ethiopia and Rwanda, and coffee's tangled existence within the economic histories and social fabrics, it is believed to be integrally linked to the ensuing discussion on entrepreneurship.

### **6.2.2.1 Ethiopia**

Historical as well as socio-cultural influence in Ethiopia is relevant in nearly all aspects of current society, culture and Statehood. Given its history and relatively recent unification process, described in Section 4.3.1, Ethiopia remains dominated by the current ethno-federalist administration which continues to manage different ethnic areas according to the Government's pursuit of its own supremacy and survival (Vaughan, 2015). Using the ethno-federalist hierarchical platform, the Ethiopian Government is able to extend its reach from the top most levels down to the rural village levels, creating restrictive or inclusive environments, as deemed necessary by state-led agendas (Vaughan, 2006; Fiquet and Feyissa, 2015). Given the state-led economy and its intense involvement in market activity, additional advantages are given to public sector, State actors, projects or agendas in terms of where and how resources flow, or not. This will be discussed in greater detail in section 6.3.1.1.

Understanding the evolution of preferential treatment during recent history requires tracing Ethiopian history back to the death of Tigrean Emperor, Yohannes IV, in the late 1800s, which saw the end of the Tigrean power centre. Since, the post-Yohannes IV era has seen much political grievance and economic decline within the Tigrean Region, culminating with the Derg Regime's Red Terror campaign which, outside of the Capital, had the largest impact and aggression against Tigrean people (Tedasse, 2015). The current state-led EPRDF party was originated by the Tigray People's Liberation Front (TPLF) and led by Meles Zenawi. Following the Tigrean ascension into power once again in 1991, the state-managed market economy is widely acknowledged to, and accused of, providing nationalist preferential treatment to Tigrayans at the expense of other Ethiopians<sup>99</sup> (Vaughan, 2015).

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<sup>99</sup> An open secret in Ethiopia is the preferential treatment received due to family connections or ethnical linkages for Tigrayans. Admittedly difficult to detect is whether rumors are from individuals legitimately discriminated against or a particular respondent who has been unsuccessful in a particular business venture and prefers to place blame elsewhere.

As discussed by an Exporter with a long family lineage (non-Tigrean) in the coffee sector,

*It is never formally acknowledged, but there is a history in Ethiopia of a system of connection based on who is in power. It is also a system that is very difficult to change with many people now making money and entrenched in the structure. Currently, many feel it is connection with Tigray and there are legitimate reasons for those feelings. (E\_4, 2015)*

Through research observations, it became apparent that having a formal, successful business was a not only a sign of success and wealth, but also of connection. While, admittedly generalized, and perhaps unfair to many hardworking business people, this perception became clear not only through speaking with research respondents, but also from speaking with other actors both in and outside of the coffee sector. Within the coffee sector, strong historical business linkages obviously exist through the many 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> generation businesses. Specifically, many Processors and Exporters reported to have family origins in Tigray or admitted to being Tigrean. Reports of nepotism were also found to be widespread. While petty corruption was not particularly evident at a ‘street-level’ it is believed to be common occurrence within higher levels of negotiation and are perceived to impact allowances to new opportunity; however, this could not be independently verified.

As will continue to be discussed throughout this chapter, the direction of opportunity to certain segments or ‘selected entrepreneurs’ within the state-directed private sector presents the divergent perception of, and case for, *have’s* and *have not’s* in which certain individuals, areas or sectors are allowed to progress and expand and other segments are not. For example, not one Ethiopian Smallholder Producer was found to have transitioned his business from smallholder farming to another more lucrative business or industry (the opposite case from Rwanda). This can also be evidenced from educational attainment presented in Section 5.3.1. This apparent glass ceiling is being reinforced through obstructive market structures, but also dictated by national agendas and backed by a controlling culture, resulting in the country’s lack of entrepreneurial dynamism and business success tinged with the perception of suspicion.

It appears evident that linkages with the current Government have enabled some entrepreneurs to be able to be more successful than others due to the strong internal, regional ethnic identities and natural networks (social, business). However, these networks were reported to also influence market side selling, or the non-transparent coffee sale at the national ECX Auction. As will continue to be discussed through this chapter, this presents evidence to the demotivating entrepreneurial environment, which has limited interest from entrepreneurs and dissuaded potential new entrants.

#### **6.2.2.2 Rwanda**

Rwanda's socio-cultural environment and history has also impacted entrepreneurship in the country, but by different means. As has been described in Section 4.4.1, the politically, economically and ethnically motivated violence in 1994, is estimated to have killed over 800,000 people, forced 2 million to flee the country and internally displaced an additional 1.3 to 1.8 million people (Prunier, 1997); out of a population of 5 million people in 1993 (Crisafulli and Redmond, 2012). These figures do not account for the thousands of refugees who had fled to neighboring countries throughout the decades of conflict and turmoil, stemming from the 1950s (Cooke, 2011). Additionally, given the preferential treatment through the Belgian Colonial administrative system, Tutsi were large landowners with many focusing on coffee in the Southern and Western regions of the country's major coffee production zones; with some of the worst massacres of the genocide occurring in these areas, taking huge human toll, but also shattering economic infrastructure for the areas.

While a formal economic analysis has never been conducted on the families that fled to neighbouring countries (mainly Burundi, Uganda and DRC) it is generally accepted that a majority of the individuals leaving the country were of an at least slightly higher economic standing or capacity as they were able to afford to leave (Prunier, 1997). These new experiences and exposures provided opportunity to develop social as well as human capital. Additionally, adaptive behaviour and innovation strategies may have also been forged through conflict or adverse situational experiences (Leonardo, 2010). Given the long ranging conflicts over many decades, two main types of Rwandan returnees are considered.

1. Tutsi refugees that left Rwanda from the 1950s to early 1990s, many becoming involved with business in neighboring countries, relying on contacts, family and even-growing business connections used in establishing a new life. Upon returning, these individuals and families brought greater wealth, business experience and connections. Post-1994, the opportunity to return interested many who had lived for decades in neighboring countries, returning with connections, relative wealth and business skills gained through years and even decades abroad (Prunier, 1997). These first returnees were some of the initial Rwandan investors back into the formal economy and continue to be key major actors in economic and political scenes today.

Since the Hutu Revolution in 1959, Tutsi had largely been excluded from the political sphere, instead focusing on activities in the private sector, having gained wealth through successful business and even large land holdings distributed through the colonial administration. During this research, many of the Processors and Exporters interviewed admitted to living and even being educated in neighbouring countries, mainly Uganda, DRC or Burundi, returning after the war to re-establish themselves in Rwanda and bringing these unique skillsets, knowledge base, experiences and networks with them. Many people, returning after the 1994 war, saw coffee as an economic opportunity to rebuild lives or continue the work of relatives. Admittedly many of these returnees not only had the financial resources to invest and start businesses, but also had escaped witnessing the traumas of the genocide. It was these initial returnees, with many being considered as entrepreneurs that benefited from the enormous needs of the destroyed economy and virtually non-existent private sector (Prunier, 1997; R\_1, 2014). One such story is described in Case Study 6.3, below.

### ***Case Study 6.3. Returning to Rwanda***

The story below presents the history and experience of a successful Exporter and businessman in Rwanda, who grew up in Burundi.

“My Family traded in coffee in Burundi as refugees from the 1960s. I grew up there and trained as an Economist. I learned everything about coffee in Burundi. When we returned to Rwanda I initially worked with the Rwanda Development Board (RDB) for three years as a Finance Analyst on the post-war strategy for 'Agro-Business Initiatives'. I was on front lines of re-establishing the coffee sector and was involved in the decision for the strategic shift from ordinary coffee (sun-dried) to specialty (fully-washed). In 2005 I wanted to start my own coffee business and used bank contacts I had made from working at RDB to secure a loan to establish my own washing station and exporting business; initially just processing at 30% capacity due to low farmer supply. Supply was always a problem, and the business has evolved to become a 'service provider' for other Producers and Processors as this was and continues to be a real problem for the market. As a Service Provider, my business provides bank guarantees for farmers, co-ops, or washing stations needing finance but are unable to get a bank loan. I also provide technical business support. Finally, I link my clients with end buyers and charge about 30% of end product value as a fee. This business is growing slowly, but steadily and I believe we have a large market that will benefit from these services.... I think my and my family's experience in Burundi has helped me with my businesses and business outlook today. I still travel and do business in Burundi and DRC frequently.” (Ex\_R\_19, 2014)

2. Refugees, mainly Tutsi, who fled during the violence of 1994, were largely relocated into refugee camps in neighboring countries. This group mainly settled with refugees that left before the 1990s but were unable to integrate into new countries, living for years, if not decades, in the camps (some of these returnees post 1994 were born in these camps). Individuals in refugee camps were a mix of differing social classes and distinct class structures within the Tutsi clan system, and marriage across ‘class lines’ was common. The economic status, and harsh restrictions imposed, resulted in many ways as a type of necessity entrepreneurship as these refugees did not own land or traditionally acceptable assets and were unable to access typical financing reserves for start-up capital. As such, many were forced to establish creative ways for income generation and indeed survival (Prunier, 1997). Many of these refugees also brought these unique experiences and business skills when returning to Rwanda.

Both ‘types’ of refugee returnees, or diaspora entrepreneurs are believed to have had large influences in rebuilding the country and expanding sectors of their chosen pursuit (R\_1, 2014). Another example is below in Case Study 6.4.

#### ***Case Study 6.4. Restarting a Coffee Business***

“My family left Rwanda before the start of the war. Relatives on my father’s side owned land and had a large coffee farm, but they were all killed. After the war, my father decided to move us back to Rwanda and we relocated to that farm area and decided to take up coffee in memory of our relatives. We were able to make an application to the municipality, proving we were kin and were granted rights to the land. We started as farmers and had to rebuild and replant everything; our plantation is now about 10,000 trees. However we soon realized that by only farming we were not making enough money and decided to invest in the business and build a washing station to increase our margins.”

“Our farm and washing station are in a very remote area and we also wanted to provide opportunities to help other farmers in the area. We started exporting in 2013 and last year exported about two containers (each container holds 19.2 tonnes). We work closely with area farmers and focus on quality. Coffee has been an opportunity for us and we recognize that we have been lucky in some ways and want to help area farmers. We provide loans to farmers against their future coffee harvest, provide health insurance and quality trainings. If we are profitable for the season we will make a 2<sup>nd</sup> payment back to the farmers to increase their share of the profits.... I manage the business with my father. I am also a structural engineer and work in Kigali in the off-season.” (Ex\_R\_14, 2014)

As discussed, many of the returnees were Tutsi, including nearly all of the RPF military, political party and current Government forces. While ethnicity records are no longer officially maintained, accusations, which are vehemently denied from the top most levels of Rwanda’s Government, are that Tutsi are back in power at the expense of the Hutu, in political structures as well as the private sector. Perceptions of Tutsi disproportionate involvement in business are discussed in Case Study 6.5 below.

#### ***Case Study 6.5. Perceptions for Preference***

The following presents an overview of a discussion with an expat who has lived in Rwanda for the past 10 years, working as a consultant within the financial sector.

“Tutsi linkages within the private sector (as well as Government) are a common claim. Data on ethnic backgrounds is no longer kept, but a large proportion of Tutsi involvement in business is still considered highly likely. Before the war, Tutsi were heavily involved within the private sector and Tutsi comprised much of the refugee flight, and naturally they were also many of the returners. These returners had to start back in business in order to restart a livelihood. It is undeniable that from this perspective Tutsi have perhaps had a better opportunity to be involved in entrepreneur related activities and yes, given history, there can be some very high level networks, but I do not believe there is a preference of one group over another and Tutsi involvement today is not coming at the expense of Hutu. The Government is also very sensitive to that and are trying to create a climate where everyone can be successful, but also an environment where they (Rwandan Government) cannot be accused of preference.” (R\_7, 2015)

Within Rwanda, coffee has become largely synonymous with not only opportunity, but also as a mechanism in which to improve yourself and your community. In Rwanda, success and entrepreneurship was not observed to be the perceived nepotism taboo as it largely appeared in Ethiopia. As will be discussed throughout the rest of this chapter, the histories and societal norms in regards to entrepreneurship clearly influence individual behaviour but also form the wider acceptance framework in which individuals can and do operate.

In Ethiopia, it was observed that business success, or ambition, appeared to be held with suspicion and it was found actors did little to dissuade those sentiments through investing good fortunes back into areas of operation. Conversely, in Rwanda, success seemed to be much more widely appreciated and business appeared to be an environment where individuals give credit and respect to those more successful. Through research observations, successful Rwandan entrepreneurs in these environments were found to actively work to share benefits with a wider community that had helped success, appearing to become more integrated with local areas of operation. This of course can also be a tactic in gaining a competitive advantage in an area and while entrepreneurs reporting these actions included them as part of a wider strategic operational plan, a sincere effort to use business success in order to provide benefits to others was a commonly perceived theme. This will be explored in greater depth in Sections 7.2 and 7.3.

### **6.3 What Are the Current Political Environments Influencing Entrepreneurship?**

Political environments are inclusive of the current political system, government perceptions of, and relationship with, the private sector, economic stability, legal restrictions, ease (or difficulty) in conducting business, and corresponding support mechanisms. In order for entrepreneurship to be cultivated within an economy, the political system should be transparent and dependent upon “individual rights, democratic rules and checks and balances of a government” (Lee and Peterson, 2000, p. 408). However as will be seen, this is not always the case.

Most governments (especially developing economies) do not have specific policies designed for outright entrepreneurship promotion, and particularly for developing or emerging economy governments are not actively working to use the entrepreneur as a key ingredient in pushing the country's economic frontier forward (Rocha et al., 2004; Boso et al., 2013). Neither country observed through this research was found to have established specific policies geared directly at entrepreneurship. Instead, entrepreneurship is a by-product, recognized as an employment generator, used to absorb rural to urban migration and in some cases, fill gaps left by the public sector in terms of providing means of additional income and services to otherwise neglected areas. However, entrepreneurship within the economies and private sectors researched, are not completely open to 'free-spirited impulses' of entrepreneurs and remain, to varying degrees, liberated and leashed. Through this research, government relationship with the private sector was observed to be a direct reflection of a government's relationship with, and perspective towards, entrepreneurship.

Table 6.2 below, has distilled elements of political environment influences per business segment discussed throughout this section in order to provide an overview of the differing, specific elements found to have influenced entrepreneurship within Ethiopia and Rwanda. Information presented is a synthesis of data gathered from observation, respondent responses, key informants and secondary source data.

Table 6.2. Political Environment Influences, per Segment

	Ethiopia	Rwanda
<b>Smallholder Producers</b>	<ul style="list-style-type: none"> <li>- Smallholder Producer not prioritized by GoE, efforts to push all producers to co-ops. Inefficient logistics, distrust, poor management by co-op: only 20% of coffee producers currently co-op members</li> <li>- Lack of investment in agricultural training, infrastructure</li> <li>- Producer perception of reduction in overall wellbeing, land reduction, population pressure, inability to ‘improve self’</li> <li>- Fear of challenging Government, local Authorities</li> <li>- Forced supply to designated area Traders, difficult market access</li> <li>- Weak spread of timely, accurate market information</li> </ul>	<ul style="list-style-type: none"> <li>- GoR used donors to support sector rebuild, provide training, finance, market linkages</li> <li>- Improvement to main production zone infrastructure, much need remains in very rural areas, smaller production zones</li> <li>- Promotion of large-scale investment, less successful in effectively providing finance for small scale actors</li> <li>- GoR instituted Development Bank to offer specialized financing packages and business support for qualified sector actors</li> <li>- GoR mandated Input Distribution Fund (free provision of inputs only supplying 35% of need)</li> </ul>
<b>Commercial Farmers</b>	<ul style="list-style-type: none"> <li>- Large scale production &amp; export prioritization of commercial agri-business for export = ease of export requirements/ access to finance</li> <li>- Targeted by GoE <i>Growth and Transformation Plan</i></li> <li>- Able to access information via ECX (Export Information)</li> <li>- Export Priority = attractive loan, land purchase and scale incentives</li> <li>- Reports of different ethnicities treated differently</li> </ul>	
<b>Processors</b>	<ul style="list-style-type: none"> <li>- Legal restrictions on exporting has resulted in increased difficulty in financial access</li> <li>- High tax burden, inability to access finance/ high cost of credit</li> <li>- Legally unable to expand business to other segments</li> <li>- Lack of formal business support mechanisms</li> <li>- GoE looking to replace private Processors with Cooperatives</li> <li>- Donor financed establishment of ECX supposed to increase transparency, highly questionable effectiveness</li> <li>- Export Priority = attractive financial access, ease of business establishment and scale incentives</li> <li>- Reports of different ethnicities treated differently</li> <li>- Targeted by GoE <i>Growth and Transformation Plan</i></li> <li>- Able to access information via ECX (Export Information)</li> <li>- Harsh restrictions on unsanctioned cross-border trade, pushes all trade through ECX</li> <li>- Legally unable to expand business to other segments</li> <li>- Donor financed establishment of ECX supposed to increase transparency, highly questionable effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>- GoR used donors to support sector rebuild, provide training, finance, international market linkages</li> <li>- Streamline of business registration, legal, taxation requirements</li> <li>- GoR offered attractive investment opportunities for Returnees</li> <li>- Introduced ‘starter-funds’ for new (formal) business entrants</li> <li>- GoR regulating areas of ‘over competition’ via sourcing zones</li> <li>- Rwandan Development Bank to offer specialized financing packages and business support for qualified sector actors</li> <li>- GoR used donors to support sector rebuild, provide training, finance, international market linkages</li> <li>- Streamline of business registration, legal, taxation requirements</li> <li>- GoR offered attractive investment opportunities for Returnees</li> <li>- Introduced ‘starter-funds’ for new (formal) business entrants</li> <li>- Rwandan Development Bank to offer specialized financing packages and business support for qualified sector actors</li> <li>- Top-level effort to re-introduce Rwandan Coffee to International Market, direct support to advancement of export potential</li> </ul>
<b>Exporters</b>	<ul style="list-style-type: none"> <li>- Harsh restrictions on unsanctioned cross-border trade, pushes all trade through ECX</li> <li>- Legally unable to expand business to other segments</li> <li>- Donor financed establishment of ECX supposed to increase transparency, highly questionable effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>- GoR used donors to support sector rebuild, provide training, finance, international market linkages</li> <li>- Streamline of business registration, legal, taxation requirements</li> <li>- GoR offered attractive investment opportunities for Returnees</li> <li>- Introduced ‘starter-funds’ for new (formal) business entrants</li> <li>- Rwandan Development Bank to offer specialized financing packages and business support for qualified sector actors</li> <li>- Top-level effort to re-introduce Rwandan Coffee to International Market, direct support to advancement of export potential</li> </ul>

(Source: Author Construct)

### **6.3.1 Political Economies, Perceptions of Entrepreneurs and the Private Sector**

Both Ethiopia and Rwanda have strained histories of government involvement within the economy and coffee sectors. Sections 4.3 and 4.4 presented a picture of each country's formative history of oppressive control defined by militaristic existence within political and economic spheres. In the early and mid 1990s, both Ethiopia and Rwanda were faced with rebuilding economies following entrenched conflicts and economic collapse. Additionally, both countries evolved from histories of state-managed economies, in which industry and 'private sector' largely served to fulfil state-led agendas and coffers (Prunier, 1997; 2015; Lefort, 2014; Vaughan, 2015). Today, both Ethiopia and Rwanda are run through tightly controlled, top-down 'democracies,' that have benefited greatly from the improvement and expansion of the coffee sectors. However, from these near mutual starting points, the countries differ on recognizing benefits of the private sector as well as approaches to engendering support for entrepreneurs, with each having diverged onto differing paths.

To say either government has been ineffectual in re-building and restructuring economies or in achieving high economic growth is untrue, given that each country has achieved high growth rates over the past two decades and have been lauded as some of the best performing economies (Holodny, 2015). However, digging deeper, each government has specific relationships with, or perceptions of the private sector, which have been found to influence today's entrepreneurs as well as the wider economy; often creating separate paths for wealth creation or increasing wealth disparity (Ansoms and Rostagno, 2012; Vaughan, 2015). These perceptions shed light onto market evolutions, government activity, or lack thereof, and depending upon the specific sector, its promotion. Conveniently, coffee is considered a priority product in both countries, but as will be discussed, 'priority status' fails to be spread evenly across all actors of the industry. An overview of each country's economic development is presented in Tables 6.3 and 6.4, below.

#### **6.3.1.1 Ethiopia**

Through Imperial nepotism and nationalized socialism, to the current market orientated, yet state-managed economy, Ethiopia has achieved recent impressive growth and is projected as the world's highest growing economy for 2015 (Holodny, 2015). However, the high growth

rates must be considered in appropriate contexts and while economic returns are not as widespread, high rates of income disparity are (Lefort, 2013). A brief political and economic history is presented below in Table 6.3.

*Table 6.3. Ethiopia, Economic History*

<b>Timeline</b>	<b>Regime</b>	<b>Economic Outlook</b>
Pre – 1900s	<b>Prior to State Unification</b>	Decentralized state-management via ethnically dominated regions. Expansive trade networks built from regionally dominated economies.
1916 – 1974	<b>Imperial Regime</b>	Pursuit of a market based economy. Private sector created and dominated through political connections and appointments. State-led Marketing Boards controlled agricultural trade and export goods.
1974 – 1990	<b>Derg Regime</b>	Nationalized private sector, economic ideology based on socialist principles. State-managed Marketing Board, controlled trade goods and export revenue, used for State purposes.
1991 – 1995	<b>Post – War, Transitional Government</b>	Careful opening of economy and simplification of economic barriers from the Derg Era. Solidified creations of ethno-regionally structured state.
1995 – Present	<b>EPRDF Party – Led State, Zenawi Regime</b>	Market orientated economic policy with semi-liberalized economy (non-liberalized coffee sector). Mistrust in private sector, belief that the State is the best actor for ensuring economic growth through a 'controlled development capitalist' ideology.

(Source data: Lefort, 2013, 2014; Prunier, 2015; Vaughan, 2015).

The Ethiopian Government is commonly perceived to not have fully relinquished its socialist tendencies, with a hangover-effect on current market orientation, resulting in competing views as how to best further Government agendas: through pure profit generation by and for a state-led agenda or through the more equitable distribution of profit sharing from truer market mechanisms.

Economic achievements are seen largely through specific, prioritized sectors: of export commodities, manufacturing, construction, textiles and energy generation (Holodny, 2015). Ethiopia has adopted market-orientated economic policies since the early 1990s, having instituted several frameworks aimed at fostering the role of the private sector within the overall economy, most recently through the 2010 and 2014 Growth and Transformation Plan<sup>100</sup> (GTP). Additional policies targeted to enhance and further develop the economy are

<sup>100</sup> This national strategy aims to provide support for large-scale agriculture; create favourable conditions for export orientated and import substituting industries and enhance spread of infrastructure quality (Ethiopia Public Private Consultative Forum (EPPCF), 2014).

reflected in additional policy documents<sup>101</sup> which focus on sustained economic growth through increased commercialization of specified sectors within given, specified ‘zones’ of production and increased market integration. Within the agricultural sector, focus is shifted to high-value export commodities and improved market integration at both the domestic and international levels (Gebreselassie and Ludi, 2008). However, exact impact and wider ranging benefits have yet to be felt by the majority of the population (EPPCF, 2014).

Considered to have a harsh-business climate due to high taxes, a weak regulatory structure and unequal benefit distribution following political affiliations, the gap between public and private sector actors has narrowed in comparison to previous regimes, however, today’s private sector still faces many obstacles in regards to administrative hurdles, policy acceptance, finance acceptability and regulation entanglement. Ethiopia’s business environment favours incumbent firms, deterring new entrants through limited access to credit and a restrictive regulatory environment. Despite progress, accusations continue to mount concerning market distortions in favour of selected sectors and Government involvement (World Bank, 2014a). While not an exhaustive list, these include:

- Applications of different tax rules for similar, but competing businesses
- Involvement of the Government as an active trader
- The unequal application of rule between private and state-owned businesses
- Government monopoly (infrastructure, banking, telecommunications), resulting in restrictive policies and regulations against private sector participation
- Lack of transparency and objectivity in national procurement procedures, with preference often provided to state-enterprises or the few, ‘preferred’ private suppliers
- Unequal access of resource allocation including land, loans, foreign currency and information; with favouritism towards specific ethnic groups
- Disproportionate requirement of private banks to devote 27% of loan disbursements to Government projects
- Weak governance systems to confront illegal and informal trading activities

(Access Capital Research, 2011; EPPCF, 2014, p. 22, 31-32; E\_1, 2015)

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<sup>101</sup> Plan for Accelerated and Sustained Development to End Poverty (2005, 2010) and Poverty Reduction Strategy Papers (2005, 2011).

In attempting to understand the apparent aversion to the private sector, an understanding of the country's history as well as current actions and outlook is helpful in appreciating its stance. A discussion with an Ethiopian Senior Finance Manager at the International Finance Corporation (IFC), presented below in Case Study 6.6, revealed the Government to harbour a fundamental mistrust of the private sector, maintaining a belief that the State is often a better, more equipped and more effective entity in which to pursue goals and targets than a private sector (E\_1, 2015). This belief has contributed to difficult operating environments for entrepreneurs unaffiliated with the Government. This sentiment was also widely acknowledged across a range of actors who felt preferential treatment has had an adverse impact on their business.

***Case Study 6.6. Discussions with the IFC***

Several discussions were held with an Ethiopian Senior Manager at the IFC in trying to understand why and how the Ethiopian Government has taken such a restrictive approach to the private sector and elements of the discussions are presented below.

“Much goes back to the Zenawi Philosophy of ‘yes, work closely with a productive private sector, but work to curtail the activity of a rent seeking private sector.’ And by, ‘productive’ it means meeting its own goals... And by ‘rent seeking’, (it means) anything deemed disruptive. Eliminating rent seeking behaviour in itself may be an acceptable goal, however the Government’s definition of ‘rent seeking behaviour’ is so broad it is used to disrupt and discourage businesses that are not seen to be ‘in-line’ with its agendas... And as (the Government) continues to be an active player in the economy, seeming to nationalize and privatize at will, it uses this strategy to gain a competitive advantage as it believes it (the State) is best suited to achieve its targets, more effectively and efficiently than a private sector. This disruptive behaviour has resulted in many actors or potential entrepreneurs to pursue alternative employment... You also have a general lack of business experience within government technocrats and senior policy makers and because of that lack of experience; they do not value the needs of a private sector within an overall policy environment... The improved investment climate is possible, however it must and can only start with a shift in the mind-set of the Government.” (E\_1, 2015)

While, it could be thought that some respondents may harbour disgruntled feelings following a lack of business success or poor returns, triangulation was used to verify evidence and outcomes, and this perception was a common theme. Described by an Exporter,

*The Ethiopia system, it limits producers, it limits processors and it limits buyers. The Government has an idea of what they want and just push towards it. People/businesses that challenge or create alternatives are not tolerated. It is very difficult to improve yourself or to change from the circumstances you were born into. I am very lucky, but I can see that many others are not. (Ex\_E\_1, 2015)*

Unlike some of its regional peers, Ethiopian politicians are traditionally technocrats working only within and up the political structure for entire careers. It is unheard of for a politician to own a business or to move from the private sector into the political realm (E\_1, 2015) and this is thought to have indirect consequences in understanding needs between policy makers, private sector actors and entrepreneurs.

The suspicion and distinct mistrust of the private sector is evident, from the State's constant attempt to control and dictate action, through what has become commonly known as "The Ethiopian Way" (E\_9, 2015). In 2012, Ethiopia had the third highest public investment rate into the economy in the world, but sixth lowest private investment rate (World Bank, 2013c). As of 2012, the formal private sector contributed just 2.7% of GDP and employed less than 6% of the labour force (Lefort, 2013). While the percentage of GDP contribution by the private sector has grown from the 0.48% in 1991, key sectors remain secluded from traditional private sector actors as well as being off-limits to foreign intervention or investment (Lefort, 2013). Meanwhile, Ethiopia, has built an asset base of over 100 state-owned companies. While some were established in previous regimes, it is no secret the current Government privatizes and nationalizes as it sees fit, in accordance with its own agenda (Access Capital Research, 2011; E\_1, 2015; E\_4, 2015). As of 2010, total asset value for these companies was estimated at \$9.6 billion. State Enterprises include:

Ethiopian Airlines, Ethiopia Commercial Bank with its 300+ branches, an insurance company, a large shipping company, Ethio Telecom, chemical industries, mining factories, cement factories, metal works factories, pharmaceutical factories, coffee plantations, wineries, flour factories, shoe factories, hotels, and (until recently) several beer factories and a day-spa (Access Capital Research, 2011, p. 59).

Additionally, energy generation (The Grande Ethiopian Renaissance Dam) and new transportation system (Addis Ababa Tramline) are additions to the State Enterprise Portfolio, but are not part of the above valuation.

Efforts to liberalize many areas of Ethiopia's economy have included the devaluation of the Birr, increased private sector trade, consolidated regulations on taxes and export duties, and simplified trade barriers from the Derg Regime (Petit, 2007; Worako et al., 2008). Despite attempts at economic restructuring, Ethiopia ranked 132 (down 8 spots since 2012) out of

189 economies according to the 2015 World Bank's Ease of Doing Business Report, ranking below the sub-Saharan average in *ease of starting a business* (168), *accessing credit* (165), and *trading across borders* (168) (World Bank, 2014b). The export sector, a key driver for the economy is currently experiencing some of its worst performances of the past decade (World Bank, 2014a). Much of this comes from the lack of a competitive environment, over and under-regulation, differing requirements between agencies, limited transparency and high levels of obstruction (World Bank, 2014a; E\_1, 2015), resulting in a severe deficit of entrepreneurial dynamism.

Coffee is an admittedly important part of the economy and export sector, responsible for 30% of export revenues and the major foreign exchange earner (Herhaus et al., 2014a). However many actors and entrepreneurs alike within the sector are impeded by this purview of the Government's discouragement of the private sector either through intended or unintended consequences. As described by an Exporter:

*Doing business in Ethiopia? It is not easy. It is highly controlled and more bureaucratic, more regulated than before (early to mid 1990s). It is especially difficult to operate in coffee. Business can be very good in other sectors, but businesses dealing with foreign earnings are highly controlled. Foreign exchange is important, it is where the eye of Big Brother is always focused.* (Ex\_E\_11, 2015)

Research observed a recognized constriction in outlook and approach across business actors and entrepreneurs alike. As shown in Section 5.4.5.3, Ethiopian Entrepreneurs were found to have relatively low Risk Tolerance, Self-Efficacy and Innovativeness Indexes. Ethiopia's Risk Tolerance Index was the lowest mean score for any driver. While the tested drivers form part of the internal construct predisposing an individual towards entrepreneurial action, these specific differences in results are believed to also be a direct reflection of the environment of operation. The demotivating and risk filled entrepreneurial environment continues to not only discourage actors, thus reducing self belief, but has also increased risks, making entrepreneurs much more risk adverse, especially as compared to Rwandan counterparts operating in a much more open and supportive structure.

### 6.3.1.2 Rwanda

Rwanda's political and economic history as briefly depicted below in Table 6.4 reveals a past of strong Government involvement, especially within the coffee sector. However, while the Rwandan Government assumed near total control of the economy following the war in 1994, it has slowly relinquished involvement, much to the benefit of private sector actors and entrepreneurs.

*Table 6.4. Rwanda, Economic History*

<b>Timeline</b>	<b>Regime</b>	<b>Economic Outlook</b>
Pre – 1900s	<b>Pre Colonial – Tutsi Kingdom</b>	Trade arranged through centralized Kingdom for benefit of central power structure.
1916 – 1959	<b>Colonial Control</b>	Economic trade structured through the Belgian-controlled Tutsi Kingdom for benefit of Colonial Government and selected local, Tutsi authorities.
1960 – 1994	<b>Hutu Revolution – Kayibanda &amp; Habyarimana Regimes</b>	Authoritarian regimes, of 'racially controlled democracy'. Private sector used for benefit of the State, but external to policy influence. State Marketing Board controlled coffee trade, revenue used as pay-offs with and for Officials.
1994 – 1996	<b>Post – War Transitional Government</b>	State-managed economy directs efforts to rebuild economy and infrastructure and re-start private sector. Revenues largely defined by donor assistance
1996 – Present	<b>RPF Party – Led State, Kagame Regime</b>	Liberalized, market-led economy. Slow, steady transition of economy from Government led, to private sector domination. Strategic aims to rapidly increase economic growth, competitiveness and strength in the region through the continued growth of the private sector.

(Source data: Prunier, 1997; Cooke, 2011; Ansoms and Rostagno, 2012)

With Kigali and much of the rest of the country in ruins following the war in 1994, the Rwanda Transitional Government (led by RPF forces) was forced to assume responsibility for rebuilding and re-establishing the country given the scarcity of alternative options or actors. As such, the Rwandan Government assumed much, if not all of the work that a private sector would naturally undertake (Prunier, 1997). It was not so much that the Rwandan Government did not want to involve a private sector or did not believe in its ability, but was instead, forced into assuming these roles, as the country no longer had a functioning economy or private sector, with much of the labour force lost<sup>102</sup>.

While the Government was initially, highly involved in rebuilding and controlling the coffee sector, over the last two decades it has slowly begun to reduce direct involvement and

<sup>102</sup> Prior to 1994, Tutsi owned many businesses in Rwanda and were active participants in the country's economy

ownership<sup>103</sup> as the private sector builds capacity, earns confidence and gains trust. Through this relinquished control, an active private sector has expanded and flourished and has paralleled with the emergence of entrepreneurs (Ansoms and Rostango, 2012).

In 2010, Fitch Ratings<sup>104</sup> upgraded Rwanda to “B” status due to its uninterrupted period of economic growth and improvement in its business environment (MTI, 2011). Third highest for the continent, the 2013/14 Global Competitiveness Report cites the country’s “well-functioning institutions, low levels of corruption and relatively well developed financial markets” as key platforms for attracting strong investment and promoting private sector growth (Schwab, 2013, p. 42). An Advisor in the SME Unit of Rwanda’s Development Board described tactics and approaches to supporting a flourishing private sector.

*We have worked hard to raise awareness about the work that we do here and to educate people on opportunities and entice investment from Rwandan and International businesses. We also play a role that many small (local) firms are unable to afford, especially in the export sector and that is marketing and letting the International Community know Rwanda has things to offer.... The improved regulations and our advisory service, has helped small business start-ups as well as larger firms. We offer technical services, business acumen support and even grant funds for certain applicants. Now all business registration, application and finance coordination is done out of this centre (RDB), instead of multiple offices like before. This makes the process easier and cheaper. There is also a large push to register many of the small, informal businesses and we are also involved in that effort. (R\_6, 2014)*

While domestic business growth and the overall business climates have improved, foreign investment flows<sup>105</sup> remain relatively limited due to high transportation costs and poor infrastructure, making exports comparatively expensive (World Bank, 2013b). However, potential barriers to Rwanda’s long-term growth are low levels of higher education, infrastructure and overall health levels of the working population (Schwab, 2013).

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<sup>103</sup> The Rwandan Government still maintains a sizeable portfolio through investment corporations such as Crystal Ventures, a privately held investment firm of the RPF. Crystal Ventures is an owner or majority shareholder in the country’s main commercial producers and suppliers of pastoralized milk, bottled water, commercial juices as well as the country’s main coffee shop retail chain (Bourbon Coffee) (R\_1, 2014).

<sup>104</sup> A global independent financial and credit evaluation and rating firm

<sup>105</sup> FDI within the coffee sector is significant and has been recognized as having a direct impact on growing direct export

Admittedly ambitious, the Rwandan Government has laid out grand and expansive plans with expectations through several key strategy documents<sup>106</sup> for economic development, acknowledging the need for a functional private sector filled with ‘home-grown entrepreneurs’. While Government aim is to facilitate and promote large-scale investment in promotion of a private sector in support of entrepreneurship, current realities present a private sector dominated by large-scale industries and small/ micro enterprises (Ansoms and Rostagno, 2012). Rwanda has had one of the world’s fastest growing economies of the past decade and continues to expect annual GDP growth of 7 to 7.5% (Holondy, 2015). And while this policy agenda aimed at maximum growth, has had obvious success, the trade-offs to income disparity and control of growth potential towards certain sectors must also be considered.

Improvements<sup>107</sup> have also been made within governance structures through decreased burdensome regulations, improved taxation and increased financing for private sector investment and expansion (GoR, 2000; GoR, 2013). Through playing the role of incubator for a re-emerging private sector, the Government has in many ways led and directed economic growth and innovation, targeting sectors believed to have the greatest potential; specifically focusing investment on: construction, infrastructure, tourism, real estate, energy and agricultural exports (RDB, 2014). However some growth agendas do place an undue burden for poor, rural populations<sup>108</sup> (Ansoms and Rostagno, 2012).

As Rwanda has worked to improve its operating environment for the private sector as well as entrepreneurs, it has drastically improved the ability and ease for businesses to become

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<sup>106</sup> Most notably for this discussion, some of the most defining country strategies: *Vision 2020* (2000); *Economic Development and Poverty Reduction Strategies* (2002, 2009, 2013); *Small and Medium Enterprise Development Policy* (2010) as well as the *National Coffee Strategy* (2008, 2014).

<sup>107</sup> Vision 2020’s outlook embodies some innate preferences to large-scale investors and large-scale business over small-scale actors. Business facilitation policies incentivize aim towards larger, capital intensive projects, which in some respects are understandable, as it is felt to be able to have larger impacts to the economy than smaller, informal actors. However, without policies directly geared in helping small companies prioritize the incentives necessary for informal actors to formalize, income means remain isolated (Ansoms and Rostagno, 2012).

<sup>108</sup> Taxes and fees are used as a strategy to relocate people or for government preferred activities, such as fees for not keeping cows in stables, not having acceptable (tin) roofing and fines for local authorities when not reaching growth targets. The Government of Rwanda considered this as part of a wider rural development agenda (R\_4, 2014).

established and operationally effective, currently ranked 46<sup>th</sup> out of 189 economies on the World Bank's 2015 *Ease of Doing Business Report*. Streamlining processes, reducing time and cost in registering and starting businesses, improving regulatory environments and establishing starter funds for new businesses within specific sectors (World Bank, 2014d; RDB, 2014). This has led to increasingly competitive agendas within formal business climates as well as improved aims for agricultural productivity and encouraged foreign direct investment<sup>109</sup> (GoR, 2000, 2007; Boudreaux, 2010).

Reforms have reportedly led to positive results from the significant, recent increases in local business registration and improved productivity for increased export revenue and opportunity for those wishing to become involved in business, particularly within the coffee sector (Ex\_R\_2, 2014). While effectiveness and Government support to its development can continue to be improved, the private sector and entrepreneurs are seen as an effective and needed part of the country's ever-growing economy. One Exporter explained,

*The Government policy is positive. It is difficult to mix public policy with private interests, as the private sector must always agree to what the government says. In my father's time he told me it was difficult to be successful. But especially since the coffee sector has been opened, things have improved. It is now much easier to operate and make more money. The Government is involved, but I think to our benefit. The President himself has been especially impactful in helping (international) buyers know about and appreciate Rwanda. (Ex\_R\_5, 2014)*

For sectors deemed to be high-growth, the Government has directed much focus, support and confidence in actors in the private sector. One of the best examples of the Rwandan Government's practical and proactive belief in the private sector is its evolving relationship with the coffee sector and Rwanda has made significant strides in rebuilding a functioning and effective private sector. Case Study 6.7 below, describes the working relationship between the coffee industry's private sector lobbyist and the Government.

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<sup>109</sup> The coffee sector has highly benefited from increases in FDI

### ***Case Study 6.7. Private Sector Lobbyist***

The Coffee Exporters and Processors Association in Rwanda (CEPAR) is a lobbyist group for Processors and Exporters of the coffee sector. While the Rwanda Development Board focuses on business registration, marketing, and external investment, CEPAR links directly with Government agencies to provide feedback to policy makers on issues and lobby for needs of the sector. According to the CEPAR Representative, the Government is actively supporting collaborative efforts of actors working together across the sector and while not all issues brought up with varying agencies have been addressed, increased responsibility has been allocated to private sector actors and the lobby group. The collaborative nature of the relationship has benefited private sector actors, but also improved Government understanding of challenges and bottlenecks hurting sectoral growth. For example, following CEPAR's petition to have more control in the sector, the Government placed CEPAR in control for input distribution, beginning with the 2015 season. (R\_7, 2014)

### **6.3.2 Support Mechanisms (or lack of) for Entrepreneurship Promotion**

Additional initiatives from government policy as well as non-governmental actors can play a role in fostering entrepreneurial growth, increasing access to, and use of market information, improved financial acumen and business development trainings to develop human capital and managerial skillsets. Government views of the coffee sectors paired with perception of entrepreneurial benefit sheds light on eagerness to use entrepreneurship and profit from its success. Additionally, while entrepreneurship (at least publically), is acknowledged by both governments to be important, each country embraces its potential in different ways, impacting ability for entrepreneurs to stretch boundaries, innovate change and pursue opportunity both through business growth and technical development. One mechanism for embrace in regards to capacity building is through allowances to civil society, international donors or non-governmental organizations to play an active role in supporting local actors.

#### **6.3.2.1 Ethiopia**

Involvement with Ethiopia's business climate as well as coffee sector, from an international donor perspective, has not been as wide reaching or as in-depth as compared to Rwanda. Specific investment or development programs for entrepreneurs were not found<sup>110</sup> through this research. However, elements of entrepreneurial support were found through market development initiatives aimed at improving operational access and technical training. Specifically in regards to coffee, Ethiopia's coffee history and importance to the national

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<sup>110</sup> Reportedly, a USAID funded program has started to implement training courses for women entrepreneurs in Ethiopia

economy has attracted interest and involvement from the international community and work has been undertaken for training, marketing support and cooperative development by USAID, TechnoServe, the Europe Union and World Bank (E\_5, 2015). The majority of development financing for the coffee sector, specifically in terms of improved practices, awareness raising and trainings, comes largely from ‘typical’ projects financed by these donors (Schubler, 2009). Additional, significant bi-lateral investments have been made in support of Government policies and agendas to facilitate the country’s continued economic growth, however these efforts have not been ‘entrepreneur development specific’ (Triodos Facet, 2013; Ambaye et al., 2014).

Perhaps the most significant multi-lateral support has facilitated the establishment of the Ethiopian Commodity Exchange, which received large donor support from the European Commission, USAID, DFID and Oxfam, among others<sup>111</sup>. USAID has continued to play a major role through the establishment of a Quality Lab providing quality (cupping) testing for product export, training and certifications<sup>112</sup> for cuppers from across Africa (E\_5, 2015). As explained by a leading coffee quality expert,

*There is a lot of money going into the system for Ethiopian coffee, but it is not directed at the root problems and addressing these problems, from a productivity and quality standpoint is not prioritized. Without incentives for quality, the local market continues to decline. There is not a lot of innovation going on here as compared to other countries in terms of production, processing, and introducing new varieties; the more finite areas of maximizing quality potential. (E\_5, 2015)*

The establishment of the ECX marketplace and Auction for unified quality control of coffees was intended, in theory, to enable entrepreneurs and actors to improve productivity and sell products in a more efficient and transparent manner. However, in reality, it has been observed to only support select Exporters, and not actors across other segments, with restrictive supply routes and quality classifications, hurting entrepreneurial growth potentials. Additional focus continues to be on the promotion of the establishment of successful cooperatives and cooperative unions to centralize training initiatives and investment (Petit, 2007; Schubler, 2009; E\_4, 2015). However, less than 20% of producers are currently

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<sup>111</sup> Rumors persist as to the Exchange’s profitability and continued need for capital injection from donors to keep it afloat.

<sup>112</sup> Training and certification for Q-Level cuppers (highest level) continues to be funded through USAID.

involved in cooperative structures, with many smallholder producer respondents reporting to not wish to be involved with cooperatives do to a lack of trust (Minten et al., 2015).

Direct Government efforts have focused significant investment into improved agricultural productivity (Minten et al., 2015). Guided by the Ministry of Agriculture and Rural Development (MoARD), significant financing has been invested in providing technical support<sup>113</sup> of at least three agricultural extension agents in every Kebele<sup>114</sup> since 2010 (MoARD, 2010; Minten et al., 2015). Nationwide, these efforts have been reported by smallholder producers to improve awareness and technical training as well as increase production, however national yields have largely remained stagnant and frequent visits by extension agents were not found to be widespread (Minten et al., 2015). While additional investment has been earmarked for the agricultural sector, direct investment to entrepreneurial promotion or support has been found wanting and entrepreneurial opportunity remains constricted.

### **6.3.2.2 Rwanda**

Despite some of the criticism to the country's growth maximization at all costs mentality, promotion of entrepreneurship and corresponding entrepreneurial motivation is recognized as an important input as well as by-product to the country's continued growth and is an element within many of its economic policies (MTI, 2010; Ansoms and Rostagno, 2012). As trust has been gained and effectiveness proven, business development support initiatives<sup>115</sup> continue to be instituted to develop and support operational and financial management capacities, improve access and understanding of market information as well as simplify regulations to ease local business operations (MTI, 2010). Evolving policies have led to greater incentives for the private sector to make and take decisions, risks, and investments based on market potential and profitability (Crisafulli and Redmond, 2012). As a result of

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<sup>113</sup> Technical training and support is provided for a variety of consumption and cash crop, however coffee is a major focus of training

<sup>114</sup> A Kebele is the smallest administrative unit designating land areas or wider communities and neighborhoods.

<sup>115</sup> Technical training of farmers as well as the initial establishment of additional processing centres has been largely fulfilled through the implementation of NGO projects and donor grants, beginning in the late 1990s and gaining speed in the early 2000s.

some of this positive action, private investment into the economy has grown six times since 2000 (Ansoms and Rostagno, 2012).

Rwanda, while largely financially unable to directly provide support via Government extension agents to its agricultural sector in support of improved technical proficiency and productivity output, has instead employed a wide use of international actors and donors to do much of the work of training, capacity building and financing on its behalf. As such, support for enterprise development more broadly as well as specifically for the coffee sector has come through traditional donor avenues (Mutandwa et al., 2009).

Rwanda's economy, including its coffee industry, began to rebound at the end of the 1990s and early 2000s thanks in large part to donor programs, namely SNV, USAID, TechnoServe and the European Commission. These entities not only built some of the initial infrastructure that enabled returning private sector actors and entrepreneurs to become involved with the coffee sector to not only begin businesses, but also to flourish through providing technical training, (both business and agricultural), financing mechanisms and by establishing market linkages with international coffee buyers (Ex\_R\_20, 2014; R\_3, 2015). Investment promotion also focused on improving the physical infrastructure for producing high quality coffee: constructing washing stations as well as providing the initial financing for many new entrants to the sector<sup>116</sup>. In addition to capacity building at the farm level, donor projects worked with entrepreneurs, namely private export companies and processors, providing fee-based services such as working capital, risk assessment, and management services, export logistics and connection with international buyers (TechnoServe, 2013a).

USAID implemented some of the first in-depth support mechanisms to the coffee sector in the late 1990s, and its projects were very active in establishing and training processors, exporters and cooperatives in quality control, processing techniques and marketing, as well as providing financial support to entrepreneurs (Boudreaux, 2010). President Kagame was also a critical part of international publicity pushes, increasing internal market exposure and attraction of international buyers (R\_3, 2015). However, direct Government investment

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<sup>116</sup> Prior to NGO project involvement the country had two washing stations in country it currently has 227.

remains limited from an agricultural perspective in terms of training via agricultural extension agents, with many respondents reporting to have no dealings with Government Extension agents (MINAGRI, 2014; R\_3, 2015). The limited capacity for public sector investment can perhaps provide some explanation as to the concerted use of the Government to use the private sector and entrepreneurship to fill gaps it cannot. Case Study 6.8 below, describes how one Exporter has used his business to provide benefits or fill gaps of public sector involvement.

***Case Study 6.8. Entrepreneurs Using Business to Provide Public Benefits***

This Exporter has five washing stations, operating within Rwanda's southwestern coffee zone. While admittedly operating a very large operation, he has also used his businesses to invest in social programs across his areas of operation. Given the lack of Public agricultural programs, these investments include constructing infrastructure for local water supply, building schools and youth training programs. He has also started to turn the cherry waste into compost and distributes it to his farmers to improve their production. In addition, 2<sup>nd</sup> payments are made after the season to his suppliers. He partnered with a Japanese buyer, which pays an additional \$0.44/ kg green, for his speciality coffees as an additional investment for the implementation of social programs. This is a unique partnership negotiated by this Exporter directly with his Japanese buyers. The partnership enables this Exporter to provide much needed services to local areas of operation, securing supply and incentivizing farmers to provide high quality coffee, also giving the Japanese buyer a unique sales pitch to their consumers. (Ex\_R\_20, 2014)

As will be seen in Section 7.4, the proactive practice of government to empower private sector actors or businesses as a wider development mechanism has not only provided market incentives for entrepreneurs to do so, but has increased access to hard to reach areas, increased indirect benefits through entrepreneurial business expansion and the attempt by entrepreneurs to gain or maintain a competitive edge, proving to have further stretched the frontiers of the coffee sector.

## **6.4 What Influences Do Market Structures Have on Entrepreneurship?**

Market structures referred to in this research encompass tangible market dynamics (social, cultural and political norms), market pathways to opportunity, as well as political involvement within a certain sphere (Lee and Peterson, 2000). While Rwanda has realized a winding down of Government involvement and an opening of market mobility for actors in its coffee sector, Ethiopia has seen a winding up of Government involvement and a constriction of actor's market mobility. Admittedly, influences to entrepreneurship within

these specific contexts, particularly for smallholder producers, are also the existing limitations within a market structure, which may impede individuals from actually being able to pursue an opportunity recognized as an entrepreneur. While the structures discussed below highlight norms and localized institutions that were found to encourage as well as discourage or impede entrepreneurship, Ethiopia and Rwanda are countries where market access can be limited for rural producers and as such, this has wider implications for an analysis on entrepreneurship considering who is allowed/ able to pursue entrepreneurial action.

This section presents the differing approaches and structures to the Ethiopian and Rwandan coffee markets, analysing how differing market structures play a key role in supporting or impeding entrepreneurial action. Table 6.5 below, has distilled elements of market structure influences per business segment discussed throughout this section in order to provide an overview of the differing, specific elements found to have influenced entrepreneurship within Ethiopia and Rwanda. Information presented in the table is a synthesis of data gathered from observation, respondent responses, key informants and secondary source data.

Table 6.5. Market Structure Influences, per Segment

	Ethiopia	Rwanda
<b>Smallholder Producers</b>	<ul style="list-style-type: none"> <li>- Forced supply to designated ECX Primary Market / Trader</li> <li>- No longer knows buyer</li> <li>- Limited ability to negotiate price , limited market accessibility</li> <li>- Eliminated opportunity for value add → currently incentivized to focus on quantity, not quality</li> <li>- Prohibited from moving ‘up’ chain, unable to expand coffee business</li> <li>- Eliminated opportunity for accessing financing from buyers, lost key avenue for expansion or investment, limited market accessibility</li> <li>- Entrepreneurial producers found to be investing profit in new, non-coffee ventures</li> </ul>	<ul style="list-style-type: none"> <li>- Freedom to supply to any chosen buyer based on belief for best return</li> <li>- Proven opportunity for smallholder producer to expand business and move ‘up’ chain</li> <li>- Incentivized to improve quality to attract increased sale price</li> <li>- GoR set minimum cherry price provides floor price, complaints of unfairly protecting producers at expense of processors and exporters</li> <li>- Environment can still result in limited market accessibility for some</li> <li>- Forced mandate to produce coffee if in ‘coffee zone’, decaffeinating illegal</li> <li>- Opportunity for innovation, business expansion, trail new techniques</li> </ul>
<b>Commercial Farmers</b>	<ul style="list-style-type: none"> <li>- Vertical Integration prohibited (Commercial Farm business forced to include production, processing, export facilities on-site)</li> <li>- Able to achieve certification due to traceability of product from farm production</li> <li>- Reduced incentive for out-sourcing with area farmers</li> <li>- Lack of single Government Agency to address concerns/ problems</li> </ul>	
<b>Processors</b>	<ul style="list-style-type: none"> <li>- Vertical Integration prohibited, unable to expand across segments</li> <li>- Forced to buy from ECX Primary Market, unable to know suppliers → restricted from investing to improve product received</li> <li>- No longer knows buyer → unable to receive investment to improve product supplied</li> <li>- Eliminated option for certification/ reduced potential for value-add</li> <li>- Lost speciality value-add due to standardized ECX Grading</li> <li>- Lack of single Government Agency to address concerns/ problems</li> </ul>	<ul style="list-style-type: none"> <li>- Vertical Integration promoted, actors freely able to move across chain in order to maximize business opportunities</li> <li>- Able to invest directly with supplier to improve capacity, quality and create incentives for ensured supply</li> <li>- Source from chosen producers via open competitive environment resulting in innovative incentives to suppliers</li> <li>- Opportunity for certification, Rw has highest #s of certified businesses</li> <li>- Forced mandate to produce FWC can have adverse impacts during low Prices or under supply</li> </ul>
<b>Exporters</b>	<ul style="list-style-type: none"> <li>- Vertical Integration prohibited, unable to expand across segments</li> <li>- Forced to purchase product at ECX Auction via blind purchase (never test product pre-purchase), questionable accuracy of ECX Grades</li> <li>- Lost speciality value-add due to standardized ECX Grading</li> <li>- Does not know suppliers, unable to invest to improve quality received</li> <li>- Increased cost of end product, increases difficulty for sale on Int’l Market</li> <li>- Eliminated option for certifications/ reduced potential for value-add</li> <li>- 80%+ national trade forced to flow through ECX structure</li> <li>- Lack of single Government Agency to address concerns/ problems</li> </ul>	<ul style="list-style-type: none"> <li>- Vertical Integration promoted, actors freely able to move across chain in order to maximize business opportunities</li> <li>- Able to invest directly with supplier to improve capacity, quality and create incentives for ensured supply</li> <li>- Opportunity for certification, Rw has highest #s of certified businesses</li> <li>- Forced mandate to produce FWC can have adverse impacts during low Prices or under supply</li> <li>- Int’l Buyers investment can strengthen business/ improve product</li> <li>- High-Quality, Speciality FWC increasing interest from Int’l Market</li> </ul>

(Source: Author Construct)

### **6.4.1 Market Structures, Regulations**

Structures of both coffee markets present an especially unique opportunity in which to view entrepreneurial action and understand the impacts from its external influences. The ability of entrepreneurs to move in and throughout a market as well as the freedom to obtain needed resources in pursuit of opportunity recognition is found to be critical in enabling entrepreneurial action. Through this research, markets encouraging mobility and actors operating with autonomy and access were found to have greater entrepreneurial dynamism. Where market mobility was restricted and opportunity access and resource allocation denied, entrepreneurship was found to be constricted or even severely lacking.

#### **6.4.1.1 Ethiopia**

No other coffee producing country has experienced as many institutional changes and drastic alterations to its coffee sector's operational and regulatory environment as Ethiopia (Herhaus et al., 2014c). Since the 1950s, nine different institutions have been formally responsible for the country's most valuable product. Prior to 1992, the coffee market was strictly regulated with fixed producer prices and operated through a monopoly of the State marketing entity, which placed additional taxes on producers (Worako et al., 2008). At its peak, the State controlled more than 90% of the entire trade (Abate et al., 2003). Private sector involvement was through politically connected businesses but otherwise had a very limited role (Clapham, 2015).

Abolishing the state-managed marketing agency in 1992 allowed actors throughout the chain to better negotiate and sell their product at the true market price. However, while higher prices could be received, it ended the state-led, price stabilization mechanisms, increasing risk due to the industry's inherent, high price volatility (Petit, 2007; Schubler, 2009). In addition, many of the processing centres and plantations nationalized under the Derg Regime re-opened to private sector investors approved by the Government for purchase (Dempsey, 2006). Table 6.6 below, presents the differing authoritative and marketing institutions responsible for ensuring Ethiopia's coffee production, processing and marketing.

*Table 6.6. Ethiopia's Coffee Oversight*

	Oversight Institution
<b>1956</b>	<b>Coffee Division, Ministry of Agriculture</b>
<b>1957 - 1975</b>	<b>National Coffee Board</b>
<b>1975 - 1977</b>	<b>Coffee Producing &amp; Processing Enterprise</b>
<b>1977 - 1978</b>	<b>Coffee &amp; Tea Development and Marketing Authority</b>
<b>1978 - 1992</b>	<b>Ministry of Coffee &amp; Tea Development</b> Ethiopian Coffee Marketing Corporation
<b>1992 -1994</b>	<b>Ministry of State Farms, Coffee &amp; Tea Development</b>
<b>1994 - 2003</b>	<b>Coffee &amp; Tea Authority</b>
<b>2003 -2008</b>	<b>Ministry of Rural Development and Agriculture</b>
<b>2008 - Present</b>	<b>Ministry of Agriculture and Rural Development &amp; Ministry of Trade</b> Ethiopian Commodity Exchange (ECX)

(Source data: Herhaus et al., 2014c)

Ethiopia's economy re-opened in the early 1990s, but its coffee sector was believed too important to leave to the mercy of the uncontrolled wills of a private sector. While the coffee sector has increased private sector participation and added opportunity for new actors, regulations and marketing controls have remained an established and effective mechanism of top-down control. The country's current marketing body, the Ethiopian Commodity Exchange (ECX), recognized as one of the most complicated coffee markets in the world, has maintained the systemic, top-down control for the Government<sup>117</sup>.

Established initially in 2008 to support the high-volume trade of key domestic crops<sup>118</sup> (wheat, maize, teff), the ECX quickly shifted to high-volume, high-value, export commodities, starting first with coffee<sup>119</sup> (Chemonics, 2010; Sutton and Kellow, 2010; Tefera and Tefera, 2013; E\_2, 2015). The ECX system, in theory, has sought to regulate market flows, increase trade transparency, break export monopolies and increase negotiating power for producers, however as shown in Figure 4.2, it actually serves as a means to control the flow of harvested, processed, export bound coffee by driving it through the auction-based

<sup>117</sup> ECX is legally an independent body, but comes under the direct purview of the Prime Minister's office and the coffee sector is managed by Ministry of Agriculture, Trade and the ECX on equal platforms (Herhaus et al., 2013c; E\_3, 2015).

<sup>118</sup> A commodity exchange for only domestic market crops proved non-viable, and while the structure remained the same ECX market shifted to high-potential export crops (E\_6, 2015).

<sup>119</sup> The ECX Market eventually added sesame, haricot beans, maize and wheat. Maize and wheat were initially forbidden for export due to food security concerns, however surplus grain quotas are allowed for export

exchange<sup>120</sup> (Chemonics, 2010). Through establishing this standardized structure for the market, vertical integration is now prohibited, eliminating potential benefits from sourcing relationships such as training or informal finance arrangements (Chemonics, 2010; E\_3, 2015). While Government data on farm gate price is lacking, improved negotiating power and thus prices for producers are not thought to have improved. Despite efforts attempting to limit vertically integrated monopolies, a handful of large companies (export sales over \$5 million USD/ year) continue to dominate the market and account for 80% of all export trade (World Bank, 2014a; E\_4, 2015). This current setup not only affords the State tremendous control over the sector but also through direct control linkages created within production, processing and export segments as well as through supply routes; instituting additional layers of bureaucracy and cost between Producer and Processor, Processor and Exporter, and Exporter and International Buyer<sup>121</sup>. This control not only reduces supply flow efficiency, but also increases cost to doing business, suffocating entrepreneurial action with the pursuit of opportunity highly impeded, if not impossible.

Ethiopia's market structure, depicted in Figure 6.1 below, demonstrates the often convoluted market environment as well as the added layers (additional to production, processing and export segments) instituted through the ECX and the disruption to the market, from Government-mandated interventions. Inability of actors to integrate across the chain has eliminated opportunity for financial investment between actors as well as incentives for improved product quality. The inability of foreign investors and international buyers to invest in the chain prohibits a key avenue for needed financial injection into the sector or direct dealings to occur between supplier and buyer (E\_5, 2015). Additional constraints for the sector include high transport cost, distance to processing stations, and limited awareness about proper processing techniques and improved price potentials (Musebe et al., 2007). An Exporter explained his changing perspectives below,

*I try to avoid risk in my business, it is a very difficult market and it is difficult to predict. Recently we have put in strategies in order to limit the purchases of cherries (at the ECX Primary Market) to only what I can guarantee I can sell and will only*

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<sup>120</sup> Ethiopian coffee is 93% more expensive to produce than Brazilian. While costs are added through inefficient production systems, the added 'levels' within ECX also serve to push up prices (Chemonics, 2010)

<sup>121</sup> Reportedly, the auction system allows Government to keep track of product sales and export volumes as well as impose additional tax to ensure receipt of foreign exchange through its contract system.

*purchase according to a set price. In this way we minimize cost and risk. Usually the higher quality product is more unpredictable and so I buy mid-range now. (Pc\_E\_7, 2015)*

As shown through Figure 6.1, Government regulation via the ECX structure severely inhibits movement of operators throughout the chain, reducing entrepreneurial incentive and entrepreneurial action. This forced supply impacts producers in where and how they are able to sell their products. As described by this Smallholder Producer Potential Entrepreneur,

*We (producers) have no other option than to sell to the traders we are told to. If a farmer finds an 'outside trader' to sell to, the other traders make him an outcast and make it very political. There used to be more choice, but now farmers are afraid and have no power and just sell to who they can, when they can (P\_E\_16, 2015).*

Considered an outcome of this research is the result from the market structure of the unexpected, disproportionately large number of smallholder respondents considered as Potential Entrepreneurs. It was observed that many respondents had strong grasps of the market and even had plans for how to expand business to take advantage of market opportunities, however were seemingly prohibited from doing so.

As discussed in Section 4.3.3.1, Smallholder Producers are required to supply to ECX Primary Markets or Cooperatives (if they are a member), although some producers reported to sell to area traders who sell on to Primary Markets. The mandated sale to Primary Markets was observed to limit market accessibility for some smallholder producers. Only ECX licensed Procurement Officers can buy from ECX Primary Markets for supply to Processing Stations and processing is undertaken either by private processing stations, cooperatives or processing venues within Commercial Farms. Following processing, all trade flows through ECX warehouses where it is tested and graded/ approved for quality and classified according to processing type and sourcing zone and presented for purchase through the ECX Auction. A limited number of licences are available for Exporters to purchase directly from the ECX Auction so Exporters must either obtain a licence<sup>122</sup> to purchase directly from the Auction or pay for an ECX licenced Broker to purchase in their stead. Meant to ease the system, the

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<sup>122</sup> One Exporter reported to have purchased his ECX Export License in 2012 for over Eth Birr 2 Million (\$100,000), however cost is anticipated to have increased (Ex\_E\_17, 2015).

intense regulation, added checks and business layers have instead increased Government control as well as end price.

While Commercial Farmers and Cooperatives can bypass the ECX Auction and sell directly to international buyers, the segments only comprise approximately 15 to 20% of national volumes (Herhaus et al., 2013a). As such, over 80% of the country's production, processing and export is forced to pass through this regulated market structure. This structure was observed to have a significant adverse impact on entrepreneurs and reduced interest in becoming involved with the sector from potential new entrants and entrepreneurs.

Ethiopia's coffee market structure is depicted in Figure 6.1 below. Grey boxes depict areas of direct Government involvement through regulation, with arrows designating supply lines and service provision. Additionally, while the ECX oversees the marketplace, the Ministries of Agriculture and Trade are equally responsible for the oversight of agricultural productivity and international promotion, respectively. As such, there is not a single managing entity for the coffee sector, just multiple players equated on the same level (E\_2, 2015; E\_5, 2015; E\_6, 2015). As presented in Sections 4.3.3.1 and 5.2.2, business segments researched in Ethiopia are Producer, Commercial Farmer, Processor and Exporter, which are highlighted in **red** below. As an element of production, private Commercial Farms have been included within research for the Ethiopian context, however, as previously described, privately held Commercial Farms are not part of the smallholder producer designation and thus are able to bypass ECX Auction and sell directly to International Buyers. Due to regulatory constrictions, Exporters are designated as either ECX Members allowed to buy directly at the ECX Auction, or Non-ECX Members who must buy through Brokers prior to export. However, basic business operations and requirements are the same, so both were evaluated.



Figure 6.1 presented the flow of the market chain depicting forced product supply levels, ECX direct regulatory market intervention, areas of direct Government oversight as well as opportunity for financial investment within business segments and across the chain. The country's history and current implementation of oppression and restrictive market nature stifles entrepreneurial action, limiting means for expansion and/ or business innovation with actors less willing or able to take risk or pursue new opportunity. One Ethiopian Processor described the environment:

*There is no new innovation in the market. People just think inside the box and no one will do anything unique or new or unproven because they do not want to risk their business or jeopardize (their) standing with the Government. (Pc\_E\_11, 2015)*

The prohibited interaction between business segments has resulted in not only Producers, Processors and Exporters not knowing who they are selling to, or buying from, but has reduced market mobility and eliminated investment or financial flows from actors throughout the chain. Prior to the establishment of ECX, vertically integrated companies were able to invest directly in suppliers, providing support mechanisms such as training or financing (E\_4, 2015). As described by a Processor,

*Before ECX, I could buy directly from farmers, if there are issues with quality, I know who/ where to go. This system impacts our relationship with farmers and my ability to invest in the quality of my product; I can't. Without connections, it is very difficult to receive quality cherries and I have now instituted a buying quota for my station to try to limit our risk. (Pc\_E\_21, 2015)*

#### **6.4.1.1.1 Quality Classification**

Ethiopia's market system aggregates coffee according to production region and specific quality grade. However despite the possible 229 classifications<sup>123</sup>, some distinct regions, zones and specific varieties have yet to be classified. Presenting a threat to speciality or distinctive coffees, if a variety has yet to be officially classified it is automatically blended with coffees of standardized classification. This blending results in significant lost value and opportunity to increase prices received from the Producer to Export level (Chemonics, 2010). In addition, the inability to trace specific supplies back to specific processors, growers or

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<sup>123</sup> Coffee grades consist of coffee production type, production zone and quality grade. 10 Quality Grades exist for Ethiopian coffee with grades 1-8 mandated for export and 9 and 10 allowed to be sold for domestic consumption. It is illegal to sell export quality coffee in the domestic market (Chemonics, 2010).

distinct area origins due to blending and forced classification has removed the option to capitalize upon certain certification schemes due to a lack of traceability. In effect, this system removes more than 80% of the country's most valuable product from benefiting from value added schemes such as certification, single origin and micro-lot specialties; removing another key opportunity for entrepreneurs to improve business standing (Herhaus et al., 2014a; E\_5, 2015). As discussed with an expat, working as a USAID contractor responsible a coffee technical quality and training project:

*Most producing countries have largely reached their maximum production and quality potential. However, Ethiopia has reached, perhaps 60% of its potential. But there is no incentive or pressure to improve or take advantage of this extra 40%. In Ethiopia, nobody is researching or testing new varieties or new processing techniques or areas of the country. And because this current system does not support it, it is all lost opportunity and money. (E\_5, 2015)*

An EU sponsored market assessment found that losses of potential revenue from not only low productivity but also the inability for certification of the majority of Ethiopia's coffees results in an estimated annual loss of two to three times the current market value<sup>124</sup> (Herhaus et al., 2014a). This lost opportunity is a lost opportunity for entrepreneurs unable to improve efficiency or maximize potential of specialty products or diversify product portfolios. Additionally, given variability of price, this has largely removed incentives to scale up or focus on quality.

#### **6.4.1.1.2 Quality Control and Marketing**

All processed coffee is submitted to the ECX for quality inspection grading and then traded at the ECX Auction through an open, call-out, competitive bidding process (Chemonics, 2010). Ethiopia's traditional auction system<sup>125</sup> allowed buyers and sellers to literally smell, touch and taste the specific products offered, determining quality and negotiating price. However, now the physical coffee is never brought to the auction house in Addis Ababa and buyers are unable to see the product prior to bid (E\_3, 2015). No longer able to see or pre-test physical quality of the coffee pre-purchase, buyers must rely on the ECX standardized

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<sup>124</sup> 2014 coffee revenue was an approximate \$800 million, out of a Government target of \$2.5 billion

<sup>125</sup> Ethiopia's traditional auction system was first introduced in the early 1600s, but was not a formalized entity until 1971.

grading system. Still an unproven system, this has resulted in entrepreneurs reducing buying strategies and international buyers beginning to look elsewhere.

From the grade given at ECX inspection, buyers are theoretically able to ‘source’ from specified regions, different grades and at somewhat regulated (suggested) prices<sup>126</sup> as the ECX has sought to standardize all coffees traded per region<sup>127</sup> (Worako et al., 2013). However, many respondents complain of vastly differing grades received from what they believe was delivered; to date, no mechanism exists to challenge ECX grades. Diminished trust in the market system and in the truth of product quality has resulted in condensed business outlooks with many entrepreneurs reducing operations in an effort to limit or mitigate risk. As one Exporter explained:

*I do not believe the ECX grading, so I have stopped purchasing the top grades because I do not trust them. I have had experiences thinking I bought Grade 3 and when I test it myself it is grade 5 or 6 and I then have problems with my buyers (international importers). I am not alone in experiencing this. It is an expensive product and you are not guaranteed to get what you pay for. And if you don't agree, there is nothing you can do, so you must protect yourself in other ways. I estimate I generally lose 30% from grade differentials between what I receive and what I export, following my own grading and sorting. (Ex\_E\_18, 2015)*

The restrictive and dictated market structure was found to severely limit entrepreneurial potential for opportunity pursuit or business expansion. The difficult business climate and restrictive market structure was also found to create an adverse influence on entrepreneurs resulting in reduced risk taking and innovation and reduced self-belief in abilities to take advantage of opportunity or willingness to pursue business success.

#### **6.4.1.2 Rwanda**

Rwanda liberalized its coffee sector in 1995 and has since worked to more completely open its market in order to increase its effectiveness. As will be seen, the market structure allows for, if not promotes, vertical integration of actors not only to improve product flow and actor

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<sup>126</sup> Region and grade determined by agro-ecology, origin, bean shape, processing method and cup profile (Worako et al., 2013).

<sup>127</sup> This system makes coffees untraceable and also limits potential for unique, diverse batches to be maximized and sold independently.

mobility, but to enable actors, specifically entrepreneurs the opportunity to provide services and fill gaps left by the public sector, including financing, training, input supply and product sourcing. The market structure also enables producers the opportunity to select buyers. Additionally, Processors and Exporters have the opportunity to determine exactly from whom they will buy, creating incentives in a mutually beneficial, competitive environment. More entrepreneur respondents have embraced this opportunity, working with dedicated supply bases in which they could direct and influence quality standards in accordance with unique market opportunities. This process was observed to have improved competitive environments and enabled entrepreneurial action. While some producers<sup>128</sup> reported to simply supply to the closest buyer, more entrepreneurial minded producers reported to weigh supply options between what was best believed to garner the largest benefit package, both in cash and in kind. As described by this Rwandan Smallholder Producer Entrepreneur,

*I have always been in coffee, but now the market is much easier. Now, one, we do not have to process by hand and can just sell cherry to washing stations and two, there are more stations in my area now and that is good for me because the stations compete for my cherries. I do not make my choice (of station to supply) only on price, I decide to supply based on the entire package I can receive, sometimes it means transporting longer distances, but it is better for me. (P\_R\_70, 2014)*

While Rwanda does have a much more open and fluid market structure than Ethiopia, the Government has also used regulation to push agendas. Minimum cherry purchase prices are set by the Government throughout the season, calculated off the NY-C price, established, in theory, to protect smallholder producers (R\_3, 2015). However, many Processors and Exporters say this artificially pushes prices up, making on-sale difficult (R\_1, 2014). In addition, the National Agricultural Export Board (NAEB) mandates the free distribution of chemicals and fertilizers for producers. However, due to free input supply, no local, private market exists for coffee input providers<sup>129</sup> and producers have high difficulty sourcing additional supplies.

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<sup>128</sup> The two main options for supply is to a cooperative or directly to a private coffee washing station, although supply to Informal Traders was common for producers in more remote areas, further from markets or with difficult transport options.

<sup>129</sup> Fertilizers and chemical inputs are distributed for other selected crops as well. Some inputs are reported to be available on the local market for use on crops not receiving free input distribution, however these products are not compatible with coffee.

This *Input Distribution Fund* is financed through taxes levied on Exporters for all coffee exported. Additional costs are also calculated into minimum purchase prices set at producer level so producers essentially, are partly subsidizing their own ‘free’ receipt of inputs. Actual distribution of inputs was transferred in 2014 to CEPAR, a private sector lobby group comprised of Processors and Exporters; demonstrating another area in which the Rwandan Government continues to relinquish control to an ever evolving and more fully equipped private sector. However, distributions are chronically underfunded and undersupplied, and input provision for 2014 only met 35% of required amounts (R\_4, 2015). Given this challenge, innovative Smallholder Producer Entrepreneurs reported to be either producing their own compost, or were sometimes able to secure the purchase of fertilizer from other producers. A Smallholder Producer Entrepreneur explained,

*We never get all the fertilizer we need. It is very difficult to find additional fertilizer that has been distributed, people will sell what they are given, but it is very expensive. I make additional from animal manure and compost and that helps our trees produce a good quality. (P\_R\_63, 2014)*

An additional regulation imposed by the Government is the mandate to produce and process only fully washed coffee, as sun-dried production was made illegal in 2011<sup>130</sup> (R\_3, 2015). This was found to hurt some entrepreneurs, whose business models targeted sun-dried production, mainly selling cross-border to Uganda (Ex\_R\_13, 2014). As presented in Section 4.4.3.1, the only way for Rwanda to compete within the international coffee market is through the production of the highest quality coffee in order to offset difficulty and expense of export as well as its relatively low production volumes<sup>131</sup>. In 2002, only 1% of all exported coffee was considered fully washed; as of 2014, 41% was sold as fully washed. This is the result of not only a political will to revitalize the sector, but efforts from the private sector and entrepreneurs who were enabled to expand market reach, push boundaries, increase supply and improve sector efficiency (MINAGRI, 2014; R\_3, 2015).

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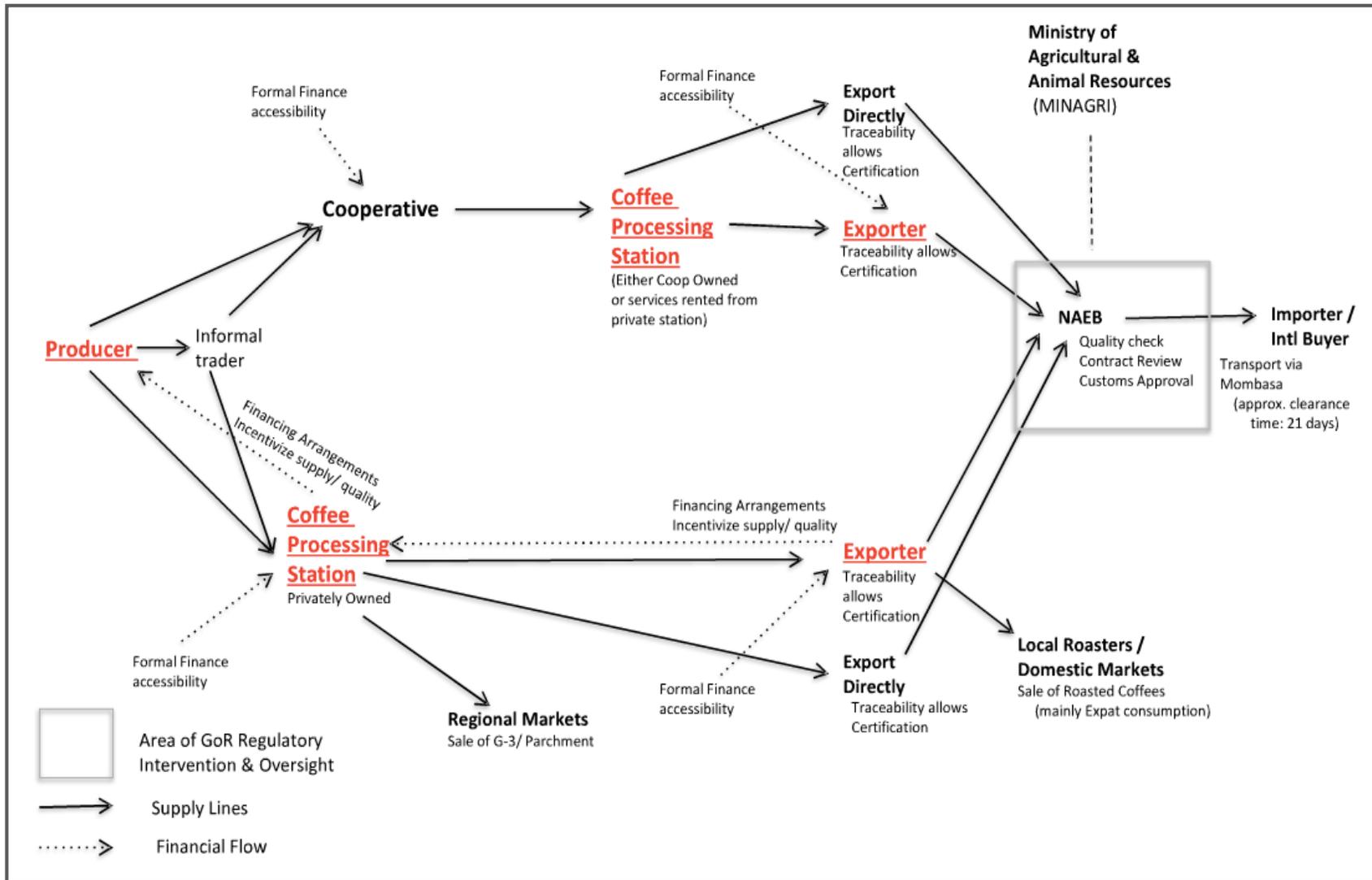
<sup>130</sup> While sun-dried production is still technically illegal, 2014 processing results revealed only 41% of total production is fully washed; 59% of national production is sun-dried. While efforts to improve are made to increase processing, often the government is reported to turn a blind eye in the sale of semi-washed. However sale across borders is being monitored and restricted mainly due to lost revenue.

<sup>131</sup> Rwanda produces less than 1% of the internationally traded volume

The Rwandan Government has also outlawed the decaffeination of coffee farms for producers located in coffee production zones (the majority of the country, except for very arid zones in the north-east). This forced production was reported to be very challenging for many producers due to the prolonged time-delay before harvest possibility and thus prolonged economic returns. Additionally, actual farmland space competes with consumption crops creating difficulty for households reliant on production for means of its own consumption.

Figure 6.2 below, depicts the product flow, financial investment and direct government involvement in the Rwandan coffee market. As seen in the diagram below, the Rwandan market is a much more open and fluid structure, inherently enabling entrepreneurs to create new opportunity and push the boundaries of the sector forward. As seen, financing can be sourced and flows freely between actors throughout the chain. Again business segments identified in this research are Producers, Processors and Exporters, highlighted in **red**. As seen, the chain benefits from the more open structure as compared to Ethiopia and product flow stems from a natural, uninhibited sourcing environment, enabling and incentivizing business segment overlap, fostering an environment in which entrepreneurial action can flourish through unique processing techniques, sourcing schemes, and financial investment, much to the benefit of the wider sector. Arrows depict product and financial flows and grey boxes indicate direct government oversight.

Figure 6.2. Rwanda Coffee Market Structure and Product Flow



(Source: Author Construct)

As seen in Figure 6.2, direct Government involvement and oversight comes only at the end of the chain through the National Agricultural Export Board whose mandate is to review all export contracts and coffee for approval, prior to release of customs<sup>132</sup>. While technically under the Ministry of Agriculture and Animal Resources (MINAGRI), NAEB operates as an independent government entity, which serves to advise policy makers on needed regulations as well as achievements of the sector.

#### **6.4.1.2.1 Quality and Marketing**

The open structure of the Rwandan coffee market enables incentive structures to be introduced for Producers, Processors and Exporters able to recognize and take steps to maximize opportunity towards the advancement of business agendas or to pursue new opportunity. In addition, vertical integration allows actors to operate at multiple segments along the chain and can provide much needed financing through pre-order purchases, to secure supply or invest in improved quality. A monopolizing effect from vertical integration has yet to be observed within the Rwandan market. An Entrepreneur who began as a Smallholder Producer, and expanded his business across the coffee chain is presented in Case Study 6.9.

##### ***Case Study 6.9. Rwanda Vertical Integration***

This Rwandan Smallholder Producer Entrepreneur was vertically integrated throughout the coffee chain. He grew up in a coffee producing family, but did not receive any land through inheritance. He invested in his own small farm and also worked construction, building washing stations (he estimates to have been a part of constructing over 20 stations). From this experience, he saw potential for improving his margins if he were able to process his own coffee. He built his own washing station, initially sourcing cherry from a small number of neighbours. He has expanded his own farm to now 12,000 trees and has registered as an export business, and is currently looking for a buyer. He has also invested his own money to build a local farmer training school for area coffee growers. When asked for why he has pursued this strategy he stated, “I want to first improve myself economically, but then I also want to support others and help my community.” (P\_R\_68, 2014)

Entrepreneurial individuals were found to have recognized and took steps to maximize advantages through the pursuit of improved quality, production volumes and specific

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<sup>132</sup> NAEB states this role is necessary to be able to enforce contract fulfillment on behalf of Exporters to ensure and protect the Rwandan Brand. However, Exporters view this an unnecessary step with additional cost.

growing requirements as required through certifications<sup>133</sup> such as Fair Trade and Organic. Entrepreneurs were found to have expanded and increased business holdings by increasing involvement and investing in new business opportunity along the chain in order to improve market holdings and take advantage of additional new market opportunities. As described by this Rwandan Exporter

*I produce, process and sell high, niche quality, micro-lot coffees; only about 12 tonnes (green) per year. I am working with area farmers to expand, but only if their quality is right. I do provide training on proper practice for proven farmers. While it is not a high volume, my price per kilo is very high because this is so unique and of limited supply. (Ex\_R\_3, 2014)*

Rwanda's coffee sector has witnessed rapid scaling and expansion since the early 2000s. In order to maintain competitiveness, Rwandan Processor and Exporter Entrepreneurs looked to institute options to attract reliable and sustainable sourcing from an area's best Producers. While not all Processors and Exporters chose to invest in the supply chain at the producer level, those that did were observed to be more interested in capturing select or niche markets. Several Processors had also instituted unique steps in grading product supply with an according payment scale, to further incentivize producers (Ex\_R\_1, 2014); as will be seen in Section 7.4.

The openness of Rwanda's market structure also allows international buyers to invest in the sector at processing and exporting stages. While this can provide significant financial flows, (pre-purchase of product as a means of providing up-front financing) some Rwandan companies are struggling to compete against larger international firms attracting capital at significantly lower levels<sup>134</sup>. A worrying trend for Rwandan coffee businesses has been the recent emergence of Processors and Exporters being bought out by larger conglomerates or becoming insolvent due to the inability to compete with international actors (R\_1, 2014; 2015). Evidence to a wider global trend of dominance by large international importing and

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<sup>133</sup> An individual smallholder producer cannot be certified, but instead certification comes at the point of Processing and/ or Export and in return, these individuals institute working arrangements with producers to adhere to certification requirements.

<sup>134</sup> International borrowing rates were reported to be as low as 3% for international companies, whereas lending rates from a Rwandan institution are 14-21%.

roasting companies (Ponte, 2002), this recognizably can, and conceivably may, impact the feasibility and viability of national entrepreneurs to compete within Rwanda's coffee sector.

This trend further provides evidence to current difficulties Rwanda continues to have within its banking sector, largely tied to issues with liquidity and high lending costs. This trend has been acknowledged to put pressure for the national banking sector to improve its services. While it remains to be seen if this is directly deterring new market entrants or entrepreneurial expansion in the sector, it is something actors, lobbyist and policy makers are watching closely. Additionally, the Rwandan banking sector is highly risk averse due to its recent history of being unable to recoup much of the initial investment from the first lending waves to cooperatives in the late 1990s and early 2000s (R\_3, 2014).

The open, relatively unrestricted structure of Rwanda's coffee market has embraced the nature of entrepreneurship in terms of opportunity exploration and pursuit. This has enabled entrepreneurs operating along the chain to take risks and use innovative schemes to secure supply routes, improve product flow and provide both financial incentives and non-monetary benefits to increase competitive standing and overall business outlook. As a result, not only has Rwanda's coffee market improved through increased market potential and product supplied to the international market, but entrepreneurs have also been able to fill market gaps as well as gaps left by the Public Sector.

#### **6.4.2 Commoditization and Specialization, Effects on Entrepreneurship from a Non-Liberalized vs. Liberalized Market**

Building from the understanding of the market structure, analysis between the Ethiopian and Rwandan markets presents another valuable comparison for entrepreneurs operating at differing ends of a liberalized spectrum. Rwanda operates within a fully liberalized, relatively open marketplace geared towards enabling the private sector with free movement of actors throughout the chain. Ethiopia however, is characterized by state-led control and oversight, restricting movement of actors and thus removing incentives for entrepreneurs to look outside operational segments or work with supply chains up or down stream. Ethiopian and Rwandan markets are in pursuit of divergent paths of commoditization and specialization

and analysis of the non-liberalized and liberalized sectors provide differing opportunity pursuits and impacts entrepreneurial action in different ways. Analysing market growth trends towards a commoditized or specialized product provides not only additional evidence to the impacts of an open or closed marketplace on the coffee sectors, but demonstrates the limited or increased options for entrepreneurial action.

#### **6.4.2.1 Ethiopia**

Ethiopia's non-liberalized market has seen the evolving commercialization of its coffee sector become commoditized through ECX's focus of incentivizing volumes over and instead of quality and variety; reducing product diversity and unifying price structures<sup>135</sup>. This research found the sector to be less entrepreneurial due to the restrictive nature of its market structure, which prohibits movement, dis-incentivizes innovation and risk taking due to the increased oversight and Government involvement. It has also eliminated opportunity for the overlap of segments across the chain, removing opportunity for informal training or financing investment. Many respondents were found to often recognize opportunity and potential that could improve individual business competitiveness or provide business expansion but were unable to take advantage, or even pursue because of restrictive market access or inaccessibility of resources. The inability of movement and action by respondents within this research context increased difficulty in being able to determine a clear distinction between Entrepreneurs and Non-Entrepreneurs due to of the reduced action taken.

Despite the many market restrictions, Ethiopia has not limited the type of coffee processing: fully washed or sun-dried. While no restrictions exist for processing method, for decades Ethiopia's fully washed production has stagnated at just 30% of total volume, thus only 30% is processed in a way believed to maximize quality potential. The remaining 70% is sun-dried coffee, processed by hand by producers on farm site (E\_2, 2015; MoT, 2015). An example of the non-liberalized market repercussions and the severe limitations of financial

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<sup>135</sup> In this research, *commercialization* is defined as the process by which a product is brought into a general market (Ethiopia's specific experience has seen an evolving modernization of its involvement with the international coffee trade since the 1970s). Likewise, *commoditization* is defined as a process in which goods within a specific category become relatively indistinguishable overtime and become so similar the only remaining distinguishable element is price (Pingali et al., 2005; Lotti, 2010). Highlighting this distinction is believed important to this research in order to show the evolving coffee market of Ethiopia and how the current system is impacting product offering diversity, price and incentive structures throughout the chain.

accessibility, is a common practice of Smallholder Producers incentivized to produce generally lower quality, sun-dried coffee on farm site and store it at home for use as a savings mechanism. This is believed to indicate outcomes from reduced pricing from diluted or diminished quality grading structures, with lower overall price due to focus on volume and not quality. Sun-dried as a savings mechanism is described by this Smallholder Producer Potential Entrepreneur,

*I sell some of my red cherry after harvesting to the market for cash and process the rest (sun-dried). We store it at home and sell throughout the rest of the year; sometimes I sell to a trader or another farmer if I really need money. I cannot sell all at once because I am afraid I will spend it all and not have money for later. (P\_E\_9, 2015)*

The entrepreneur's inability to access finance or accrue savings (to be further discussed in Section 6.5.1.1), presents a natural limit for scale-up potential of fully-washed production. It also presents lost opportunity for the wider sector in regards to lost added value through fully-washed production as sun-dried coffee is sold to Processors as dried pods. In pre-processed, dried pod form, buyers are largely unable to determine quality, putting undue risk and burden on Processors as well as the additional missed opportunity to maximize natural quality potentials.

Ethiopian Smallholder Producers complained of high restrictions on where and to whom supply was allowed. Restrictions are enforced at the Ethiopian producer level in terms of large area classification on distinct type of coffee zone<sup>136</sup> (i.e. Sidama A, B, C, D, E or Yirgacheffee A or B), however, within those large zones individuals theoretically should be free to supply to any ECX buyer or ECX Primary Market they wish (E\_7, 2015). However, producer respondents reported to not have the freedom to supply to their choice of processor, buyer or trader, revealing that often, local law enforcement officials enforced where and how product is supplied<sup>137</sup>. The forced supply of the smallholder producer at the Primary Market level further eliminated incentives, potential benefits and choice, resulting in reduced bargaining power for Smallholder Producers. Reduced ability to choose own market is

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<sup>136</sup> Different 'zones' have different varieties and distinct tastes, thus reason to maintain zone separation

<sup>137</sup> Discussions with ECX officials and the Managing Director of the Cooperative Union in the area both disputed the claim

another lost potential action for respondents who might otherwise be able to be classified as an entrepreneur. As described by one Smallholder Producer Potential Entrepreneur,

*We used to be able to sell directly to processing stations or sell sun-dried directly to the market. Now there is nowhere to sell to but designated traders. The Police enforce where we are able to sell, they keep close watch on people. (P\_E\_8, 2014)*

#### **6.4.2.1.1 Commoditization**

Ethiopia's coffee industry has been built over centuries and the name and long history helps to maintain a very recognizable product on consumer shelves. Additionally, Ethiopian coffee has a naturally high quality baseline, making it inherently superior to most other coffees in the world (E\_5, 2015; E\_8, 2015). Despite the country's most valuable export, the ECX system has steered coffee on a track towards commoditization through market structures and regulation, resulting in lost opportunity for specialization, innovation and business expansion. Given Ethiopia's quality potential, focus on commoditization (as opposed to specialization) is not only lost opportunity, but also creates increased international competition from the majority of other producing countries, which typically produce a lower grade or commercial quality due to limited inherent natural endowments and naturally reduced quality potentials. By competing internationally with these suppliers, price is further reduced through the international oversupply of commercial and low-grade coffee. Given Ethiopia's expensive production costs, already small margins become further minimalized.

While the current Government and economy rely heavily upon the coffee sector, it also relies heavily upon its history and coffee's natural high quality baseline for the product to in essence, sell itself. A discussion about the impact and lack of success of the ECX commoditization system with a CEO of a large exporting company, with a family history in coffee since King Menelik II (1870s), is detailed below in Case Study 6.10.

**Case Study 6.10. Challenges of ECX Commoditization**

“There are many problems with the ECX system and I believe we are doing permanent damage to Ethiopia’s coffee. The country will never reach the Government’s annual target (\$2+ billion in coffee revenues) because we can no longer focus on specialty coffee and are losing opportunity for maximizing the product, getting premium prices and building the brand; in 2014 the industry brought in what, less than \$800 million? The Government knows the system is not the best and not performing as wished. But you now have many people very interested in the system and making money, so it is difficult to change, it is risky politically and the Government cannot take rapid, large disruptive action. In Ethiopia it is difficult to control 90 million people, and usually the Government falls back into familiar tactics... As a business, we had to become more sensitive to risk than we used to be and have reduced some business activity.”

“In theory, commoditization is not bad and it is what the World Bank and IMF push for in terms of broader economic development. But the rest of our economy is not yet at a stage (to be able) to fully support a commoditized industry. You have to also realize that there was also much pressure from international buyers to be able to buy speciality product at cheap, commodity level prices because it is a benefit for their domestic markets. Consider the financiers of the ECX system: USAID, Oxfam, DFID, the EC. What are the major import markets for Ethiopian coffee?” (E\_4, 2015)

The Ethiopian structure of commoditization through the ECX is creating an environment built to incentivize quantity over quality. While operational models geared towards high volume management could also be an entrepreneurial endeavour, entrepreneurs have reported to diversify less and become less innovative as they are working to pursue success in areas that are already proven, as opposed to risk new ventures or business expansion into new areas. Entrepreneurs that are expanding, are doing so within the existing business segment, such as adding additional processing stations or pursuing additional international buyers, but are not becoming involved at multiple stages along the chain. Additionally, some are simply pursuing coffee profits in order to invest in other businesses. Several entrepreneurs interviewed reported to be hesitant of new opportunity despite the possibility of viable returns if results do not fit appropriately into the ECX system as it currently stands. An Ethiopian Exporter explained,

*From my perspective, as an entrepreneur taking risk, theoretically the Government should not interfere. But people feel there is this intervention by the Government and so are scared to push boundaries and take risk. Also, the over regulation keeps individuals from doing just that. You can call it a negative influence on entrepreneurship. (Ex\_E\_10, 2015)*

Through the current regulatory environment, Commercial Farms are being established in western coffee producing zones with large land availability<sup>138</sup>. While private commercial farm models may be much more efficient and productive than decentralized, rural smallholder producers, Ethiopia's Commercial Farms are located in areas with naturally lower quality ceilings and thus are producing large volumes, but at lower quality potentials. As such, entrepreneurs operating business in these areas have the most efficient production mechanisms, however are producing very large volumes of a lower quality product (E\_5, 2015). This is believed to result in a long-term decline in the market with potentially significant damage to the Ethiopian Brand. However, discussions with policy makers and managers within ECX showed an overall lack of belief in the needs for quality improvement and disbelief in the required cost outlay for debateable returns (E\_3, 2015; E\_8, 2015). This was also reflected through the very limited investment in local research institutions and overall lack of commitment towards entrepreneurial innovation in the sector, which, as has been shown, damages entrepreneurship outlook and potential for opportunity pursuit.

#### **6.4.2.2 Rwanda**

Rwanda's liberalized market concentrates on product specialization, focusing on speciality, high-grade, fully washed coffee. It is a marketplace in which Entrepreneurs have greater space to take risk, innovate and build upon positive self-belief and experimentation to push boundaries within the more open market structure. Rwandan Entrepreneurs, specifically in respect to this research, were found to be much more innovative, risk tolerant and in eager pursuit of opportunity, actively filling market gaps across the chain. The liberalized market created a system where Entrepreneurs and Non-Entrepreneurs were also more easily distinguished, with those that saw opportunity able to pursue it. A Rwandan Exporter described some of his business success with regards to the current market system,

*The Government has reduced taxes and regulations and we can now move our coffee much faster to the port (Mombasa, Kenya). The Government has also encouraged business people to become 'job creators'. Entering into business in coffee is challenging, but operationally it is becoming easier to deal with licences and while I think the banks can improve lending procedures, things are moving in a positive direction. (Ex\_R\_9, 2014)*

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<sup>138</sup> Often irrespective of current communities living in or near the areas

Rwanda presents an ideal climate (both environment and business) for high-grade coffee production as well as the pressure to maximize in order to stay competitive and relevant within the international market. While the country has exported commercial grade coffee for decades, large-scale speciality coffee for export from Rwanda remains largely unknown to the international consumer (MTI, 2008). This recognized need to stay competitive corresponds to the focus of fully washed production as well as a supported liberalization of the domestic coffee market. While the Government has supported policy initiatives to improve production quantity and quality, it is also working to establish an alternative national narrative.

Several areas of the market (and this is believed to be growing) are based around incentive systems for quality where enterprising individuals can take advantage. The open market platform enables entrepreneurs to innovate and pursue opportunity via quality differentials, product diversification as well as methods to increase volumes. Specific evidence for this can be seen through the advancement of product certification of Rwanda's coffee. A Processor explained the benefits he has experienced through certification in Case Study 6.11. Specialization and value added opportunity could not only result in higher prices for producers, but also (in theory) improve social, economic and environmental conditions. However, the actual effectiveness of certification and impact at the smallholder level can be questioned in terms of the added value proportion received by the smallholder. Regardless, Rwanda has one of the highest numbers of Fair Trade Certified coffee businesses on the continent (Elder et al., 2012; MINAGRI, 2014).

***Case Study 6.11. Certified Coffees***

“I bought my washing station from the bank following the foreclosure by the former owner and decided to focus on certified coffees. I now have Rainforest Alliance and Organic Certifications. It is an expensive and intensive process, but I have found I make more money on final export prices. In addition, I can work with producers as well as workers at my processing station to implement and develop social programs. Through these programs (healthcare, local savings schemes, trainings and helping to pay for school fees) I have been able to rebuild relationships with the farmers, as it was badly damaged by the last station owner. I also recently started a consulting company to provide certification services to other station owners and exporters. The only way Rwanda can compete is through high, high quality and value-addition. Certifications allow us to do that, but they also provide a payment for social services we are able to provide.” (Pc\_R\_2, 2014)

The Rwandan Government targeted the coffee industry as one of three main industries to jump-start the economy following the war in 1994 (MINAGRI, 2014). Following liberalization, much popularity has been raised across the country and with international actors, to attract local entrepreneurs as well as woo international investors, through a focus on Rwanda's high quality, speciality product and specialized industry focus. Preferential lending rates have also been established for qualifying businesses and the Government directed many actors in the NGO sector to support development through the construction of processing stations and attracting international buyers<sup>139</sup>. Through Rwanda's pursuit of quality, the market has begun to specialize itself and capitalize upon and continue to work to maximize the naturally high quality potentials and ability of entrepreneurs to push boundaries in pursuit of new opportunity. Some entrepreneurs in the Processing and Export segments have instituted grading systems to incentivize quality as well as provide non-monetary means as benefits to attract and secure supply.

## **6.5 What Are the Available Local Resources Influencing Entrepreneurship?**

An entrepreneur may in fact recognize potential and be inclined to pursue opportunity, however, opportunity recognition cannot be realized without the existence of necessary resources (Sarason et al., 2006). As described in Section 2.5.1, the existence of, or ability to access these resources may dictate potential and depth of entrepreneurial action, especially within markets where financial, regulatory and legal systems are deficient (Shane et al., 2003). Within this research context, available resources are understood as access to and availability of financing, land ownership and usage rights, access to information (market demand, trends, and price) and available technology. Local resource availability outlined through these determinants creates structures for enabling or prohibiting an entrepreneur's action toward opportunity pursuit as well as influences the strategies made or of decisions taken (Goetz and Freshwater, 2001; Shane et al., 2003; Rocha, 2004). Financial access, land ownership and labour divisions within a household may impact men and women differently,

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<sup>139</sup> President Kagame himself was instrumental in attracting international clientele, spearheading initial marketing pitches and meetings with International Buyers, Donors and Funding Governments and was instrumental in implementing and scaling up first coffee donor initiatives via USAID projects (R\_4, 2014).

specifically within these research settings (Aterido et al., 2013). Additional institutional factors may also represent restrictions for women to pursue entrepreneurial opportunity through property right restrictions and differences in access to financial credit services (Aterido et al., 2013; Ali et al., 2014). As will be discussed throughout this section, legal land ownership for smallholder producers remains a challenge and is additionally compounded by women actors in these settings due to traditional social norms restricting access and ownership potential (Ali et al., 2014). While this inaccessibility is recognized as having the potential to impact outcomes of this examination of entrepreneurship, this study did not take a gendered approach and as such, did not specifically investigate the possible adverse impacts from inaccessibility of finance or land ownership for women entrepreneurs.

Table 6.7 below, has distilled elements of resource availability influences per business segment discussed throughout this section in order to provide an overview of the differing, specific elements found to have influenced entrepreneurship within Ethiopia and Rwanda. Information presented is a synthesis of data gathered from observation, respondent responses, key informants and secondary source data.

Table 6.7. Local Resource Availability Influences, per Segment

	Ethiopia	Rwanda
<b>Smallholder Producers</b>	<ul style="list-style-type: none"> <li>- Inability to access formal finance due to limited acceptable collateral, relatively small loan request size, lack of credit history</li> <li>- Limited availability of formal financial institutions in rural areas</li> <li>- Mistrust in formal lending institutions, need for increased awareness</li> <li>- Strong informal savings and loan system in rural communities</li> <li>- Increased pressure of land, reduced availability</li> <li>- Producers have usage rights, not ownership rights</li> <li>- Market Information access is difficult, reduced negotiating ability</li> </ul>	<ul style="list-style-type: none"> <li>- Improved rural finance availability/ increased access, in some cases formal finance remain prohibitive</li> <li>- Rural producers difficulty in financial access due to lack of appropriate collateral, lack of credit history, high cost of financing</li> <li>- Open market structure enables attraction and provision of finance</li> <li>- Some degree of mistrust in formal finance institutions, need for increased awareness</li> <li>- History of Government ownership of land, new legislation allows legal ownership; requirements remain prohibitive for many smallholders</li> <li>- Limited land available for expansion</li> </ul>
<b>Commercial Farmers</b>	<ul style="list-style-type: none"> <li>- Due to Export and attraction of foreign exchange: Priority Finance Status</li> <li>- Continued difficulty with high collateral demands, high lending cost</li> <li>- Need for improved banking regulations to address liquidity constraints, cost and prohibitive access, difficult repayment conditions</li> <li>- Often loan size received is significantly less than request</li> <li>- GoE maintains technical ownership of land, however large-scale agricultural production able to procure for long-term usage</li> <li>- Able to retrieve market information via EXC Export Link</li> </ul>	
<b>Processors</b>	<ul style="list-style-type: none"> <li>- Need for improved banking regulations to address liquidity constraints, cost and prohibitive access, difficult repayment conditions</li> <li>- Due to inability to export, not a Prioritized sector to receive financing</li> <li>- Often loan size received is significantly less than request</li> <li>- Restrictive market structure prohibits investment across chain/ in suppliers</li> <li>- Restrictive market structure prohibits receipt of investment from buyers</li> </ul>	<ul style="list-style-type: none"> <li>- Open market structure enables attraction and provision of finance</li> <li>- Rwandan Development Bank offers specialized financing packages and business support for qualified sector actors</li> <li>- Implementation of innovative financial usage to attract / secure suppliers</li> <li>- Access to finance used as incentive structure</li> <li>- Market information sourced from current trading trends/ buyers</li> </ul>
<b>Exporters</b>	<ul style="list-style-type: none"> <li>- Due to Export and attraction of foreign exchange: Priority Finance Status</li> <li>- Need for improved banking regulations to address liquidity constraints, cost and prohibitive access, difficult repayment conditions</li> <li>- Continued difficulty with high collateral demands, high lending cost</li> <li>- Often loan size received is significantly less than request</li> <li>- Restrictive market structure prohibits investment across chain/ in suppliers.</li> <li>- Able to retrieve market information via EXC Export Link</li> <li>- Restrictive market structure prohibits receipt of investment from international buyers</li> </ul>	<ul style="list-style-type: none"> <li>- Open market structure enables attraction and provision of finance</li> <li>- Rwandan Development Bank offers specialized financing packages and business support for qualified sector actors</li> <li>- Implementation of innovative financial usage to attract / secure suppliers</li> <li>- Access to finance used as an incentive structure</li> <li>- Use investment from Int'l Buyers to strengthen business/ improve product</li> <li>- Market information sourced from current trading trends, distilled through suppliers.</li> </ul>

(Source: Author Construct)

### **6.5.1 Financial Availability and Accessibility**

One of the most significant enablers for business start-up and expansion is the ability to access adequate means of finance, which can enable and propel business operation and growth (EPPCF, 2014). Through this research, access to, and availability of, finance was found to be a critical aspect to respondent decisions and actual ability for pursuit. While both countries were found to have challenging financial environments for respondents across the coffee chains, entrepreneurial actors responded to challenges in different ways in order to overcome barriers of financial accessibility. Within each country, financial availability for actors is tied to national sector preference, national foreign exchange needs and liquidity.

Financial accessibility, while linked, was found to impact Smallholder Producers differently from Commercial Farmers, Processors and Exporters. Typically, coffee trees and farms are not considered as adequate means of collateral due to the volatile nature of international prices and thus unstable valuation; stations or equipment are also traditionally undervalued. Additionally difficult financial requirements of the coffee industry are the prolonged start-up time across business segments. At the Producer level, trees average between three and five years before maturity can provide a viable harvest<sup>140</sup>. At the Processor and Exporter level, building stations, sourcing equipment, establishing infrastructure and securing sourcing and/or supply routes as well as end-buyers can also take several years and is highly capital intensive. Actors that choose to become involved in coffee need to secure adequate income or resources in order to be sustained for several years before a coffee business begins to generate financial returns; theoretically, financial services would play a role in supporting this business start-up phase.

#### **6.5.1.1 Ethiopia**

Access to credit and financial services is considered to be the most important barrier to doing business in Ethiopia (EPPCF, 2014). The country's largest bank, by far, is the state-owned Commercial Bank of Ethiopia (CBE) which is also the largest provider of loans to both the public and private sector. However, given the country's liquidity constraints and banking

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<sup>140</sup> Immature trees will still produce but it is of significantly lower volume and considered to be of generally lower quality. Many Producers reported to still harvest and sell from immature trees.

requirements, public enterprises absorb a disproportionate amount of available credit. High collateral requirements, chronic under-valuation of collateral and strict acceptance rules also reduce the pool of available loan recipients within Ethiopia's financial climate. The highly controlled financial system and its collateral based lending system creates an especially difficult arena for entrepreneurs or business start-ups that do not have a pre-existing capital base. These restrictions on individual access and lending availability stifle growth and suppress innovation (EPPCF, 2014).

In 2013, public enterprises received 83% of all credit provided to the market, with just 17% provided to private sector enterprises. Additionally, all private banks are mandated to ensure at least 27% of lending portfolios are earmarked for public sector projects; with interest rates at just 3% (Lefort, 2013; EPPCF, 2014). Given the country's high inflation, 10%+ as of 2015, the required lending and low interest rate equates to a tax on private banks and those that deposit with them. This 'tax' on private banks is part of the country's wider banking regulatory stature, which has proven to distort financial regulations, creating uneven competition between private banks and the large state-owned CBE. Cost structure and financial services of the CBE are also not bound by wider financial regulations as other banks are (EPPCF, 2014). Due to the limited credit access for smaller firms (thus limited scope and scale for business activity), the majority of private sector actors are established firms that continue to diversify and increase holdings, as opposed to new market entrants. As of 2010, not one of Ethiopia's top 50 firms had started as a 'small firm' (World Bank, 2014a). Difficulty in accessing finance is described by this Processor,

*Exporters can get loans if they have an agreed contract with an international buyer. But we Akarabis (Processors) cannot. With the lack of financial assistance, we must rely on our own cash. With the limited capital I have to invest, I am unable to purchase the full volume needed to maximize the capacity of my station, so my business is becoming less efficient. In general, I do not see any support currently by the Government. (Pc\_E\_4, 2015)*

Despite the country's impressive recent growth, access to adequate financial services remains one of the largest issues for private sector development (Tridos Facet, 2013) and entrepreneurs reported limited access to credit as one of the most challenging hurdles. This

has resulted in high interest rates and exceedingly high collateral demands<sup>141</sup> from financial lenders due to the strict control (and often illiquidity) of foreign currency in the banking sector (Tridos Facet, 2013), for those private sector actors even able to obtain loans. While the majority of loans are provided to public sector projects, private sector investments are typically made only in prioritized industries such as manufacturing, large-scale agriculture and export products (EPPCF, 2014). Ethiopia's financial sector is one of the least developed and most 'under banked'<sup>142</sup> on the continent (Tridos Facet, 2013; Zerihun et al., 2014). As of 2012, only two commercial bank branches per 1,000 km existed in Ethiopia, with approximately just three branches per 100,000 adults (Villasenor et al., 2015).

#### **6.5.1.1.1 Financial Priority**

Much discussion has been made thus far about the preferential treatment of prioritized sectors, and coffee, as an export product and key foreign exchange earner, is a prioritized sector in Ethiopia. However in practice, this priority only extends to Exporters (including Commercial Farmers who are also allowed direct export) and does not trickle through the rest of the chain. Prioritization results in priority access to formal financing options and those businesses directly bringing in foreign exchange are more likely to receive financing (E\_1, 2015). However, banks will typically only approve a loan for an Exporter once a signed import contract is received. This continues to put actors at a disadvantage as cash is required to buy the actual product and thus contracts have to be concluded before stock can be purchased prior to knowing market prices (EPPCF, 2014). The result has been actors either pre-purchasing stock or negotiating a contract and then purchasing stock, creating additional risk due to pricing variability and potential differentials.

Accessing credit can take three to four months and loan disbursements typically cover 50-80% of request (EPPCF, 2014; E\_1, 2015). Additional limits have been put on the volume of loans a bank can disburse as either short-term or long-term<sup>143</sup>. The National Banking Directive recently changed the definition of 'short-term loan maturity' from 36 months to

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<sup>141</sup> Interest Rates reported to reach up to 27% and collateral demands as high as 125- 200% of loan request (Tridos Facet, 2013).

<sup>142</sup> Financial sector includes: 3 public banks, 16 private banks and 31 registered MFIs (Zerihim et al., 2014)

<sup>143</sup> As described earlier, start-up for coffee businesses can take several years before financial returns begin, short-term loans (1 year or less) make it very difficult to be able to invest in long-term plans.

now only 12. Resulting in 40% of all loans now considered as ‘short-term’ and required to be repaid within one year (inclusive of the often three to four month delay for receipt) (EPPCF, 2014). As discussed, coffee is a long-term investment requiring several years of business operation and start-up prior to initial revenue generation as well as high upfront cash flow at the beginning of each season, with typical delayed returns of payment due to prolonged processing and sale methods required. The bias in resource allocation and resulting regulation continues to push a divergence between small and large size actors with smaller entrepreneurs unable to not only keep pace with larger competitors, but also unable to act as viable partners due to an inability to meet ‘transaction costs’<sup>144</sup> (Lefort, 2013; E\_1, 2015). Some actors reported to purposely limit growth and scalability because of recognized inability to compete, considering it cheaper as well as safer to stay at a lower profitability level, but to be able to stay in business.

With Smallholder Producers excluded from formal financing, entrepreneurs operating Commercial Farms, Processing and Exporting businesses have instead turned to different types of business registrations that are more responsive to alternative financial arrangements. Incorporating as either a Private Limited Company (PLC) with up to 50 shareholders or a Sole Proprietorship (SP), with single owner liability. Many formal businesses use PLC regulatory statutes, benefiting from shareholder buy-in as a means of generating start-up capital or business financing. Table 6.8, shows the different registration proportions for respondents operating formal business.

*Table 6.8. Ethiopia Business Registration*

<b>Business Registration</b> N: (68)	<b>PLC</b>	<b>SP</b>
<b>Commercial Farmer</b> (22)	68%	32%
<b>Processor</b> (26)	54%	42%
<b>Exporter</b> (20)	80%	20%
<b>Total mean</b>	67%	31%

(Source: Author Questionnaire)

<sup>144</sup> Transaction costs are considered to be regulatory fees, licensing requirements, or upfront capital demands. Institutionalized graft could also be considered as a transaction cost.

Widespread difficulty in financial access has resulted in the emerging trend in which the majority of coffee exporters are using ‘priority status’ for bank loans earmarked for coffee, but are instead using these loans to finance import businesses. Businesses importing goods abroad for domestic sale are reported to be much more lucrative than coffee, with coffee export business often used as a front<sup>145</sup> for capital access for funds enabling the external purchase of goods. As described by the CEO of a large coffee export company with a long lineage in Ethiopian coffee,

*Many Exporters are now involved in the coffee sector, not because they specifically care about coffee, but because they use their coffee business to get a loan for other business activity. Using foreign exchange from the sale of coffee to fund import business, as it is cheaper to then buy products abroad and import. Exporting companies are ‘ok’ with losing money in coffee because they are only involved to get the foreign exchange or bank loans. Imports are generally very lucrative; so overall their business will still be profitable. (E\_4, 2015)*

This strategy to use coffee intended financing to diversify from coffee holdings was observed in Entrepreneurs operating at Processor and Exporter levels. Smallholder Producer Entrepreneurs, while unable to access formal finance, also reported to be divesting from coffee in order to diversify in alternative investments.

As discussed, while coffee is a prioritized sector, all actors do not receive the same priority and Smallholder Producers and Processors have limited options for financing. With high restrictions on formal banking sectors and services, Ethiopia has developed a strong tradition for informal products and a low uptake of formal ones (Villasenor et al., 2015). Informal savings and loans do exist, however depth and performance are highly varied. In addition, many respondents reported that loan size potential from these funds was not large enough for business expansion (P\_E\_12, 2015). As will be shown below, Smallholder Producers are unable to access formal financing mechanisms and as a result must use own capital, however this obviously limits scope of operations and expansion potential. Formal financing arrangements can be available to Processors, but were reported to be very difficult to receive. As described by one Smallholder Producer, Potential Entrepreneur,

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<sup>145</sup> Additional indications as to the direction and fragmentation of the sector considering quality implications given preferences and willingness of operators

*The main barriers to being an ‘entrepreneur’ are the lack of financing and people’s mistrust in taking financing from those institutions. Also Government structures keep people in place. Either people are too scared to expand, challenge the structure, or individuals are pushed back down with restrictions or land being taken. (P\_E\_20, 2015)*

As discussed in Section 6.4.2.1, without a mechanism for saving, Smallholder Producers process sun-dried cherry on farm site for use as a savings proxy, selling as needed throughout the rest of the year. As shared by another Ethiopian Smallholder Producer Potential Entrepreneur:

*In season, I will sell a small amount of cherry if I need cash and prepare the rest (sun-dried) and keep it at my house to sell when I need. It never keeps us to the next year’s (cherry) harvest. I sell this as needed for things we need actual Birr (cash) such as school fees. I have no other means of savings. There is an informal community savings and loan group and I sometimes participate and can get a small loan if I need from them, but it is very small. (P\_E\_11, 2015)*

Shown in Section 6.4.1.1, the restrictive nature of Ethiopia’s market and the abolishment of vertical integration has removed a key and needed element for alternative financial services to be provided to actors across the coffee chain. Additionally, Ethiopia does not allow external, non-Ethiopian actors to invest within the coffee sector<sup>146</sup>. As such, international buyers (importers) can only buy from Exporters once coffee is purchased from the ECX Auction, removing opportunity and ability for external financing to be injected into the sector.

#### **6.5.1.1.2 Respondent Finances**

Looking to better understand actual sourcing mechanisms for respondent financing, research investigated the preferred as well as actual financial sources of respondents and entrepreneurs across the specific business segments. Understanding financial means and ability to expand, provided evidence to an entrepreneur’s conceivable likelihood for opportunity pursuit. The difficult financial climate may also shed light on to the reasons why many Smallholder Producer respondents in Ethiopia were found to be Potential Entrepreneurs as opposed to

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<sup>146</sup> However, international actors can however purchase land for large scale agri-business, including coffee plantations

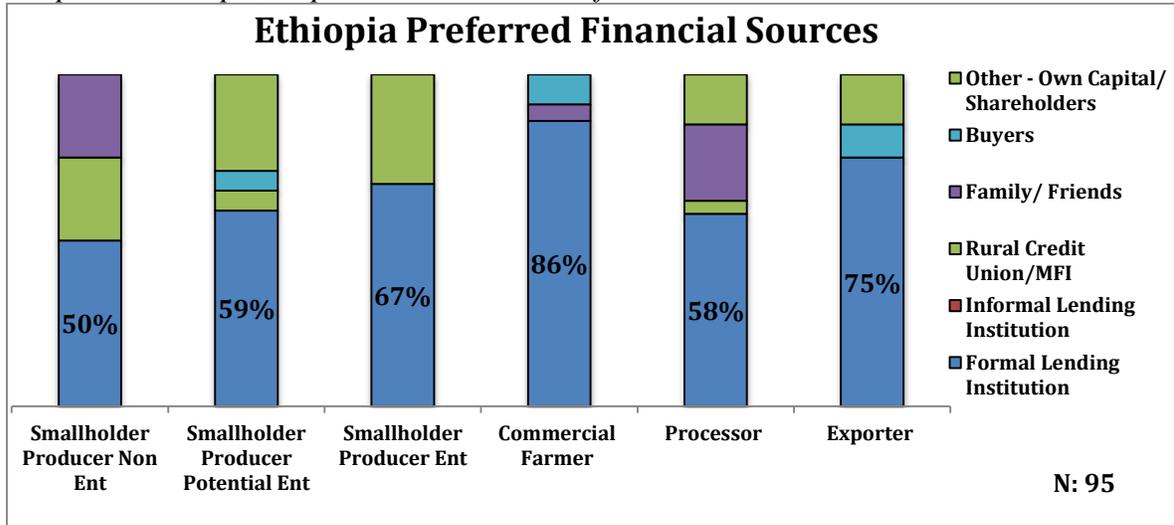
Entrepreneurs; with respondents obviously recognizing opportunity, but unable to succeed with pursuit of tangible action.

Ethiopian respondents were asked to rank their current, actual sources of financing and preferred sources of financing according to the following list:

- **Formal Lending Institutions**
- **Informal Community Lenders**
- **Rural Credit Unions or Micro-Finance Institutions (MFIs)**
- **Family/ Friends**
- **Buyers**
- **Other** – respondent’s own capital, such as savings, income from off-farm employment or business savings, shareholder investment, annual profits.

Research investigated respondent’s actual usage of, and preference to, available financing by having respondents rank options according to a scale of one (high/ most used or most preferred) to five (low/ least used or most preferred). This information was analysed across the *Entrepreneurial Range* and per business segment presented in Section 5.2.2. Graphs 6.1 and 6.2 below, show results for the top ranked option for respondent’s preferred financing source and top ranked option for respondent’s current source of financing, for each business segment. Percentages are listed for the top ranked option.

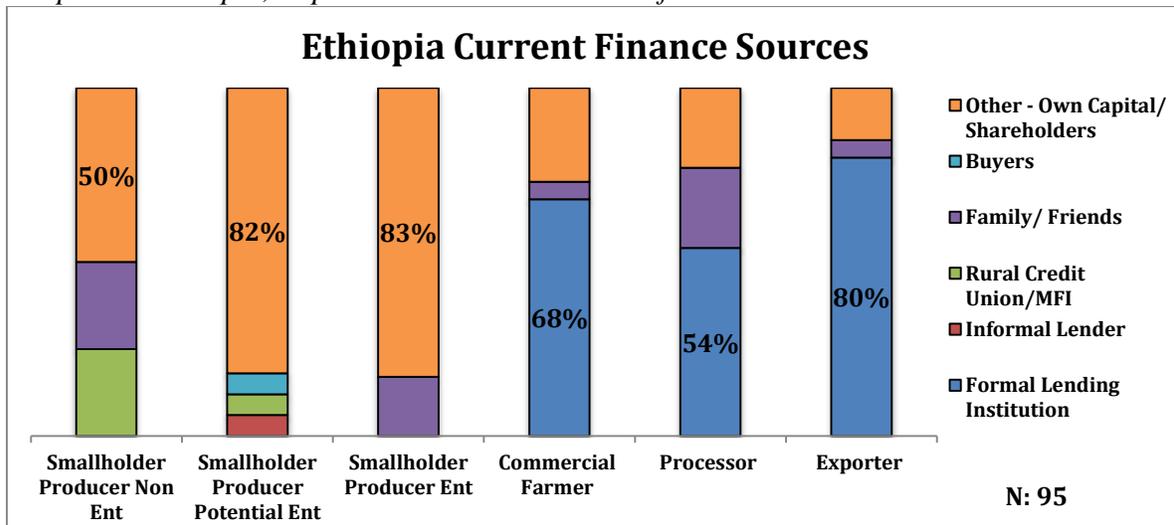
Graph 6.1. Ethiopia, Top Ranked Finance Preference



(Source: Author Questionnaire)

Graph 6.1 shows a strong preference from all business segments to obtain financing from a *formal lending institution*. Financial availability and accessibility are considered a reflection of a wider market structure and while the majority of respondents top preference was to source financing from a formal lending institution, the actual financing sources shown in Graph 6.2 were much different.

Graph 6.2. Ethiopia, Top Ranked Current Source of Finance



(Source: Author Questionnaire)

Graph 6.2 above, shows the top ranked current sources of finance per business segment. The majority of Entrepreneurs were found to use own means of finance, either through own capital or shareholders, shown as *Other* in the graphs. Entrepreneurs of formal businesses had a much higher use of financing from formal lending institutions as compared to Entrepreneurs of informal business. Commercial Farmers and Exporters, due to ‘priority lending status,’ had higher usage of Formal Lenders such as banks. Processors, while still using finance from a formal lending institution, also relied strongly on family or friends and own capital. Interestingly, no business segments reported receiving financing from buyers along the chain, very different from what will be observed for Rwanda in the following section.

### **6.5.1.2 Rwanda**

As discussed in Section 6.4.1.2, through Rwanda’s open market structure, financial accessibility can be obtained through formalized institutions, informal community lenders, actors along the coffee chain as well as external buyers. Rwanda has made substantial progress in improving financial access and inclusion through increasing the number of branches and easing its regulatory environment in order to enable additional traditional as well as non-traditional entities to offer financial services (Villasenor et al., 2014). Distinct-level efforts were also made to improve the financial environment following the war in 1994 in an attempt to entice returnees to set up local businesses and invest in the country, such as incubator tax benefits and start-up support funds (R\_1, 2014).

As the country is predominately rural, (an estimated 70%+ of the population resides in rural areas) accessibility remains a significant challenge (Villasenor et al., 2015). Despite challenges, financial access and usage have recently improved in rural areas. In 2009, the Rwandan Government mandated that at least one Savings and Credit Cooperative (SACCO) be established in each of the country’s 416 woredas<sup>147</sup>. As of 2012, 90% of adult Rwandans lived within a 5km radius from a formal financial institution (Murenzi, 2013). These credit unions have been very impactful in providing financial services to rural communities. However, SACCOs were reported to be used mainly as a means of savings and not a means

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<sup>147</sup> Smallest administrative area

for accessing credit, although SACCOS do offer lending services. Instead, the majority of individuals accessing formalized loans chose to source from a commercial lending institution, such as a bank (Murenzi, 2013).

While the rate for Rwandan smallholder producers using formal savings mechanisms has increased, as of 2012, the banked population was only 23% of adults, with proportions significantly lower in rural areas and within lower income quintiles. Education on financial services and access to institutions continues to remain the most difficult hurdle (Murenzi, 2013). However many of those surveyed were found to rely on informal financial mechanisms<sup>148</sup> such as Village Savings and Loan Associations (VSLA), family members or local area traders (Murenzi, 2013). A separate study on smallholder producers found that producers use VSLAs but also take credit from cooperatives and local area traders<sup>149</sup>. The same study found that these loans were typically not spent on productivity improvements, but were typically used for “consumption smoothing or health related emergencies,” as opposed to business activities (Mujawamariya et al., 2013, p. 78).

Financing remains a major issue for Processors and Exporters, as the structure of the sector and nature of the coffee business requires large amounts of up front capital. During a season, working capital requirements demand 70-80% of the projected cash flow at the beginning of the season to enable adequate ability to source and purchase supply (cherry or processed parchment). This high demand of upfront cash flow often results in liquidity constraints for the banking industry constricting cash flow for the country and sector during peak season (R\_1, 2015).

Briefly discussed in Section 6.3.1.2, as part of an overall strategy to improve its business climate, the Development Bank of Rwanda (BRD) has prioritized financing, working to improve regulation in order to provide small to medium enterprises (SMEs) and cooperatives with loans earmarked for agricultural activities in processing, marketing, equity financing

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<sup>148</sup> The vast majority of adults using only informal financial mechanisms tended to be rural, female, with no or very little formal education and from households of lower socio-economic status (Murenzi, 2013, p. 40).

<sup>149</sup> Some traders would provide loan services in exchange for cherry delivery at time of harvest and the trader would sell on to local processing stations

and equipment leasing options through various, designated fund options<sup>150</sup> (R\_5, 2014). Despite initiatives, access to finance remains a problem largely due to liquidity constraints and is reportedly compounded by a banking sector's misunderstanding of coffee's operational requirements, an inability of repayment by customers<sup>151</sup> following low pricing seasons, or liquidity constraints on behalf of lenders (MTI, 2010). While options for commercial lending have expanded, often specified funds are targeted for specific sectors such as the coffee sector or specific types of businesses (processing stations and exporting businesses reported to receive prioritized rates). Regardless, cost remains high and often prohibitive, with interest rates ranging from 14-21% and collateral demands typically at 125%+ of loan request (R\_2, 2014; R\_1, 2015). To manage demand within a careful liquidity balance, Rwandan banks limit funds granted and distribute funds late at differing points throughout the season; however this is not as Processors or Exporters wish (R\_1, 2015). As described by the following Exporter,

*Delays in getting finance are a real problem. If you don't have cash at the start of the season, you cannot operate and miss valuable time and product and it puts your season at risk. It is also a lost opportunity for farmers if there is no one to buy they usually will process at home and sell to traders or buyers from Uganda, but with that they cannot maximize the true value of their coffee. (Ex\_R\_7, 2014)*

While entrepreneurial actors can provide financing down the chain to suppliers (Exporters to Processors, Processors to Producers), financing from external investors is permitted (if not encouraged by national policy in order to increase cash flow into the sector). This injection of capital from international buyers, typically in the form of a pre-financed purchase agreement has helped to overcome some of the financial constrictions of national banks. It has also increased competition among suppliers in the attempt to access this benefit, improving efficiency and quality (R\_1, 2015). It was observed through this research that more entrepreneurial actors have been able to secure pre-purchase arrangements. While this reduced the risk of selling product at the end of a season, it was also understood to be an added risk during the season as contracts usually agree on a price floor and ceiling (with

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<sup>150</sup> USAID, GTZ, World Bank, Bank of Kigali and IFAD have also established designated funding schemes to support SME development (MTI, 2010).

<sup>151</sup> Repayment remains an issue for Coffee Co-ops and CWS

varying schemes for price differentials), long before product is ready for export. Depending on spot price, profit can be made or lost depending on daily price of transaction.

#### **6.5.1.2.1 Respondent Finances**

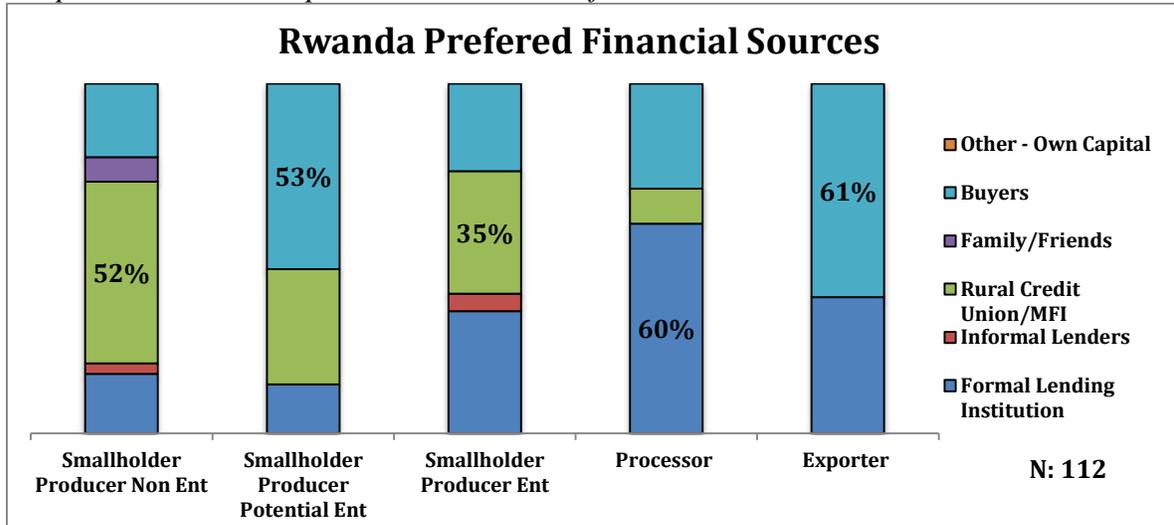
To more fully understand barriers or enablers to entrepreneurial action, financial sources were investigated. Research analysed responses for each business segment for preferred and actual current sources of financing, identified in the following list:

- **Formal Lending Institutions**
- **Informal Community Lenders**
- **Rural Credit Unions or Micro-Finance Institutions (MFIs)**
- **Family/ Friends**
- **Buyers**
- **Other** – respondent’s own capital, such as savings or income from off-farm employment

Graphs 6.3 and 6.4 below show the top ranked preference and top ranked current source of financing. Percentages are given for the top choices per each business segment. Respondents ranked options according to a scale of one (high/ most used or most preferred) to five (low/ least used or most preferred).

As seen in Graph 6.3 below, the wish for financial access from a formal lending institution increases within entrepreneurial business segments. In addition, due to the availability of accessing financing from buyers, all segments reported to be highly eager to access financing in this manner. Again, ‘buyers’, does not only mean International Importers, but often and more likely is from corresponding purchasing segments of the chain: Producer to Processor, Processor to Exporter.

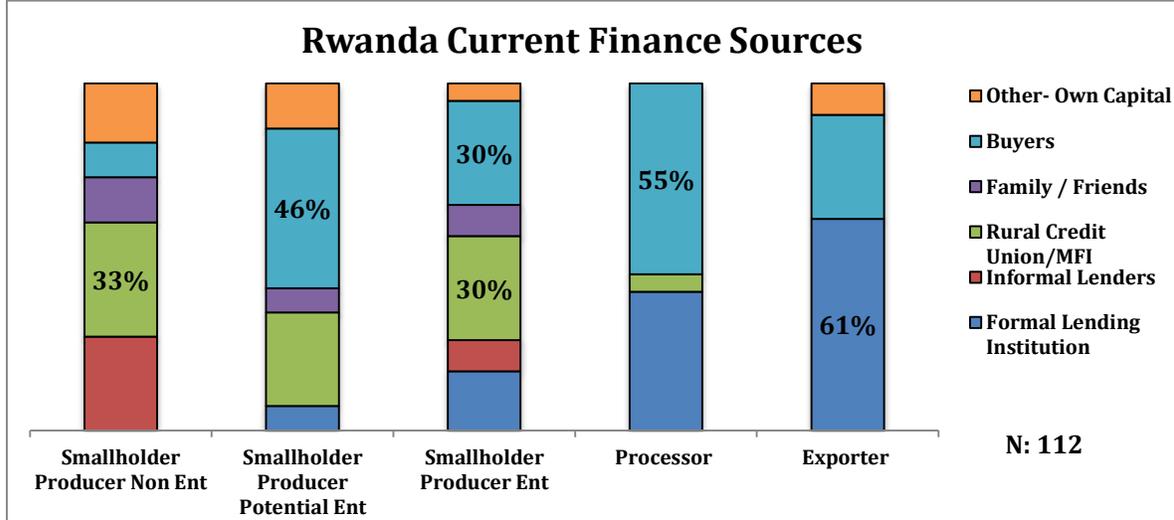
Graph 6.3. Rwanda, Top Ranked Finance Preference



(Source: Author Questionnaire)

Respondents were also asked to rank their current means of finance in regards to their current businesses and the top ranked finance source is found in Graph 6.4 below.

Graph 6.4. Rwanda, Top Ranked Current Source of Finance



(Source: Author Questionnaire)

As observed in Graph 6.4, Processors and Exporters do access much of their financing from formal institutions, however large proportions are also sourced from Buyers. While Exporters receive finance from international buyers (importers), the rest of the chain is also financed from their respective buyers, whether this is Entrepreneurial Exporters financing

Processors or Processors providing finance to Producers. This flexible mobility in providing financial access is a direct result of the open market structure, enabling entrepreneurs to access as well as provide financing mechanisms in which to advance business agendas and incentivize improved product provision.

Graphs 6.1 to 6.4 showcased the top ranked response in terms of current or perceived sources of finance, and Table 6.9 below, lists respondent rankings of available financing sources: formal lending institutions, informal community lenders, rural credit unions or micro-finance institutions (MFIs), family/ friends, buyers and other/own capital. This table is the outcome of ranking exercises conducted with respondents in order to demonstrate the more complete listing of preferred and current sources of financing, per business segment. Nuanced differences can be observed in comparisons between Ethiopian and Rwandan respondents in regards to the listings of current sources of finance, where Ethiopians across business segments ranked use of own capital relatively higher, and more often, than Rwandan counterparts. This is understood to be a reflection of the relative difficulty in accessing alternative forms of financing. Likewise, Ethiopian actors were much more likely to list family/ friends as a viable source of accessing finance than Rwandan counterparts.

Table 6.9. Ranking of Current Financial Sources and Preferred Financial Sources

	Ethiopia - Financing Sources		Rwanda - Financing Sources	
	Current Sources	Preferred Sources	Current Sources	Preferred Sources
<b>Smallholder Producer Non-Entrepreneur</b>	Own Capital Family / Friends Rural Credit Association	Formal Lending Institution Family/ Friends Informal Lenders	Own Capital Earnings from other jobs Sale of assets Family/ Friends MFI/ Informal Lenders	MFI Own Capital Buyers
<b>Smallholder Producer Potential Entrepreneur</b>	Own Capital Family / Friends Rural Credit Association Informal Lender	Formal Lending Institution Buyers (via Co-op) Own Capital Family/ Friends Informal Lenders	Buyers MFI Own Capital Earnings from other jobs	Own Capital Earnings from other jobs Buyers MFI
<b>Smallholder Producer Entrepreneur</b>	Own Capital Earnings from other jobs Sale of assets	Formal Lending Institution Own Capital Buyers (currently not possible in ECX system) Family/ Friends MFI/ Informal Lenders	Formal Lending Institution MFI Buyers  Informal Lenders	Formal Lending Institution MFI Buyers  Own Capital Earnings from other jobs
<b>Commercial Farmer Entrepreneur</b>	Formal Lending Institution Own Capital	Formal Lending Institution Buyers (Importer) Own Capital Family/ Friends		
<b>Processor Entrepreneur</b>	Formal Lending Institution Own Capital Shareholders / other business income Family/ Friends	Formal Lending Institution Family/ Friends Buyers (currently not possible in ECX system)	Formal Lending Institution Buyers	Formal Lending Institution Buyers
<b>Exporter Entrepreneur</b>	Formal Lending Institution Family/ Friends Shareholders / other business incomes	Formal Lending Institution Own Capital Buyers (currently not possible in ECX system)	Formal Lending Institution Buyers	Formal Lending Institution Buyers

(Source: Author Questionnaire)

## **6.5.2 Land Usage and Expansion Potentials**

National oversight and regulatory statutes in regards to land access, usage and ownership for individuals and private sector operators are key issues, which can also impact entrepreneurial decisions for action or opportunity pursuit. Both Ethiopia and Rwanda have challenging legal constraints in regards to land access and usage, especially within key agricultural zones or coffee production areas. However, legal recognition and policies regarding land rights and land ownership are comparable. Current mind-sets can be traced to historical perceptions of and influence by each State, in which land, considered an integral state-asset, can be provided to and taken from users as deemed to be in the best national interest. An understanding of land policy enables a better understanding of the current contexts entrepreneurs are operating within and related potential for expansion.

### **6.5.2.1 Ethiopia**

A remaining tangible and largely unimproved impact from the Derg Regime is the country's landholding policy. While the initial decree from 1975 has changed, change has largely come through multiple, ambiguous efforts, bringing no real solutions to ordinary people (Tridos Facet, 2013; Prunier, 2015). In effect, land confiscated and nationalized, has not returned to its pre-revolutionary state, nor has it been privatized outright. While small steps have been made in regards to land rental and inheritance, specifically at the smallholder producer level, land ownership continues to be owned and controlled by the State (Geda, 2008; Lefort, 2013). While, technically there is no private ownership of land, individuals and companies can agree to a 99-year lease with local municipalities. However, this structure has made land available mainly to large investors wishing to establish manufacturing plants or large-scale agri-businesses (Tridos Facet, 2013). As of 2015, an estimated 3.5 million hectares have been allocated to foreign investors, often disregarding local inhabitants of sold land<sup>152</sup> (Lefort, 2013).

Commercial Farmers have benefited through these land distributions, agreeing to ownership and purchase rights. However this process is reported to be highly selective and was reported

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<sup>152</sup> Agreements reportedly offer unlimited use of ground water and underground resources (Lefort, 2013).

to take anywhere between three months to six years (CF\_E\_2, 2015). One Commercial Farmer described his experiences in Case Study 6.12.

***Case Study 6.12. Commercial Farming***

“I am from Illababour (southwestern Ethiopia, bordering South Sudan). Coffee is dominant in the area, but it is mostly forest coffee and farmer production is very basic and traditional. I worked before as a coffee trader to learn the business. I saw an opportunity to establish a business using more modern practices. I applied to the local Municipality and National Government for land permits in 2007 and was granted in 2009. I have 500 hectares and use 200 for coffee. I also grow spices and honey. I am now exporting coffee, but I am just focusing production on my own farm and not surrounding, local farmers as their techniques are basic, but I also don't want to have to deal with organizing finance in order to pay them when they deliver.” (CF\_E\_13, 2015)

In contrast, traditional coffee production zones have significant local population pressure<sup>153</sup>, with very little if any available land remaining. The second most populated country on the continent, population growth is impacting local, rural communities, straining economies and resources. Recent generations have seen family land holdings significantly reduced as land has been parcelled off to dependents (Ficquet and Fyissa, 2015). In many coffee-producing zones, particularly areas with histories of traditional coffee production or high quality zones, new land acquisition is virtually unheard of. A Smallholder Producer Entrepreneur described his previous ability to scale up,

*I was able to expand land and expanded my trees before, and I would buy more if I could today because there is much potential in coffee, but there is no land in this area. It is very rare to hear of any transfers now; I try to expand my business into other, non-coffee areas. (P\_E\_23, 2015)*

The limited number of Ethiopia Smallholder Producers classified as Entrepreneurs through this research, had all found ways to expand production area either through rental agreements, or purchase from neighbours. These land holdings reportedly tended to be far distances from each other making for admittedly inefficient business management. Several of the Smallholder Entrepreneurs reported that as soon as they made profit from coffee, investments were made in alternative sectors, such as transportation options for the local area

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<sup>153</sup> This was especially evident within research areas visited.

(motorbikes, mini-taxis), construction businesses or retail shops. Described by this Smallholder Producer Entrepreneur,

*Coffee can generate income, actual cash, but I think the only way to make real money is to have a very large land or large-scale production. I don't have that and have instead invested my coffee earnings in commercial shops I rent out. I also have cattle that I also sell to the market. I have tried to get a loan from Awash Bank, but they want such huge collateral and will not accept my current coffee farm. (P\_E\_26, 2015)*

The inability to expand land, in addition to financial inaccessibility, presents a challenge to scaling up and constricts entrepreneurial potential. While exact land sizes were difficult to determine, respondents were able to provide an estimated number of trees at the time of business start as well as their current number of trees. Shown below in Table 6.10, Entrepreneurs had the lowest starting point in terms of the number of trees, but showed the largest expansion.

*Table 6.10. Ethiopia Smallholder Producer Starting Points*

<b>Ethiopia N: (27)</b>	<b>Starting Size (# of Trees)</b>	<b>Current Size (# of Trees)</b>
<b>Smallholder Producer Non Entrepreneur (4)</b>	700	1,000
<b>Smallholder Producer Potential Entrepreneur (17)</b>	1,122	3,032
<b>Smallholder Producer Entrepreneur (6)</b>	640	7,916

(Source: Author Questionnaire)

### **6.5.2.2 Rwanda**

Most rural farmland in Rwanda remains recognized by traditional family holdings, passed through generations, however land is understood not as outright ownership, but as a usage right. Legislation enacted in 2005 now makes customary land ownership a legal reality, but only through the legal registration for ownership. Through this legislation, Government hope was to increase confidence and security in land ownership, thereby increasing investment in business, land conservation as well as improved agricultural efficiency (Ansoms and Rostagno, 2012). However, land titles must be registered, procured, mapped and paid for, prior to receipt of ‘ownership certification’; creating inherent disadvantages for poorer individuals. The law also creates difficulty in that it prohibits division of land less than one hectare, proving a major constraint for smallholder producers, the majority of whom operate

on less than one hectare (Ansoms and Rostagno, 2012). In Rwanda, recent legislation also enabled formal businesses to invest directly with national and local governments in securing rights to land. Coffee Processors have been granted rights in establishing washing stations through agreed long-term usage rights; price and payment structures are agreed with local officials and approved at a national level (R\_3, 2015).

Despite restrictions, many respondents classified as Entrepreneurs were found to have expanded land in some way. Smallholder Producer Entrepreneurs reported to have expanded coffee holdings through the acquisition of land from another smallholder. Several entrepreneurs reported to also rent land from neighbouring farmers, paying an annual rent fee, but profiting from sale of production; a long-term and risky business strategy. Described by a Smallholder Producer Entrepreneur,

*I have purchased additional land and continue to be watchful if more becomes available, but it is less common now. Instead I have also started to rent land from other farmers and have planted coffee and banana. I also have a cow and use the banana leaves for mulching and cow manure for additional fertilizer for the coffee. Some neighbouring farmers have started to also use that practice with their animals.* (P\_R\_61, 2014)

Non-Entrepreneur respondents that had not expanded land, had chosen not to increase coffee holdings, or who had increased very minimally, cited inherently small starting land size as the reason to lack of expansion. These reasons are legitimate in several ways. First, land may in fact be too small to garner any type of collateral guarantee, even from informal financiers. Likewise, typical smallholder producers must also use their land for producing means for household consumption. As coffee is not edible at the household level, in some situations, respondents believed it too risky for a household to focus primarily on coffee without a safety net of consumables, especially given the price volatility of the coffee market. As such, these respondents felt they could not grow enough coffee to become financially viable as well as also produce crops to sustain household survival.

While these are legitimate and understandable reasons for not scaling up, equally important is an individual's perception about what can be achieved despite a specific starting point and differences were again observed here in regards to Entrepreneurs and Non-Entrepreneurs.

Similar to Ethiopia, reporting exact land size proved difficult and instead respondents were asked to state starting number of trees and current number of trees. As seen by Table 6.11 below, respondents classified as Entrepreneurs were also found to have the lowest starting point in terms of number of trees, but largest expansion rate.

*Table 6.11. Rwanda Smallholder Producer Starting Points*

<b>Rwanda N: (69)</b>	<b>Starting Size (# of Trees)</b>	<b>Current Size (# of Trees)</b>
<b>Smallholder Producer Non Entrepreneur (31)</b>	307	750
<b>Smallholder Producer Potential Entrepreneur (15)</b>	340	2,429
<b>Smallholder Producer Entrepreneur (23)</b>	200	3,906

(Source: Author Questionnaire)

Compared with Table 6.10, a lower number of trees are observed in Rwanda than Ethiopia. In general, Smallholder Producers in each country have comparably, small land sizes (typically significantly less than one hectare). However Ethiopian respondents reported and were observed to have less space between trees, resulting in more trees per plot. This may also be a reason to the lower productivity and quality.

### **6.5.3 Accessing Market Information and Technology Usage**

Access to information, specifically market information concerning price, demand and/ or product availability, is a critical element in the entrepreneurial decision making processes and can highly influence actors who are able to retrieve market information and those who are not (Boudreaux, 2007; Shane et al., 2003). Additionally, due to the high potential for clusters within producing areas as well as across the coffee chain, the spread of information can be highly impactful to entrepreneurial outlook and opportunity pursuit (Rocha, 2004).

In comparison to other global coffee producing countries and industry leaders, Ethiopia and Rwanda have a relatively low level of technology introduction and uptake (Daviron and Ponte, 2005; Boudreaux, 2007), however within this research, this was found to largely be due to differing reasons.

### 6.5.3.1 Ethiopia

Ethiopia's Commodity Exchange system was designed in part, in theory, to increase transparency between suppliers and buyers across the chain and spread critical market information such as price between actors (E\_3, 2015). However, while this has proven to be a benefit for actors able to have access, it has shown to increase disparity between those who do not, namely rural producers (E\_4, 2015). An asymmetric relationship has been found to exist between rural producers and traders in which typically, traders have more up to date, accurate information than rural producers (Tadesse and Bahiigwa, 2015). At the time of writing, within the ECX system, no mechanism had been implemented to address the information dearth felt by rural smallholder producers who largely remain reliant upon information from cooperatives, area traders, processing stations, other producers or the ECX Primary Market, continuing to put smallholder producers at a disadvantage for access to market information and current prices.

Through the automated, electronic auction system of the ECX, in theory, Exporters and Processors are able to retrieve information in real time for the range of coffee availability and quantity once products have cleared the ECX Warehouse following testing and quality control (E\_4, 2015). However, in practice, trading was reported to continue to be done in person at the EXC Auction base in Addis Ababa. Within the current structure, information typically flows 'backwards' from Exporter<sup>154</sup> to Processor to ECX Market Trader to Smallholder Producer creating natural time delays and inherent disadvantages (Minten et al., 2015). Additionally, as discussed in Section 4.2.3, coffee is traded daily and product inflows of diverse profiles maintain constant price volatility and without access to constantly changing price data, buyers and sellers across the chain operate at disadvantages.

Mobile phone technology has been widely lauded as a mechanism for improved access to market information, specifically for rural producers. While Ethiopia mobile phone ownership and usage rates are expanding, the country continues to be plagued by poor network coverage from state-owned Ethio Telecom, and increased access to mobile phones

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<sup>154</sup> As coffee is traded on the global market, producing countries have little to no ability to dictate price and or trade terms and are themselves prices takers.

by smallholder producers has not necessarily resulted in improved information or market prices (Tadesse and Bahiigwa, 2015; Minten et al., 2015). Conversely, mobile technology has been proven to improve information, negotiating power and market efficiency for Brokers and Traders, but not Producers (Tadesse and Bahiigwa, 2015).

Table 6.12 below, presents information obtained from respondents ranking methods used to access market information. As seen, Non-Entrepreneur and Potential Entrepreneur Smallholder Producers were more likely to obtain information from Traders or directly from buyers at ECX Primary Markets, while Entrepreneur Smallholder Producers were more likely to obtain information from external sources, as well as Traders and Buyers at ECX Primary Markets. Interestingly, segments, legally able to export: Commercial Farmers and Exporters, had a higher degree of dealings with International Buyers and also reported information gathering methods following international pricing trends. Differences with wealth stratification can also be observed through the types of methods used.

*Table 6.12. Most Common Methods for Accessing Market Information, Ethiopia*

<b>Ethiopia (N: 95)</b>	<b>Market Information Access Methods</b>
<b>Smallholder Producer Non-Entrepreneur</b>	Area Traders, ECX Primary Market, Cooperative, Radio
<b>Smallholder Producer Potential Entrepreneur</b>	ECX Primary Market, Other Farmers, Radio, Newspaper, Phone, Community Leaders
<b>Smallholder Producer Entrepreneur</b>	Radio, TV, Other Farmers, Area Traders, ECX Primary Market, Community Leaders, Phone
<b>Commercial Farmer</b>	ECX Exporters Association, Internet, Bank Association, Ministry of Trade Representative, Int'l Buyers, Investors, ECX Primary Market, Other Commercial Farmers, TV
<b>Processor</b>	Internet, ECX, Newspaper, Phone, Buyers, Radio
<b>Exporter</b>	Internet, ECX Exporters Association, Int'l Buyers, Phone, NY-C Commodity Trading Site, Ministry of Trade Reps, National Bank, Other Exporters

(Source: Author Questionnaire)

Technology usage in Ethiopia, while not as dominant as many South American or Asian producing countries, is still heavily utilized within processing and exporting businesses. As first demonstrated in Graphs 4.4 and 4.5 of Section 4.5, Ethiopia's immense volume of production, need for efficiency has seen the industry realize an increasingly mechanized

trend (E\_5, 2015). However traditional production, harvesting and sun-dried processing practices of smallholder producers continue to be widespread (Backman, 2009).

Ethiopia, the birthplace of coffee, has been at the forefront of international trade since it was first exported from Ethiopia in the 15<sup>th</sup> century (Sereke-Brhan, 2010). Historical dominance and continued demand has inevitably brought ideas and technology to the sector from external actors. While the sector has chosen to remain relatively closed to outside influences, global interaction has undoubtedly brought opportunity and access for technological improvement and advancement, which many entrepreneurs today have benefited from. As will be discussed in Section 6.5.3.2, Rwanda, relatively new to the international scene, is only just beginning to realize this opportunity and influence.

### **6.5.3.2 Rwanda**

As seen in Section 6.4.1.2, Rwanda's liberalized market structure has created opportunity for actors to expand business operations across the chain as well as choose to provide direct support to suppliers via benefits such as finance or technical training. This open market flow has also created opportunity for individuals to interact within multiple segments of the chain in order to gain market information and intelligence. This strategy was specifically observed in entrepreneurial-minded smallholder producers who actively sought market information and benefit provision offered by competing Processors, prior to cherry delivery.

As discussed in Section 4.2.3, price volatility remains a major hurdle for actors and entrepreneurs alike and while recognizing an inability to dramatically alter pricing structures, entrepreneurial producers were observed to actively source the best buyers for their needs within an area; price was often only one element in the decision making process as will be discussed in Section 7.3.1 and 7.3.2. Gathering this market information typically came through the building of relationships and personal communications, which were also used to discover pricing information.

A major area of needed improvement and difficulty for information access for smallholder producers is the timely promotion of the established floor prices for Garden-Gate Coffee

Cherry Purchase Price (Boudreaux, 2007; Backman, 2009). Set at the beginning of the season and adjusted as deemed necessary, many producers complain about not being able to know if prices have been adjusted (R\_4, 2014). The Set Prices are reportedly advertised by radio, however this was disputed by some respondents. Access to functioning radios at time of price announcements was also reported to be an issue. Entrepreneurial Processors and Exporters were observed to actively monitor global prices, trends and changes and would use this information to update buying and selling prices as necessary, as opposed to simply building from the set floor price. Table 6.13 below, presents the information obtained from respondents ranking methods of accessing market information.

*Table 6.13. Most Common Methods for Accessing Market Information, Rwanda*

<b>Rwanda (N: 112)</b>	<b>Most common means of accessing market information</b>
<b>Smallholder Producer Non-Entrepreneur</b>	Washing Station, Cooperative, Radio, Other Farmers, Community Leaders
<b>Smallholder Producer Potential Entrepreneur</b>	Radio, Other Farmers, Phone, Washing Station
<b>Smallholder Producer Entrepreneur</b>	Radio, Other Farmers, Newspaper, Phone, Washing Station
<b>Processor</b>	Investors, Other Processors or Exporters, Internet, TV, Newspaper, Phone, District Leaders, Area Farmers
<b>Exporter</b>	Internet, Int'l Buyers, Other Exporters or Processors, NAEB Reps, TV, Newspaper, Phone

(Source: Author Questionnaire)

Rwanda is also recognized as having a relatively low level of mechanization across its industry (R\_8, 2015). While Processors and Exporters do use mechanized processes many reported to actively have chosen not to introduce additional mechanization with the recognition that it would off-set the often hundreds of seasonally employed labourers, as will be shown in Case Study 7.4. Additionally, given Rwanda's relatively small production volumes, purchase of more efficient machines was often deemed prohibitive given high cost and relative low volume potentials for the country, especially as compared to larger producing countries such as Ethiopia (R\_4, 2014; R\_7, 2014).

## 6.6 Conclusion and Emerging Findings

Investigation into the second element of the deconstructed *Co-Evolving Entrepreneurship Nexus*: the operational context, examined and analysed specific determinants found to be especially influential for entrepreneurship, within the Ethiopian and Rwandan coffee markets. Reinforcing current literature initially discussed in Sections 2.5.1 and 2.5.2, political environments, historical and socio-cultural settings, specific market structure, and resource availability were all found to have strong positive, as well as adverse influences on entrepreneurial outlook, action and opportunity pursuit. Building from current literature, this comparative study of Ethiopia and Rwanda has provided deeper a understanding through the contrasting assessments of economies and market structures with differing approaches to entrepreneurship and operating environments found to both embrace and reject entrepreneurial potential.

This chapter investigated the determinants, or external operational contexts, of entrepreneurs in the coffee sectors of Ethiopia and Rwanda, identifying several key areas found to have particular influence in shaping entrepreneurial action, behaviour and opportunity pursuit. The unique economic ecosystems analysed have further supported the perspective that individual entrepreneurs, despite proving to have internal characteristics predisposing an individual towards entrepreneurial action, are still highly influenced by environments. As shown throughout this chapter, each country's complicated history, political perceptions to the effectiveness of entrepreneurship, specific market developments, as well as resource availability and accessibility were found to have significant influences on entrepreneurship. Emerging findings, observations and research contributions are presented below.

### **Emerging Findings of Chapter 6:**

- As seen through this research, Ethiopia and Rwanda present differing paths as to how entrepreneurs are perceived and received within developing economies and emerging markets. From interest in, tolerance of, or outright containment, entrepreneurship from a government's political perspective not only influences policy, regulations and willingness to engage with entrepreneurs through a proactive private sector, but as seen, can enable as well as deter business expansion or sectoral growth.

- This research found Ethiopia's restrictive markets and increased state-led involvement into the market economy and reduced financial access to severely constrict entrepreneurial dynamism through reduced opportunity, reduced willingness of actor involvement or the actual ability to pursue opportunity. In contrast, this research found Rwanda's open market structure to encourage entrepreneurial mobility but also enabled additional service provision and product diversification as entrepreneurs look to increase competitive advantages in pursuit of new opportunities.
- Ethiopia continues a state-led growth agenda that is distrustful of the unaffiliated or prioritized private sector, preferring to direct growth opportunities through state-led enterprises and by instituting harmful regulations to entrepreneurship across sectors. This research found the Ethiopian Government to show less interest and trust in private sector actors, specifically entrepreneurs, operating outside of dictated national interests. Ethiopia's restricted market and financial climate have further confined entrepreneurial action along the coffee chain with entrepreneurial actors unable to source adequate financing needs or diversify business involvement throughout the chain, and this research showed that entrepreneurs are essentially forced to limit their own business scope and scalability.
- As described in Section 6.3.1, without top-level acceptance and perceived effectiveness for entrepreneurial potential into a national agenda, entrepreneur mobility is constricted, opportunity is less likely to be pursued and entrepreneurs are more risk averse and less willing to innovate or push boundaries. This difficult and restrictive business environment of the Ethiopian coffee sector has resulted in the finding of many Potential Entrepreneurs, (those that see opportunity and wish to engage in its pursuit, but are unable to take tangible action due to external factors) as opposed to actual Entrepreneurs. Demonstrating not only a severe lack of entrepreneurial dynamism but also resulting in individuals preferring to pursue alternative employment outside of the coffee area and alternative to traditional entrepreneurial activities. This entrepreneurial restriction is also believed to have further diluted Ethiopia's coffee sector.

- The Rwandan Government, while initially having to assume the role of a functioning private sector, has worked to increase the role and use of entrepreneurs and the private sector in not only supporting economic growth and wider development but also embracing the entrepreneurial role as an employment generator and enabler in revitalizing the country's nearly lost coffee sector. The Rwandan Government was found to be more proactive in supporting private sector development and entrepreneurship and these specific benefits will be discussed in greater detail in Chapter 7. The Rwandan Government, lauded for relinquishing its control as the effectiveness of private sector actors and entrepreneurs gained ability, capacity and confidence, has resulted in a private sector, led by innovative and dynamic entrepreneurs. Additionally, many of these actors played key roles in restarting and reinvigorating the industry as well as wider economy.
- Rwanda has embraced the potential for effectiveness of entrepreneurship using actors to play a role in national development, employment creation and revenue generation. Through the liberalized market structure, entrepreneurial mobility has created a system in which entrepreneurs are actively taking risk and implementing innovative services to push boundaries in order to maintain or gain competitive advantages. This has also resulted in entrepreneurial actors moving 'up' the chain to add business activities, increase margins and expand opportunity. While Rwanda also deals with liquidity challenges as well as the difficulties in providing formal financing to smallholder producers, (typically the most difficult and expensive clientele) the open market structure has enabled innovative financial flows throughout the chain, providing tangible opportunity for entrepreneurs to scale if and as wished.

#### **Research Contributions of Chapter 6:**

- Evidence found through this research and analysed in this chapter has reinforced previous discussion on the varying effects of socio-economic influences to entrepreneurship. However, this analysis has taken empirical understanding further by determining what and how specific influences affect entrepreneurship within the developing country contexts of Ethiopia and Rwanda and throughout a variety of differing types of entrepreneurs (Brixiova and Asaminew, 2010; Gregoire et al., 2010).

- While each theme investigated in this chapter is believed to have direct influence on entrepreneurship and wider economic ecosystems of operations, the largest impacts to entrepreneurial behaviour found through this research were market structure (mobility), resource availability (access to adequate financing) and political environment (perception of the effectiveness of entrepreneurship). Historical and socio-cultural influences were also found to be highly impactful, but were shown to be more influential in laying the foundation to the perception and embrace of entrepreneurs within a society as well as to an extent, determining who can succeed as an entrepreneur.
- While product flow and related actor involvement has been a common value chain analysis for each country's coffee sector, the market structures of each country, via direct government involvement and internal financial flow presented the difficult climate for private sector actors and entrepreneurs in the coffee sector. Analysis has not been developed or presented in this way previously for the Ethiopian context and was found to be actively discouraged during field research.
- Analysis from this chapter presented tangible evidence of influences to entrepreneurs operating in emerging markets and developing economy contexts and presented a new analysis of the coffee sectors. Table 6.14 presents a synthesized overview of the specific evidence presented in this chapter, from the varying determinants found to influence entrepreneurship.

Table 6.14. Determinant Outcomes to Entrepreneurship

	Ethiopia	Rwanda
<b>Market Structure</b>	<p>Restrictive market structure, elimination of vertical integration with focus on product commoditization.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Eliminated knowledge of, direct links with suppliers or buyers</li> <li>- Lost potential for financial flow</li> <li>- Eliminated incentive structure</li> <li>- Prohibited vertical integration</li> <li>- Increased top-down control mechanisms</li> <li>- Increased transparency in product flow due to ECX system, questionable success</li> </ul>	<p>Open market structure with corresponding incentive structures promoting emerging market potential and speciality product.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Improved demand for product quality</li> <li>- Innovative schemes to maintain competitive advantage</li> <li>- Improved market infrastructure</li> <li>- Increased outlets for cost effective distribution</li> <li>- Vertical integration</li> <li>- Diversified business &amp; product profiles</li> </ul>
<b>Resource Availability (Financial Access)</b>	<p>Constricted financial climate, lending provided to selected, priority sectors/ actors.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Constrained business operations due to limited available cash flow</li> <li>- Reduced business expansion due to lack of availability / access to capital</li> <li>- Divergent paths for business success, wealth creation</li> <li>- Sectors with Prioritized Export Status have easier access to formal finance</li> <li>- Need for improved information access, especially for Producer segment</li> </ul>	<p>Increased financial availability, disbursement and amount, lower cost of lending.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Improved financial flow throughout market &amp; between actors</li> <li>- High cost/ collateral demand prohibitive for some actors</li> <li>- Increased pressure on national finance sector for improved services, reduced lending cost</li> <li>- Innovative financing schemes (within coffee chain) support entrepreneur ambitions</li> <li>- Need for improved information access</li> </ul>
<b>Political Environment</b>	<p>Restrictive political environment, distrusting of private sector actors, use of entrepreneurship. Belief that state-led market involvement is best way to facilitate economic growth.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Adverse business environment/ impeded business expansion</li> <li>- Reduced risk taking, innovation by market actors/ entrepreneurs</li> <li>- Difficult climate for business registration, lack of incentives for business formalization</li> <li>- Demotivating entrepreneurial environment</li> <li>- Lack of entrepreneurial dynamism</li> </ul>	<p>Largest influence is political embrace, understanding of entrepreneur as a benefit, reliant upon government mind set and willingness to use entrepreneurial potential.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Private sector used to provide public sector services/ expand sector frontier</li> <li>- GoR risk perception of ‘over competition’ in coffee areas resulting in designated sourcing zones, questionable effectiveness</li> <li>- Motivating entrepreneurial environment</li> <li>- Promotion of International Rwanda Brand &amp; consumer recognition</li> <li>- Conducive environment for risk taking/ innovating</li> </ul>
<b>Historical, Socio-Cultural</b>	<p>Cultural support for business, success met with scepticism of corruption or connections. Lack of resulting social benefits following business success.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Post '91 improved climate for economic involvement, increased opportunity for certain actors within specific sectors</li> <li>- Successes viewed with suspicion</li> <li>- Developed apathy towards profitability of coffee sector → Demotivating Environment</li> <li>- Limited interest or actionable investment in implementing social benefits</li> </ul>	<p>Cultural support of business, entrepreneurial pursuits. Expectation of wider community to benefit from business success. Successful business people/ entrepreneurs regarded as role models.</p> <p><b>Resulting in:</b></p> <ul style="list-style-type: none"> <li>- Reduced fear of risk taking / failure</li> <li>- Opportunity for reconciliation</li> <li>- Increased investment from external actors</li> <li>- Recognition of returnees restarting economy</li> <li>- New business opportunities opening to private actors</li> </ul>

(Source: Author Construct)

While improvements continue to be needed and neither government has implemented direct support mechanisms targeted exclusively at growing an entrepreneurial based economy as discussed in Section 2.2.3, this chapter has demonstrated that embracing the potential for benefits of entrepreneurial dynamism can create positive impact into a sector and economy. However, the distrustful exclusion of the potential of entrepreneurship constricts entrepreneur mobility, removing incentives for innovation, business expansion and limits willingness for risk taking.

Chapters 5 and 6 have thus identified and presented the internal drivers and external determinants influencing both the individual entrepreneur and wider operational context, specifically within the Ethiopian and Rwandan coffee markets. Chapter 7 looks to combine this information in order to understand how the two are fused, analysing if and how entrepreneurs can influence operational contexts through entrepreneurial reflexivity and create benefits through entrepreneurship additionality.

## **Chapter 7 – The Entrepreneurial Ecosystem. Identifying Potential for Entrepreneur Reflexivity and Additionality**

### **7.1 Introduction**

Discussion thus far has focused on the analysis of the two deconstructed elements of the *Co-Evolving Entrepreneurship Nexus*: the individual construct and the operational context. Investigation has specifically looked at these deconstructed elements as 1) the individual internal construct found to play a key role in the predisposition of the individual towards entrepreneurial action, and 2) influences from the external operational context, found to shape entrepreneurial outlook, approach and action.

Given the understanding of the entrepreneur as a reflexive agent, influenced by, and in turn, influencing a wider system of operation, research now looks to further investigate the idea of the co-evolving, reflexive nature of entrepreneurship within an emerging market context. Building from the idea of the entrepreneur's reflexive nature back to and across systems, research also looks into the potential for entrepreneurs to be architects of change. Investigating the nexus in its entirety, the following analysis and discussion looks to understand the potential influences (both positive and negative) that entrepreneurs can have on wider contexts in order to present the specific influences and action outcomes discovered in the Ethiopian and Rwandan coffee contexts.

Entrepreneurship is recognized to have the ability to enable wide-ranging (largely positive) impacts on economic development and wider economic growth, creating new economic activity through the pursual of market gaps and the further pushing of boundaries (Rogerson, 2001). Considered a significant factor in socio-economic development, particularly in developing country contexts, entrepreneurship has the potential to enable as well as create transformative change (Lee and Peterson, 2000). However, while much can happen organically, as seen in Chapter 6, entrepreneurship can be greatly hindered or helped by the specifics of the operational context surrounding opportunity. Successful entrepreneurship must be encouraged, supported and fostered through an allowance of the inherent flexibility needed to test, experiment and attempt new combinations vital for opportunity pursuit

(Shane, 2003). This embrace can provide benefits as well as challenges to existing structures with the potential to create positive effects on an economy and society more broadly. Conversely, if entrepreneurship is stifled, not only does a specific sector or economy suffer from limited sector expansion and a reduced competitive environment, this lost entrepreneurial dynamism removes opportunity for additionality benefits following entrepreneurial exploration, business growth and frontier advancement.

With the investigation and understanding of the individual construct and influences from operational contexts complete, attention is now turned to assessment of the greater whole of the *Co-Evolving Entrepreneurship Nexus*, in order to investigate and analyse the evolutionary potential of the reflexive entrepreneur to its structure. Building from this framework, this research has investigated the understanding of entrepreneurship within this paradigm and now tests applicability and relevance of entrepreneurial reflexivity through the analysis and outcomes of empirical evidence. Presented in Sections 7.2, 7.3, and 7.4, the ensuing discussion is designed as follows:

1. Present the initial structural conceptualization of the *Entrepreneurial Ecosystem*.
2. Demonstrate entrepreneurial reflexivity through individual choices and actions taken in relation to the specific driver identified as part of the individual construct.
3. Investigate the potential for entrepreneurs as architects of change, analysing outcomes of additionality following entrepreneurial action.
4. Present the completed *Entrepreneurial Ecosystem* of the Ethiopian and Rwandan coffee markets, inclusive of influences on the wider economic, interpersonal, community and institutional structures from entrepreneurial reflexivity and additionality.

This chapter is again reliant upon the use of mixed methods and information presented throughout is built from the systematic analysis of data gathered from primary and secondary sources. Building from the premise that entrepreneurship is relative, both in consideration to the individual and to the context, conclusions drawn have again been formed through the author's own understanding of entrepreneurship as detailed through this investigation and its understood potential within the confines of this specific research approach and design. Gathering these conclusions has resulted in understanding a more complete picture of entrepreneurship, as will be discussed throughout this chapter.

### 7.1.2 Presenting the Entrepreneurial Ecosystem Structure

As has been discussed, entrepreneurship is a phenomenon in which the system influences the agent and in turn the agent's action influences the system. Therefore, this research has approached entrepreneurship as a co-evolving paradigm in which the entrepreneur and distinct social system, or operational context, are interdependent forces understood as a complete structure. As such, an entrepreneur is propelled or constrained by specific opportunities or structures identified through the venturing process, within a specific context. Likewise, specific opportunities or structures may be created or constricted through the results of entrepreneurial actions (Sarason et al., 2006). Initially introduced in Sections 2.3.1 and 3.2.1, this research approach and corresponding analysis understands entrepreneurship as the dynamic process of an agent engaging with, and responding to a specific structure; thus understanding the entrepreneur and specific context as a duality.

The outcomes from this research reflect the conceptual framework of the *Co-Evolving Entrepreneurship Nexus*, presented in Figure 2.3, however results have further built from that entrepreneurship nexus to more accurately define and depict a structure for entrepreneurship which better presents if and how entrepreneurial action and opportunity pursuit can influence systems, structures and political outlooks within a wider economy. The main findings from Chapters 5 and 6 created the foundations critical to the understanding of the wider view of the entrepreneurship nexus, revealing tangible application towards this researcher's conceptualization of entrepreneurship as an active element within a comprehensive, yet living, evolving organism: the *Entrepreneurial Ecosystem*. The following section presents a brief review of the theoretical basis used in the development of the conceptual framework in preparation for the presentation and analysis of the structure for this ecosystem<sup>155</sup>.

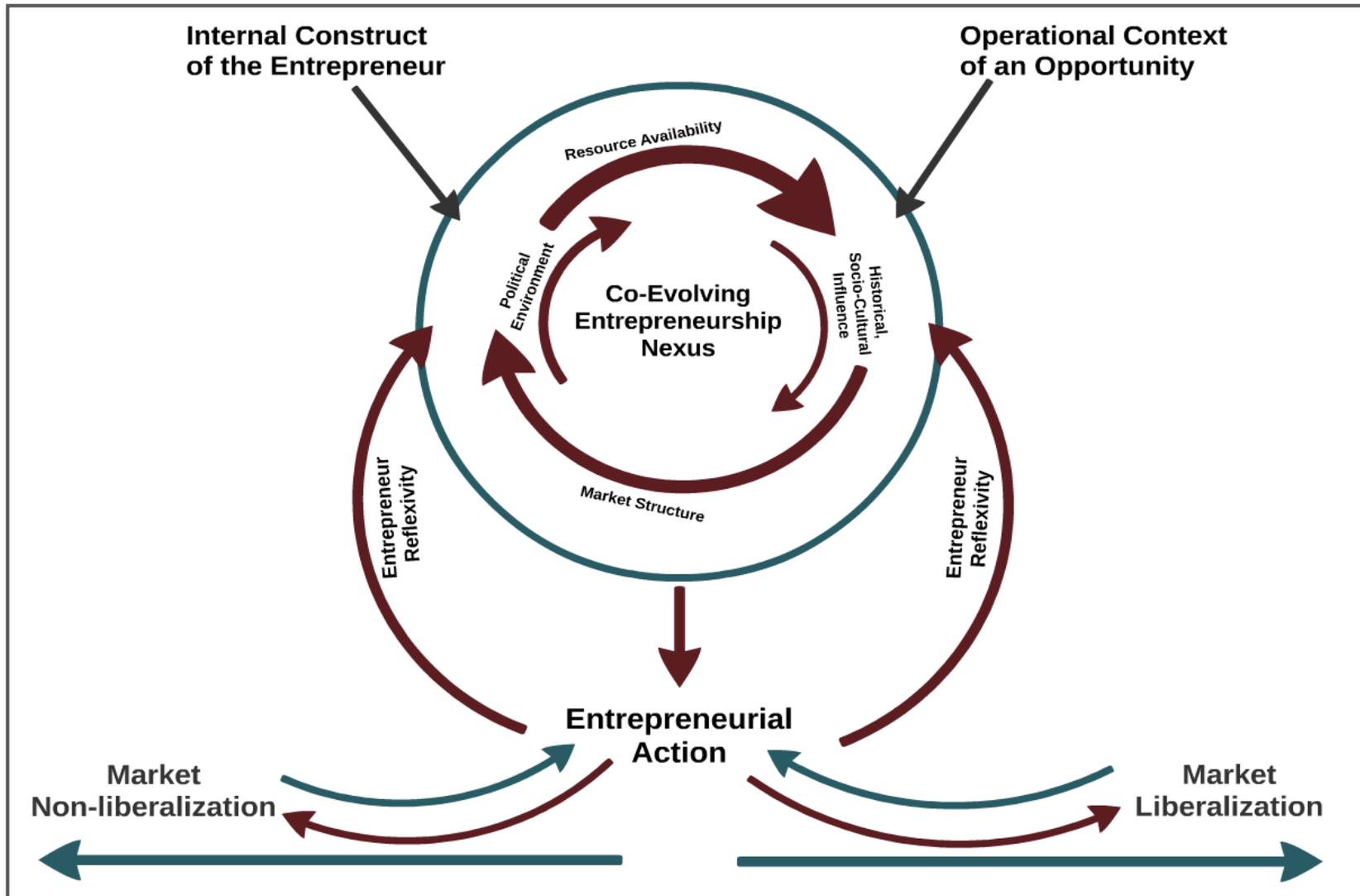
The author's conceptualization of a model for the entrepreneurial ecosystem is presented below in Figure 7.1. While much of this analysis is highly contextualized to entrepreneurs within the Ethiopian and Rwandan coffee markets, the conceptualized framework for the Entrepreneurial Ecosystem below, attempts to present a more generalized model, which may

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<sup>155</sup> The idea of entrepreneurship as an 'ecosystem' was first found in Isenberg, 2010 and Acs et al., 2014, however the development and structure conceptualizing, analysing and depicting the *Entrepreneurial Ecosystem* within this research is the authors.

be applicable for analysis outside of the coffee sectors. Likewise, the completed ecosystem representing the specific entrepreneurial outcomes and additionality for the Ethiopian and Rwandan coffee markets, presented in Figure 7.4 in Section 7.4.1, was built from the robust empirical findings of this research and as such, remains highly applicable to entrepreneurs within these unique contexts.

Figure 7.1. Author's Conceptualized Structure of the Entrepreneurial Ecosystem



(Source: Author Construct)

As seen in Figure 7.1, interdependent elements and ensuing outcomes are tracked with weighted arrows portraying influence importance of determinants as analysed in Chapter 6. Arrows also represent entrepreneurial action both as an outcome of the entrepreneurship nexus as well as a reflexive influence flowing back to the nexus.

The remaining discussion presents evidence to the reflexive entrepreneur and corresponding outcomes as well as the policy and wider government strategy adaptation needed to account for, and even use, entrepreneurial action in order to pursue national agendas. Tangible analysis of entrepreneur reflexivity against specific drivers provides additional empirical evidence to correspond to reflexive action, which will be examined further in Section 7.2.

## **7.2 Perceptions and Choice Making Behaviour of the Reflexive Entrepreneur**

An entrepreneur's perceptions and choices for opportunity pursuit are determined through the individual's understanding and analysis of context and use of internal characteristics to enable analysis, decision and action within a unique environment (Casson, 1982; Lee and Peterson, 2000; Shane, 2003). This combination of context analysis and use of internal characteristics presents the opportunity to see evidence of tangible entrepreneurial action, but also to witness evidence as to how this tangibly influences operational structures. The following section presents entrepreneurial action demonstrating reflexivity to a wider system in relation to drivers analysed as part of the individual construct. As such, this research defines *reflexivity* as the consequence to political, financial, market and socio-cultural institutions due to entrepreneurial actions.

### **7.2.1 Resilience**

Discussed in Sections 2.4.1.1 and 5.4.4.1, high levels of resilience, or an ability to positively rebound following adverse events, can better equip an entrepreneur to more productively adapt to difficult situations (Sinclair and Wallston, 2004). Given the nature of the coffee sector, individuals involved are forced to deal with and overcome many obstacles. An example of market resilience is specifically linked here with responses to the frequent and erratic price fluctuations and overall market volatility of the coffee sector, providing

examples of entrepreneurial adaptation and market resilience. As described in Section 4.2.3, single actors do not have the ability to influence or impact international market prices, specifically futures markets<sup>156</sup> from which domestic price structures are largely derived. As such, actors within the coffee chain of producing countries are forced to be market takers, as opposed to market makers. Additionally, both countries have emerged following entrenched, tragic conflict and political transition, forcing many to completely rebuild businesses as well as lives; also requiring resilience. As will be seen below, responses to market forces and price fluctuations are viewed as part of a wider profile of resilient adaptation strategies for actors and entrepreneurs reacting to adverse market conditions. However, it must also be acknowledged that despite the difficult conditions, some actors were forced to continue, as coffee is often the only choice of income generation for some households. Forced continuance could also be hardened by exit costs or the probability of incurring greater losses following business transfer.

Smallholder Producer Non-Entrepreneurs and Potential Entrepreneurs in both countries, reported to fall into the pattern of expecting one good price year followed by one or two low or bad price years<sup>157</sup>. Additionally, coffee producing communities in both countries were observed to suffer adverse effects of low prices together, as opposed to a specific ostracization of a producer due to poor business results and/ or ensuing financial difficulties. The widespread and entrenched nature of coffee often resulted in an apparent communalization of both success and failure, appearing to almost mitigate some risk from fear of societal judgement, despite poor business results.

During low price seasons, many smallholder producers, while resilient in continuing production despite discouraging pricing scenarios, simply accepted the situation and related “helplessness”, developing a common adaptation strategy of reduced household consumption. As one Rwandan Smallholder Producer Non-Entrepreneur shared,

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<sup>156</sup> Global market prices are expressed in relation to prices established in futures markets which are comprised on short-term combination of market fundamentals including production, expected consumption, stock price trends as well as existing hedges (Daviron and Ponte, 2005).

<sup>157</sup> This pattern rarely occurred when compared to historical price indexes

*If prices are low, you cannot get return on your investment and loose money; there is nothing we can do so we hope for better next year.... Coffee is the best way to earn cash in this area but you just must accept whatever you can get from it. (P\_R\_28, 2014)*

Conversely, entrepreneurs within both countries took varying action in attempts to maintain resilience as well as mitigate risk of price volatility, through restarting business activity, as detailed through the remainder of this section.

### **Ethiopia**

While Ethiopian Producers, Processors and Exporters remain at the mercy of international price volatility, a reduced ability was observed for these actors to be able to improve standings or business prospects in order to mitigate risk from price volatility. While Non-Entrepreneurs maintained a view of season-to-season profitability, Entrepreneurs not only were observed to perceive the coffee sector as a long-term business, but also were actively investing any profits outside of the sector, diversifying portfolios away from coffee. These resilient market adaptation strategies shed light onto larger issues within the country's coffee sector and mistrust from current actors. As described by this Smallholder Producer Entrepreneur,

*This area is a coffee area, so of course that is what people do, but now we (producers) are not free to sell to whom we want and we get no benefits from our buyers. I do not think coffee is as profitable as it used to be. I am still in coffee, but now I look for other opportunities to invest in order to bring in more money for my family. I have gotten involved in construction and I also travel to more rural areas and buy (sun-dried) coffee from those farmers farther out. I will store it and sell when the prices increase. (P\_E\_26, 2015)*

As discussed in Section 6.4.1.1, the current structure of the coffee market, regulated through the ECX market structure, limited opportunity for businesses across the chain to invest in order to diversify coffee portfolios, increasing the need for resilience, but also reducing ability for risk mitigation strategies through diversified investment. Additionally, buying and selling product through the ECX Primary Markets has been proven to largely remove opportunity and incentive for the implementation of graded pricing scales for quality, and purchases of red cherry or sun-dried pods remain at per volume only.

Discussed in Section 6.5.1.1, Ethiopian Processors are highly restricted in ability to differentiate payment measures as the purchase of coffee is only offered at the ECX Primary Market level. As such, Processors typically can only secure as much product as cash available on-hand and must manage through seasonal projections for an unpredictable market. From the Processors interviewed during this research, 85% reported to need additional financing in order to purchase product stock as wished. Resilience strategies for these operators revolved around surviving within current financial means and adopting new/different purchase strategies. While Processors recognized the importance of quality and its ability to garner higher on-sell pricing potential, the market's incentive structure has shifted since the onset of the ECX system to prioritize quantity over quality. As the quality of the product cannot be guaranteed, it has become a safer option to purchase larger volumes of lower quality<sup>158</sup>. As one Ethiopian Processor explained his business resilience strategy:

*I have reduced the volume of trading of my business in recent years. It is safer for me not to over extend myself and I now only buy mid-level grades, but my margins are much less. (Pc\_E\_26, 2015)*

A Processor found to have difficulty in obtaining loans also described his resiliency strategy,

*It is very difficult to be a Processor; we are squeezed by the farmer and squeezed by traders at the ECX. Also the lack of financial assistance such as a loan has changed the way I do business. I cannot get (a loan) and must rely on my own cash, but I do not have enough to purchase the full amount to meet my station's (processing) capacity, so that is also lost revenue. The price fluctuations also make it very difficult to predict and plan and you cannot follow ECX prices. I buy what I can and focus on buying a larger volume at a lower price (and quality) and hope to sell at a profit. But overall it is difficult to continue in this business. (Pc\_E\_4, 2015)*

Due to resulting market structures, Ethiopian resiliency and adaptation strategies across the chain were implemented to reduce risk by limiting business and market activity. This has resulted in reduced overall product quality, reduced investment across sectors as well as reduced receipt of investment by those in need of it most, rural, smallholder producers.

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<sup>158</sup> An additional note of evidence in an overall argument that Ethiopia's current coffee structure has incentivized commoditized volumes over specialized niches at considerable long-term damage to the sector.

## **Rwanda**

Entrepreneurial actors in Rwanda, were observed to understand coffee business through a long-term lens and believed that overall, despite years of low as well as high price, coffee is successful and profitable. This prolonged view of business life, supported resiliency and adaptation strategies in overcoming adverse seasonal challenges and adapt to price volatility. Non-Entrepreneurs had a much more short-term, season-to-season mentality. This mentality mirrored the especially low resilience indexes of Rwandan Smallholder Producer Non-Entrepreneurs seen in Section 5.4.4.1. It is believed that this comparatively low level of resilience (while also coupled with other elements such as a high risk aversion) has impacted investment strategies, in which low price years saw Non-Entrepreneurs limit or stop investments in production. This served to impact output quality and yield from these producers for the following seasons; resulting in a low-input, low-output cycle, difficult to escape.

A common resiliency strategy of Rwandan Entrepreneurs was the focus on quality through a variety of unique methods or strategies implemented at the Production, Processing or Export level, focusing on higher quality or a more unique product in order to garner a higher value. The prioritization of quality was observed to be used as a buffer against volatile market prices as it resulted in higher base prices, although these prices were still highly volatile. Related entrepreneurial action resulted in the introduction of varying degrees of incentives and pricing structures. Graded pricing structures for higher quality are a recent development and while not universally implemented by all Processors and Exporters, it was found to provide incentives for producers. This has aided in the county's effort to improve its overall quality stock, evidenced through improved quality profiles of exported coffee and the continued increase of fully-washed coffee (from 1% in 2002 to 41% in 2014) (MINAGRI, 2014; NAEB, 2015b). Improved quality has attracted additional buyers and raised the international profile of the Rwanda Brand (R\_3, 2014).

Case Study 7.1, demonstrates a Smallholder Producer Entrepreneur's market resilience and related strategy for continued investment, which allowed him to capitalize upon resources available to protect business, but also improve production and quality.

### ***Case Study 7.1. Quality Focus***

One highly successful Smallholder Producer Entrepreneur in north western Rwanda, reported to only plant coffee trees, and has gone as far as replacing all on-farm consumption crops with coffee trees. He has slowly been able to expand his land area and now owns more than 6,000 trees (one of the largest Smallholder Producers found in Rwanda or Ethiopia). He manages a year round staff of six employees and seasonal employment can increase to an additional 25 to 30 people. This entrepreneur is also the only certified organic producer in the area, selling directly to a certified exporter for premium prices. Prior to becoming certified, he reported having difficulty in finding ways to make himself more attractive to area buyers. Partnering with a regional cooperative to be a part of a training on organic production, he has begun producing his own organic compost and fertilizer to use on his trees. He had recently begun to intercrop large shade trees within his coffee plantations to further improve quality.

He explained, “You must look at coffee as a 40 year business, that is the only way you will be profitable, you cannot judge year on year and over time you earn good money. I produce very good quality and also have the certification and so I know I am protected slightly when very low prices happen. Others have not been able to do what I have done or are not willing to take the risk of having only coffee trees. But I have built a second home in the city and no longer stay on the farm.” (P\_R\_80, 2014)

Another Smallholder Producer Entrepreneur took further action and used low price years as an opportunity to purchase land if it became available from producers hit especially hard by low price or other adverse circumstances. As described below,

*I was able to buy some additional land to increase my trees, I also focus on improving my productivity by mulching and adding manure to the fertilizer; even if prices are low I know I can make enough for my family. Land is scarce now, but sometimes people are forced to sell if they must and that is how you can find it (land). I have several plots spread throughout this area.... From the increased profits I made from my additional coffee I built another house and rent it out as another way to generate income. (P\_R\_69, 2014)*

Resilience strategies of entrepreneurs in Rwanda took advantage of market flexibility, implementing strategies to create buffers against price volatility, which resulted in increased quality and development of unique product portfolios for additional income generation. The improved pricing potential was also observed to participate in the overall improvement to the sector through the introduction of quality grades, increased earning incentives, streamlined practices to capture quality post-harvest, improved transport opportunities and improved relationships to capitalize upon sourcing and/ or purchasing arrangements.

### **7.2.2 Self – Efficacy**

Initially presented in Sections 2.4.1.2 and 5.4.4.2, strong self-confidence and belief in oneself, self – efficacy is an important aspect in opportunity pursuit and entrepreneurial success (Bullough and Renko, 2013). The coffee sector can be described as a somewhat naturally self-selecting endeavour due to comparative labour intensity, high start-up costs, large, often upfront seasonal capital requirements as well as seasonal timespans needed to meet profitability. Given the differing market structures equated to either embrace or renounce entrepreneurship and its potential, respondents were observed to respond differently when operating in either demotivating or motivating economic climates.

### **Ethiopia**

Discussed in Section 6.4.1.1, Ethiopia’s introduction of a more restrictive market structure was observed to have had strong impact resulting in the tangible demotivation of sector actors and entrepreneurs alike. The reduction in self-belief or willingness to take entrepreneurial action was observed through restricted business operations and reduced potential for opportunity pursuit. Results from Section 5.4.4.2, revealed no differences to the Self-Efficacy Index between Ethiopian Non-Entrepreneurs and Entrepreneurs, showing all actors have a relatively low degree of self–efficacy. While Ethiopian actors had a slightly higher Self-Efficacy Index score than Risk Tolerance, the market environment and political perspective is considered to have had adverse consequences on entrepreneurs through demotivated outlooks and corresponding lack of action. A Smallholder Producer Potential Entrepreneur described his feelings about the coffee market,

*I am a good farmer and have been able to take care of my family. But with coffee, it is there and the Government says you should grow it so we do, but I do not believe I am allowed to be successful in it. There are unfair benefits for some and restrictions for others like me. I do not feel I get the correct information and what can I do? I take (coffee) to the Market (ECX Primary Market) and sell there.... I do not see how I am benefiting from coffee so I no longer spend much effort or resources on it... I do not feel a competitive relationship with other farmers. But there is a very poor relationship between this community and local authorities and we have much anger. Again, what can we do? We already know who will win the election. (P\_E\_8, 2015)*

A Processor explained his relationship with the coffee sector,

*Now, there is much competition which distorts prices and makes building relationships very difficult, but buyers (exporters) can still make some 'back deals' to get the coffee they want. I don't feel I have as much control over my business as I used to and I do not trust the system. I am buying less and do not spend much money or effort to source higher quality; the middle grade quality is a safer option. (Pc\_E\_10, 2015)*

Coffee is considered a 'priority sector' due to its ability to garner foreign exchange, however as discussed, the priority status does not stretch across all actors in the domestic industry. Without, and even with the priority status, businesses reported difficulty due to the constricted regulatory environment, which has proven to further reduce confidence in coffee as a viable business option. Despite having access to formal lending structures, this Exporter described his challenges,

*My family has always been in coffee, but as of late, I have reduced my coffee businesses to only export. We have diversified and invested in other holdings such as a printing business, import of goods and renting of transport vehicles. I am waiting to see how this current market (ECX) progresses before I make any other large decisions on coffee. Overall, I think quality has gone down because people are buying blind at (ECX) Auction, but it is still a good sector for me because my other businesses also benefit from the loans I get for coffee. (Ex\_E\_3, 2015)*

As shown above, Ethiopia's demotivating environment and corresponding low degrees of self-efficacy for Non-Entrepreneurs and Entrepreneurs alike have restricted market interaction and willingness for business investment or expansion. The reduction in business purchasing strategies or value-add opportunities also reduces national revenue earnings from the sector. While difficult to ascertain, specific results on quality profiles or differentials, Ethiopian actors and international customers alike complain to the perceived reduction in quality (E\_4, 2015; E\_5, 2015). A trend was certainly perceived in which the removal of quality has dis-incentivized the current market structure and regulatory environment, resulting in increased focus to commercialization. Additionally, increasing distrust of the sector and related controls was palpable, yet without a conducive system in which average populations can have grievances addressed, questions exist as to the true effectiveness or success potential for the sector.

## Rwanda

The re-emergence of Rwanda's coffee sector has resulted in a new class of operators, often having to work through unchartered territory. The relatively new sector is widely recognized to be fraught with risk as well as its unpredictability. Thus actors and entrepreneurs choosing to be involved already demonstrate a strong sense of self and belief in their own capability to succeed. Additionally, coffee businesses are typically located in remote areas, far from typical amenities and with frantic work schedules<sup>159</sup>; the choice of entering the sector is, in a way, a culling effect for less dedicated or less confident actors. As described by a Processing Station Owner: "If you want to do business, but you want to be at an office with a tie, you do not go into coffee" (Ex\_R\_20, 2014).

Entrepreneur respondents also expressed a pride and indeed strong desire to work for themselves, an eagerness to be responsible for decisions made and strategies taken and showed a trust in their own judgement. Choice for entering the sector was explained by this Processor,

*Why did I want to get involved in coffee? My parents grew coffee and I learned about it from there ... I know I have the knowledge and expertise to be able to run a station. I found a financier willing to invest in me and together the business has been working well. We started small, but are slowly increasing size of operations. The industry is also growing and improving, so it is a good opportunity (time) to get involved. I enjoy the challenge and yes, losses are my fault, but the successes are also mine. (Pc\_R\_19, 2014)*

Many Entrepreneur respondents, regardless of business segment or entrepreneurial classification, responded positively when asked if they believed they were successful and were in control over their own business. The history of the business start-up of a young entrepreneur is presented in Case Study 7.2

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<sup>159</sup> Most Processing Stations and Exporting businesses operate 24 hours during coffee season in order to handle amount of product provided. Producers typically harvest overnight to be able to transport fresh product to the stations in the morning.

### ***Case Study 7.2. Self-Belief in Business***

This Rwandan Processor was the youngest Entrepreneur interviewed, at age 24. Hidden with neighbours as an infant, he is the only surviving member of his family following the genocide and upon turning 18, was able to reclaim some family land. Since, he has taken an active role in establishing and expanding his business. He reported to recognize that higher margins existed in the processing stage and began investing in his first washing station nearly five years ago. He now has two washing stations, currently buying from over 5,000 farmers and is looking to export once he has enough volume. He described his mind-set and self-belief in his ability to achieve his business goals:

“I am very interested in business and have learned to rely on myself only. I have built this myself and I trust in my own judgement. At first I was not able to get a loan from the bank, as I was too young. So I started very small but have had much success as the business expands. I encouraged farmers to buy shares in my first washing station and that is how I generated some capital to start. I am trying to maintain a good relationship with my farmers. If you take care of them, they will take care of you. I have done two years of university, but I think it is largely a waste of time for me”. (Pc\_R\_4, 2014)

Improvements to regulatory structures and faith in positive Government interaction continue to build trust and confidence within the wider economic framework. The continued development of high self-belief among actors as well as growing pride of the industry across the country has also played an important role within socio-cultural settings regarding individual or community reconciliation processes, with focused efforts to the future, instead of the past.

### **7.2.3 Innovativeness**

Described in Sections 2.4.1.3 and 5.4.4.3, innovation is understood as the capacity to engage in new processes, products, services, ideas or systems. It is also perceived as improvements to ideas through unique or original combinations (Schumpeter, 1934; Janssen, 2000; Okpara, 2007; Hall et al., 2012). Additionally, as innovative schemes are introduced, other actors pickup on activity or accrued benefits and introduce strategies into their own business. While this may be seen as a wider benefit for the development of the sector, entrepreneurs in turn must be constantly innovating to stay competitive (Baumol, 1993). As such, individual innovativeness is more than just a single creative, yet static idea, as entrepreneurs need to continually engage in innovative processes. This was observed as such in entrepreneurs in Rwanda, but to a lesser degree in Ethiopia.

## **Ethiopia**

Given the current, restrictive market structure and regulations, expanding opportunity or experimenting with new ideas, products or services was found largely absent and un-incentivized within the Ethiopian system. Instead, environment and structures kept actors operating through a limited market scope. This inability to operate across the chain or to interact with other segments was observed to result in a single-minded approach, focusing protection of individual business interests. Restrictions against vertical integration also removed potential for implementation of unique as well as needed service provision (financial, technical training, input supply) across the chain, especially at the smallholder producer level. Without an incentive for businesses to do their own research and development, there was an obvious lack of experimentation and innovation aimed at improving the product or business model and may also be attributed to high risk-aversion for private sector actors who have learned to operate expressly within an allowed structure. As one Ethiopian Processor explained,

*It is not worth to expand or try new things. I stay where I am, with what I know works and with what is accepted. (Pc\_E\_23, 2015)*

Only one, unique Commercial Farming business was found to be especially innovative in its business approach and practice and was the only respondent found to be undertaking business approach in this way, presented in Case Study 7.3 below.

### ***Case Study 7.3. Unique Innovation***

This Commercial Farmer entrepreneur and his sister are business partners, educated in the US and recently returned to Ethiopia to pursue its business potential. He described his business below.

“We started our farm four years ago, but did research for three years prior to starting. Our Farm is located in the southwest of the country, near Gambela. We grow a very specific variety that is originally from Ethiopia but we actually discovered it being cultivated in Panama during a research trip several years ago. This variety commands a lot of attention, but produces a very high and very distinct profile. Before we settled on this variety we did a lot of soil testing and also brought in technical experts to assess the area. Last year was our first harvest, still from premature trees so I expect the price to increase, but we received between \$30 and \$32/ lb for what we exported. We also work very closely with local communities and are instituting an out-grower scheme in order to export the lower grades we buy from area farmers. In our area, people traditionally do not use the coffee cherries and instead chew or brew the leaves of the trees, so a lot of training still is needed. We are not going to certify as Organic because I think organic limits production quantity potential and I want quantity with my already high quality variety. It is very difficult working with local administrators. We have buy-in and support at the Federal Level, but they have little ability to influence or control at the local administrative level. Trying new things or operating ‘outside of the ordinary’ brings many headaches.” (CF\_E\_19, 2015)

The price quoted above for coffee is the reported export price received by this Commercial Farmer. Ethiopian smallholder farmers can typically receive an estimated \$0.40 to \$1.60/ lb selling to local ECX Primary Markets, however Commercial Farmers produce and process their own beans on site and by-pass the ECX Auction to export directly to International Importers. While this specific export price is noticeably high in comparison to ‘commercial coffee grades’, high-quality, speciality coffee export prices can reportedly reach up to \$100/lb (R\_3, 2014; E\_5, 2015; ICO\_2015).

Overall, Ethiopian Entrepreneurs were found to have implemented less innovative practices. However, one innovative result stemming from the current market structure in Ethiopia was the type of business registration, which was discussed in greater detail in Section 6.5.1.1. While many classifications for business registration exists in Ethiopia, the most common for independent, private economic entities is through incorporation as a Private Limited Company (PLC) or Sole Proprietorship (SP) (Seifu, 2010). Due to the difficulty in accessing financing for businesses, many formal businesses choose to incorporate as a PLC in which ownership structures can accommodate up to 50 people (Seifu, 2010). These structures enable the entrepreneur or business initiator to attract their own financing through ownership buy-in of an equity share, as opposed to the more ‘typical’ financing options from formal banking institutions, as capital is raised from shareholders as opposed to traditional bank loans (Pc\_E\_19, 2015). Some respondents reported to have chosen to establish PLCs as they felt they did not have correct connections or the business was too young to be approved for a loan. Dependent upon the specific ownership structure, it can be cheaper to source capital

from shareholders than from formal lending institutions. Alternatively, businesses can also incorporate as a Sole Proprietorship in which a single individual is liable for all business actions (Seifu, 2010). As seen in Table 6.4 of Section 6.5.1.1, 68% of Commercial Farmers, 54% of Processors and 80% of Exporters reported to be currently registered as PLCs. The experience of a Commercial Farmer is described below,

*My father had a large coffee plantation during the Emperor's time, but it was taken during the Derg. After the Derg we tried to get the land back but could not and also many people had relocated to the site and we could not remove them. By this time, we had all our collateral tied to other businesses (textiles) and could not get another loan. Instead we shopped for investors, friends and family members who could invest in us and be a part of our (PLC) company. That is how we got the capital to start. Now all earnings we make are shared with shareholders and not the bank. (CF\_E\_16, 2015)*

Several respondents reported to have started businesses as PLCs only to later change to SPs upon becoming further established, with a successful credit history. One of Ethiopia's largest Exporters, who in 2014, exported 18,000 tonnes green, with revenue earnings over \$57 million, described the difficulty he faced in getting initial finance and his experience starting his business in 2005.

*To be an entrepreneur it is very difficult to get established because the banks require such high collateral levels. The banks do not understand the sector. Only once you have a positive credit history with them it is easier to deal with them – but loans are still only made against signed sale contracts with an importer. We struggled for six years and used all of our liquid assets to set up the warehouse to start the business, as we could not get a loan. Now that we are established with a business and credit history we still are a PLC, and still benefit from our shareholders. (Ex\_E\_18, 2015)*

The otherwise limited innovation observed in Ethiopia is believed to be an output of the operational context but was also observed to be a contributing factor to the adverse operational and financial climate due to the lack of actors consciously willing, or able to push boundaries, experiment with new ideas, processes, techniques or operational models. The lack of innovation, not only hindered the organic evolution and improvement to the sector, but also limited potential for individual business expansion through reduced earning prospects. Without competition to the commercial financial sector, improved financing options do not appear likely.

## Rwanda

Rwandan Entrepreneurs were found to be more innovative than Ethiopian counterparts in a variety of ways, mainly centred on product quality, processing techniques, sourcing methods and financing schemes. Producers that recognized and chose to prioritize quality turned to experimentation with different, largely organic composts and growing methods – such as the introduction of shade trees to limit direct sun on the coffee trees and alternative production and harvesting practices. With the emergence of varying certification schemes, namely Fair Trade, Organic and UTZ gaining popularity with Processors and Exporters, several entrepreneurs were discovering ways of integrating certification into wider business models. However, most certifications remain very difficult to obtain and maintain due to higher input costs and added difficulty in securing supply that meets not only quality standards, but also adheres to strict sourcing and community interaction policies. One Processor who owns a farm but also sources from area Smallholder Producers described his business model,

*On our farm we produce organic, single-origin, micro-lots, mainly for sale in Rwanda, but also some regional sale as well. Our farm and processing station is on the coast of Lake Kivu and we are currently setting up an eco-tourism lodge near the station. Tourist will stay on the beach and can tour our plantation and processing facilities. We are constantly testing and trialling new techniques to improve but also share that with the farmers in our area. Some of the best (farmers) we have trained for Organic certification and they receive an accordingly higher price when we buy their cherries. That has proven to be a good incentive for other area farmers who see what they also could achieve if they improve as well. Overall, I think the community benefits from increased employment from us, but also from increases in money coming into the area and into these households of poorer farmers. (Pc\_R\_17, 2015)*

Processing and Exporting businesses in Rwanda not only demonstrated high levels of innovativeness as well as resilience in regards to continued operation despite price volatility, but also through the ability to innovate around the seeming barriers posed by financing challenges. These businesses have a higher capital intensity and are less able to defer losses when prices are low, posing additional risks. High cash flows<sup>160</sup> are required during seasons as product (cherry or parchment) is typically paid for in cash at point of sale and all product

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<sup>160</sup> It was also reported as a security risk to hold such large amounts of cash either at station or manager home.

must be purchased across just a two to three month span<sup>161</sup>. While default and bankruptcy is especially high for these segments (NAEB, 2015b), some entrepreneurs operating these businesses reported to have introduced specific, unique strategies in order to maintain operations, cash flow and sourcing ability.

Overall, liquidity constraints in Rwanda continue to be problematic due to inadequate cash availability during coffee season as well as the high cost of credit, as discussed in Section 6.5.1.2. However, despite these challenges operators continue to persevere and some entrepreneurs have even proven to flourish. Case Study 7.4, demonstrates one Processor's innovative solutions to overcoming financial challenges and sustaining an expanded business model.

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<sup>161</sup> Standard seasonal span is three months, but can stretch as long as five months, however with quality profiles noticeably reduced.

#### ***Case Study 7.4. Gaining a Competitive Edge through Financial Innovation***

The Founder, Owner and Managing Director of a coffee processing and exporting business and one of Rwanda's most successful coffee entrepreneurs, overcame his cash flow challenges by using his business as a 'savings tool' for producers. Typically, Processors must pay in cash at time of purchase from Producers, or buy on credit, as is common for many cooperatives. However, Producers prefer to receive cash payment as opposed to credit notes when selling their cherries and this has left many processing stations reduced to only buying according to availability of cash on hand. Additionally in many coffee zones, increased competition from the increasing numbers of processing stations has enabled Smallholder Producers' greater flexibility in choosing to sell to stations able to pay in cash, at the expense and chagrin of many Processors.

Seeking to overcome these challenges, this Entrepreneur developed and implemented an innovative financing scheme in which Producers can either choose to be paid in cash at time of cherry delivery to his washing station, or can choose to open an individual 'savings account' at the processing station and be issued a savings receipt at time of each delivery of product (each producer has an individual account). Reportedly, the vast majority of Producers selling their cherries have chosen to 'save' payments with the processing station, using it as a savings institution. Providing a savings mechanism for Smallholder Producers in an area that has yet to see the establishment of formal finance institutions, freed the need for such large upfront cash requirements and also allowed Producers an opportunity to save money, accessing as and when needed throughout the year. It has also created an additional benefit of securing loyalty, building a more reliable supplier network and establishing relationships with these Producers, ensuring return of supply year on year, despite increasing competition from other processing stations within the area. Operating in a highly competitive coffee area, this entrepreneur also provides year round technical training and agricultural support for his loyal farmers, ensuring their continued supply, but also improving the quality of coffee received.

"We had some very difficult first few years, struggling to be able to source the volume needed to cover operational costs of the station as well as to be able to pay farmers for deliveries. It took me a few seasons to test and improve this strategy, but I believe we are providing a valuable service to the farmers and overtime we have a very good relationship built on trust. My farmers trust in what I tell them and listen to trainings and as a result we have been able to improve quality and sell at higher prices, which is another benefit to us both." (Ex\_R\_1, 2014)

For comparison, Ethiopian Processors would not be able to introduce a similar system as presented in Case Study 7.4, due to market restrictions and legal regulation resulting in the inability to trace product or know producers, as all product is pushed through the ECX Primary Markets.

Rwanda innovations observed within the Processing and Export segments also resulted in varying and unique attempts at improving product price through unique sale pitches, trainings, or other incentive packages. As will be discussed in Section 7.3.1, many of these innovations also contain a social benefit as a means to increase or maintain a competitive edge through indirect, non-monetary means.

Rwanda was observed to not only have the space conducive for innovative action and trial of new combinations, but new strategies were found to be implemented that were observed to be actively improving individual businesses, local communities, and wider markets. Ethiopia was found to have a comparatively reduced number of innovative actions and this is believed to be an outcome of the restrictive market structure, reduced risk tolerance and inability of actors to source finance to enable innovative or new business expansion. While this study was an investigation on entrepreneurship, innovativeness and related actions taken form an important element in its broader understanding. The actions and strategies listed in Table 7.1 below, present innovative actions observed in each country in relation to specific business strategies. Admittedly, additional innovations may be occurring, however the list below presents the outcome from observations on entrepreneurial action and business strategies found following discussions with respondents and key informants.

*Table 7.1. Observed Comparative Innovations*

<b>Innovation Strategies</b>	
<b>Rwanda</b>	<b>Ethiopia</b>
<b>Production Strategies</b>	<b>Production Strategies</b>
Shade grown	Shade grown
Organic (conscious choice)	Organic production due to traditional practices
New compost/ mulching production (on sale to other producers)	
Introduction of new varieties	
<b>Business Strategies</b>	<b>Business Strategies</b>
Land Expansion (Rent, Purchase)	Land Expansion (Rent, purchase)
Business focus on unique, quality product	Certification schemes, Commercial Farm only
Employment of laborers (Smallholder Producers)	Diversified Business holdings (non-coffee)
Certification Schemes	Employment of laborers, Smallholder Producers
Diversified Product / Business base (coffee & non)	
<b>Sourcing Strategies</b>	<b>Sourcing Strategies</b>
Purchase contracts (guaranteed market for Producers/ Processors)	Pay off to ECX Primary Traders for selected, preferential supply
Pre-finance options	
2nd Payments	
Input Supply	
<i>In-kind payments via area social benefits:</i>	
- Technical trainings	
- Payment of school fees for qualified producers	
- Purchase of annual healthcare costs for qualifying producers	
- Building area schools / medical facilities / water supply / electricity	

(Source: Author Construct)

#### **7.2.4 Risk Tolerance**

Discussed in Section 2.4.1.4, entrepreneurs have a higher tolerance for risk and are more likely to see potential endeavours as opportunity, as opposed to a risky activity. However, risk taking is still a carefully calculated undertaking and entrepreneurs do not take risks simply to engage in risky behaviour (Josien, 2012). As seen in Section 5.4.4.4, respondents from both countries showed a relatively low degree of Risk Tolerance as compared to other drivers, with Ethiopia scoring much lower than Rwandan counterparts. The specific results to risk aversion were found to be related to the specific environments of operation, in which entrepreneurs demonstrated highly calculated approaches towards risky endeavours such as new ventures, market expansion and portfolio diversification. Operating a business within the coffee sector of either country is recognized as a risky endeavour.

While all business pursuit inherently carries some degree of risk, some of the most common risks observed within this research were price fluctuations, shifts in international demand, lack of market control, financial inaccessibility, production challenges such as climate variability or pests and disease, market access, transportation of goods, and product sourcing challenges.

#### **Ethiopia**

Ethiopian Smallholder Producers, reported to acknowledge quality as important, however payment was largely accorded only to volume delivered and not a specific quality standard, and producers therefore were found to thus afford less time to quality. Smallholder Producer Entrepreneurs reported to use profits to expand business opportunity, however all expansion came through diversification out from the coffee sector. While coffee was maintained, preferred investment was made in construction, retail or transportation endeavours, which were believed to deliver greater returns. As an Ethiopian Smallholder Producer Entrepreneur stated,

*I used to be a tailor before, but that was not profitable and so I switched to coffee because with one harvest you can make cash and use that to invest in other businesses. In addition to coffee, I built a commercial shop that I rent out and grow eucalyptus trees to sell as lumber. Coffee can be very profitable, but also unpredictable and risky and I make more money from these other businesses. (P\_E\_23, 2015)*

Given the ECX structure and inability to trace coffee origins, Ethiopian certification schemes are only available to Cooperatives and Commercial Farms. In addition, local sale of coffee within the domestic market is highly restricted, despite an estimated 50% of total country production consumed domestically. Due to this, many actors choose not to be involved within the domestic coffee market. Ethiopian actors appeared to be highly restricted in what was operationally feasible and were also highly opposed to be regarded as someone who is challenging the system or attempting something new, and as a result, did not. As described by one Exporter,

*The lack of a hedging mechanism for this market is a problem. It puts us at a disadvantage with other international sellers from countries that have some sort of hedge. Many Exporters operate in the 'traditional way' by purchasing and holding on to stock and then trying to find a buyer, but within this system, this incurs great risk. I only purchase what I can sell, once I have an agreed contract.... The business climate is very difficult in Ethiopia. There is high system instability, high levels of legal regulations and restrictions; those who have never been outside (the country) don't actually know how difficult it is here. (Ex\_E\_10, 2015)*

Ethiopia's difficult environment has shown to make actors and Entrepreneurs alike more risk averse. This was shown in Section 5.4.4.4, in which Ethiopian Entrepreneurs and Non-Entrepreneurs were found to have no difference in Risk Tolerance Indexes, also having significantly lower score as compared to the other driver tested. The lack of risk taking and lack of the willingness to pursue or test new opportunity was found to have resulted in limited expansion to the sector, reducing potential for national economic revenue generation and reduced entrepreneurial dynamism.

## **Rwanda**

Smallholder Producer Entrepreneurs, particularly in Rwanda, were found enabled to work to improve quality in order to provide a buffer on pricing in order to mitigate the risk posed by price instability and variation. Entrepreneurial Smallholder Producers actively looked to protect quality investments by sourcing additional input supplies or producing own compost. While land expansion or new acquisition admittedly has a high degree of risk due to challenges in ownership legality, entrepreneurs that pursued this route believed it would be in

their best long-term business interest, despite the risk. Described below by a Smallholder Producer Entrepreneur,

*Coffee is challenging and difficult to be successful as a business. I have grown my business slowly so to not over-stretch my capability. I started with a very small number of trees but have slowly expanded. I invested in a local bar, which also brings in money, but I now use that (bar) as collateral to get a loan to expand my land and coffee production. (P\_R\_67, 2015)*

Overall, Rwanda's business climate has been improved through the streamlining of legal and regulatory processes, improved institutional capacity and reduced cost of registration and licensing requirements (Crisafulli, and Redmond, 2012). These improvements, paired with the open market structure, were found to facilitate a higher risk tolerance and opportunity pursuit, leading to many entrepreneurs taking risks on new ventures or operational strategies. Many have enacted unique schemes to promote a competitive edge through benefits accrued via non-monetary means, which will be explored in greater detail in Section 7.3.1.

While improvements can still be made, the existence and continued development of private sector lobbyist groups such as the Coffee Exporters and Processors Association of Rwanda (CEPAR), highlighted in Case Study 6.7, as well as Rwanda's Private Sector Foundation (PSF), point to effects of the evolving, open dialogue between policy makers, private sector actors and entrepreneurs. Recognizing these improvements, entrepreneurs reported to feel a greater degree of confidence and had developed a lower risk aversion to the sector due to gains in efficiencies and corresponding legislative actions.

### **7.2.5 Opportunity Recognition and Entrepreneurial Orientation (OR+EO)**

Discussed in Sections 2.4.1.5 and 5.4.4.5, OR+EO accounts for the individual entrepreneur's predisposed alertness to opportunity based on an individual's desire to explore new opportunities (Arentz et al., 2013; Boso et al., 2013). In this research, entrepreneurs were analysed not only on the opportunity perceived, but also on the opportunity acted upon.

## Ethiopia

Ethiopia's entrepreneurial landscape proved to be much more elusive in tangible opportunity pursuit despite entrepreneurial opportunity recognition and orientation alertness. It was observed that respondents and entrepreneurs alike, demonstrated a high propensity to recognize opportunity, however had little ability to pursue. Inherent ceilings appeared to be in place and producers were unable to expand further than a 'smallholder producer'. Throughout the research process, no Ethiopian Smallholder Producer respondent was found to have been able to significantly expand his or her coffee business into an additional segment of the chain (i.e. Commercial Farmer, Processor or Exporter). This can also be evidenced in the disproportionate number of Ethiopian Smallholder Producers classified as Potential Entrepreneurs as opposed to Entrepreneurs. While Commercial Farmers do have large business holdings and may have expanded acreage, none started from the smallholder producer level, with the majority investing in commercial coffee production purely as a business endeavour.

Following the change in Ethiopia's market structure and ECX establishment in 2008, businesses that were vertically integrated were forced to divest in order to operate within a single segment. Businesses wishing to operate across multiple segments are now required to establish a legally separate business entity<sup>162</sup> in order to operate multiple businesses along the chain. Only two respondents were found to have separate, legally registered business entities operating in both Processing and Export segments, out of the 46 interviewed. While Ethiopian respondents clearly recognized opportunity and showed an in depth understandings of the market, actors seemed to stay within designated segments and reported not to be able to pursue expansion as wished. As described by this Exporter,

*The Ethiopia system limits producers, limits processors and limits buyers. It is a system of control. It is very difficult for people to improve themselves; people cannot change from circumstances they were born into. (Ex\_E\_1, 2015)*

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<sup>162</sup> Law stipulates that a single person, operating a private business cannot operate in more than one area of the coffee chain, forcing some businesses to split into multiple, separate legal entities. This has reportedly dissuaded many from operating multiple businesses or becoming involved across the chain (E\_6, 2015).

Research observations revealed that while many respondents saw and understood viable market opportunity, they were unable to pursue due to external, often inherent ceilings built into the system. This inability for pursuit is believed to stem from the restrictive market structure, a lack of resources, the current financial and political environment, which was found to have adverse impacts to not only the coffee sector and individual entrepreneurs, but also the wider economy as a whole.

## **Rwanda**

Within Rwanda's open market structure and encouragement for vertical integration, movement across and throughout the chain by entrepreneurs in pursuit of new opportunity was common. This was observed in production expansion through land acquisition, diversified business holdings across multiple elements of the chain, and even the advancement of businesses from one segment to the next. One of the most obvious demonstrations of OR+EO was examples of entrepreneurs who started as Smallholder Producers, eventually expanding to owning and operating processing stations and eventually export businesses.

Diversifying product portfolios was a common tool of risk reduction, but also of opportunity pursuit. Rwandan entrepreneurs were found to diversify coffee product lines, improve quality and increasingly offer a wider range of products. Certification schemes have become popular with Rwanda's speciality coffee scene with multiple Processors and Exporters also currently expanding to highly specialized batches and capitalize upon unique single-origins. In Rwanda, business expansion opportunities also saw some entrepreneurs investing in local roasting and packaging schemes in order to sell product domestically and create lines of additional revenue. As described by this Rwanda Exporter,

*My husband and I own a large farm, but are also processing and exporting. We employ a number of people from the surrounding communities and have instituted an out-grower scheme for other area farmers. Coffee is difficult, but our business has been largely successful. We are very remote and there are not other buyers (processing stations) in the area. With all these activities, we have people depending on our employment and continued business success. Farmers are depending on us to continue to purchase their coffee, there is a lot of pressure to be successful. We have*

*started to roast our coffee for sale in supermarkets here. That has helped us with another source of income for any coffee we are unable to export. (Ex\_R\_11, 2014)*

As shown, Entrepreneurs in Rwanda showcased an eager but also an enabled appetite for expansion as well as a long-term vision of controlled opportunity pursuit built from distinct strategies to not only improve business prospects and increase the bottom line, but to be able to use their own, self-recognized knowledge and skillset to expand as and where wished; enabling and promoting a distinct and dynamic entrepreneurial sector.

### **7.3 Entrepreneurship Additionality**

Entrepreneurship is considered to be beneficial to economic development, with multiple benefits and impacts generated through the entrepreneurial process such as new innovations, employment creation, improved productivity and efficiency, knowledge spill-overs via clusters, research and development, or the facilitation of technology transfers (Acs et al., 2014). Additional outcomes include, but are not limited to risk diversification, a broadened tax base, as well as the introduction of innovative approaches to address a country's unique and specific challenges (Brixova and Asiminev, 2010). While the relationship between development and entrepreneurship is complex and by no means a one-size fits all solution, entrepreneurship can be a key element in creating economic growth and poverty reduction (Schumpeter, 1934; Baumol, 1993; Shane, 2003; Acs et al., 2008; Brixiovia, 2010).

Entrepreneurs themselves not only benefit from improved revenue streams from successful new ventures, but entrepreneurship itself, can be a catalyst for growth through new business creation, employment generation, industry expansions and new knowledge creation (Bridge and O'Neill, 2012). Section 7.2 presented evidence to the reflexivity of individual entrepreneurial action in order to provide contextual evidence as to how entrepreneurial actions are influenced by, as well as shape systems.

Additional benefits can also be incurred directly by the entrepreneur, or trickle through a wider system and are referred to in this research as entrepreneurship additionality. However, certain situations of restricted entrepreneurial mobility have resulted in constricted

entrepreneurial action in which the lack of involvement from entrepreneurs can actually create adverse effects on structures and markets. This research defines *additionality* as the additional, social and interpersonal benefits created through new entrepreneurial inputs or actions, establishing a greater aggregate system. While additionality is largely meant as a positive connotation, negative additionality can also be construed from entrepreneurial action due to adverse elements within an operational context or the inaction of entrepreneurs.

While Section 7.2 showed varying evidence to entrepreneurial action and the related reflexivity for actors and each marketplace, this next section looks to further understand and depict if and exactly how entrepreneurs were found to be architects of change within these research contexts.

### **7.3.1 Additionality and the Wider Benefits from Entrepreneurial Action**

As initially discussed in Section 2.6.1, entrepreneurship can provide benefits to an overall society through employment generation, supported innovation, increased structural changes, skill development, knowledge transfer, improvements in competitive environments, as well as contributions to regional and national fiscal health (Herrington and Kelley, 2012). While difficult to explicitly quantify, potential exists for additional, large-scale direct and even indirect impacts to stem from entrepreneurship, given the nature of overlapping influences and outcomes between actors and environments (Lundstrom and Stevenson, 2005). These wider benefits have been traced to entrepreneurial action and the ensuing effects from those actions. As will be discussed in the following section, results of positive additionality from beneficial overflows to wider populations were difficult to find or perceive in Ethiopia as compared to Rwanda. As such, it is believed that there are fewer occurrences of these benefits, which is considered an outcome of the wider environment Ethiopian coffee actors are forced to operate within.

#### **7.3.1.1 Ethiopia**

Recent structural changes to Ethiopia's coffee sector has increased private sector involvement (as compared to the Imperial and Derg Regime eras), which in some circumstances has helped to professionalize a highly inefficient sector through the

introduction of Commercial Farms (Dempsey, 2006). However, Ethiopia's current coffee structure leaves much to be desired and as has been shown, is a difficult and restrictive environment for entrepreneurial action with the industry continuing to be dominated by inefficient, small-scale production relying on traditional practices. The sector's growth, since the wider economic opening of the early 1990s, has resulted in expanded networks with additional benefits through employment opportunities, such as informal, non-ECX registered rural traders and transport enterprises. The ECX system, while constricting growth in other areas has created new employment for operators and traders within the ECX Primary Market system as well as within the operational and management bureaucracy of the ECX.

However, as has been seen throughout this research, and as will be depicted in Figure 7.2 below, the Ethiopian coffee sector has a markedly lower number of perceived benefit outcomes as compared to the Rwandan market. Additionally, an outcome of the restrictive market structure is the reduced incentives and in some cases eliminated ability for entrepreneurs to even create wider benefits. Analysis of entrepreneurial action in Ethiopia has revealed that negative additionality has occurred due to prohibitive and constricted operational contexts and the resulting inaction from entrepreneurs.

Prior to introduction of current ECX regulations, the structure was much more open and several respondents discussed that opportunity existed for businesses to overlap across sectors and to directly link with suppliers, enabling additional direct and indirect benefit provision to be created throughout the chain. As described by this Exporter,

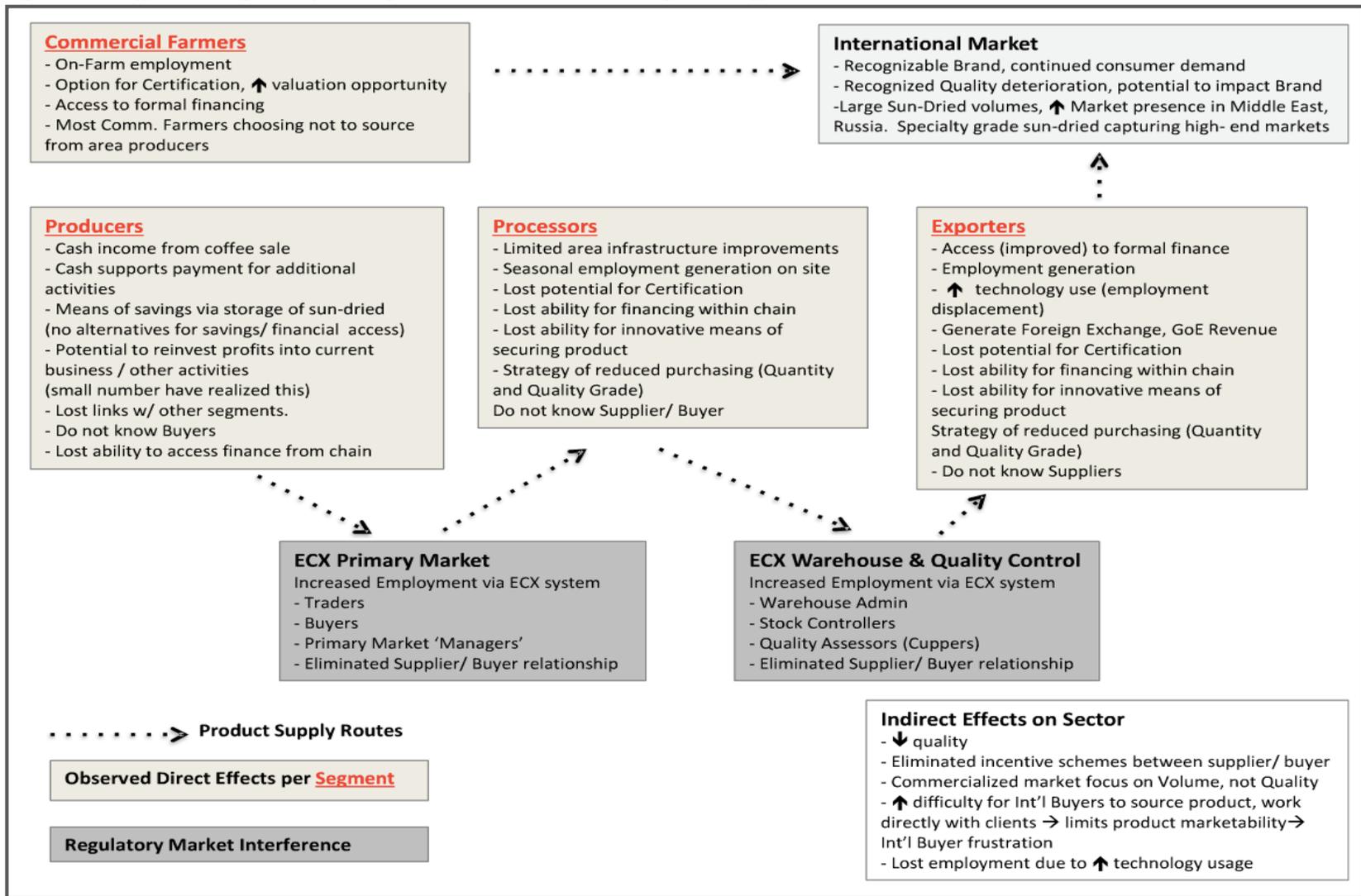
*In the previous system, you could trace and work directly and invest with farmers through specific trainings for quality improvement etc. Before the ECX even Exporters could trace and invest directly in people (producers). Now, when buying at the (ECX) Primary Market you cannot know where coffee comes from. There is less incentive now for farmers and lower quality. Because I cannot trace where the coffees are from, my business has directly lost opportunity as some of my buyers have gone elsewhere. I started working in coffee 25 years ago and had built good relationships with farmers, but I now can no longer work with them. (Ex\_E\_20, 2015)*

Ethiopia's coffee sector involves an estimated 20% of the population. As seen in Section 4.3.3, over 4 million smallholder producers are involved through the direct production and

harvesting of coffee, with another 15 million working through processing, transportation and market related activities throughout the rest of the chain. The coffee sector generates additional seasonal employment in many rural, often poor areas, providing needed additional income sources (Sutton and Kellow, 2010). These are not new changes, however despite the added jobs generated through the ECX system, a net loss is believed to have incurred in regards to employment generation and wider business expansion (E\_4, 2015). Additionally, through recent increased usage of technical equipment for the sorting, processing, grading and packaging of coffee, seasonal employment, often hundreds of seasonal employees per processing station and export business, have been replaced.

Figure 7.2 below, presents an Effects Diagram of Ethiopia, specifically depicting the direct and indirect effects and benefits (or lack thereof). While not an exhaustive list, the diagram depicts entrepreneurial action through the coffee chain as observed and interpreted through this research. This Effects Diagram was comprised following research observations and discussions with respondents, however research has not analysed effects and/ or benefits through quantitative or economic analysis. Research segments are presented in **red**. Direct effects are listed under each research segment and linkages shown through arrows. Indirect effects on the sector and entrepreneurial action are presented in the box within the diagram. As will be seen, while direct and indirect effects continue to occur through the current market structure and entrepreneurial action, it remains limited in scope and the majority of outcomes is a result of introspective business strategies, with limited add-on benefits being felt across the Ethiopian sector.

Figure 7.2. Effects Diagram of Entrepreneurial Action in Ethiopia's Coffee Sector



(Source: Author Construct)

### **7.3.1.2 Rwanda**

Benefits from entrepreneurship within Rwanda's coffee spectrum and greater sector wide growth were found to have created positive impacts. While not everyone working within the spectrum is or can be considered as an entrepreneur, thousands of jobs have been created from direct or indirect entrepreneurial action, new business creation and business expansion (Boudreaux, 2010). Through investment in processing stations and export businesses, part-time or seasonal employment for large numbers of low-skilled workers has been created. Additionally, long-term roles have also been created in management, quality control, accounting and marketing for processing and exporting entities. A specialized segment of local quality experts are also being trained to 'cup coffee' to determine quality grades and distinct profiles of Rwandan beans (Boudreaux, 2010; TechnoServe, 2013b). Greater involvement with other producers through cooperatives and washing stations has resulted in increased engagement between ethnic groups, which has further supported the country's reconciliation process (Boudreaux, 2010; Mujawamariya et al., 2013).

Improved garden gate and export pricing opportunities continue to have positive impacts on livelihoods throughout the chain. A coffee retail boom has also taken off in major urban areas through the sale of locally roasted beans and speciality coffee shops. As such, enhanced entrepreneurial activities within this sector are not only producing positive economic change but also societal, political and institutional change. Benefits observed in this research as both direct and indirect are presented below in Table 7.2 below.

*Table 7.2. Benefits and Influences from Entrepreneurship in Rwanda*

<b>Additionality Benefits &amp; Influences</b>	
<b>Direct</b>	<b>Indirect</b>
<ul style="list-style-type: none"> <li>- Increased income to businesses via expanded market potential and product sale</li> <li>- Increased cash flow within communities via product sale</li> <li>- Trainings provided to producers for increased quality / productivity</li> <li>- Improved infrastructure development of roads, electricity, water sourcing</li> <li>- Employment generation, on &amp; off-season</li> <li>- Specialist roles created</li> <li>- Improved competitive environments</li> <li>- Development of cost effective distribution links</li> <li>- Improved product profiles and diversified business option</li> <li>- Increased investment from regional / national administrations</li> <li>- Increased direct investment from International Buyers</li> </ul>	<ul style="list-style-type: none"> <li>- Increased Branding and National Profile recognition from improved product</li> <li>- Improved household income, ability to diversify income base if so wish</li> <li>- Opportunity for reconciliation within a community</li> <li>- International interests from external investment</li> <li>- Increased presence of banking / credit facilities in communities</li> <li>- Increased income to area resulting in construction of area schools, medical facilities</li> <li>- Improved quality of life / standard of living</li> </ul>

(Source: Author Construct)

While overall, Rwanda’s coffee industry is comparatively technologically sparse, several of the largest Processors and Exporters in Rwanda reported to be aware of available technologies for cleaning, sorting and grading but reported to be unwilling to implement mechanized processes due partly to high costs, but also because it would replace significant local employment, especially in rural areas. Conscious decisions were reportedly made to increase business efficiency in alternative ways, as demonstrated in Case Study 7.5.

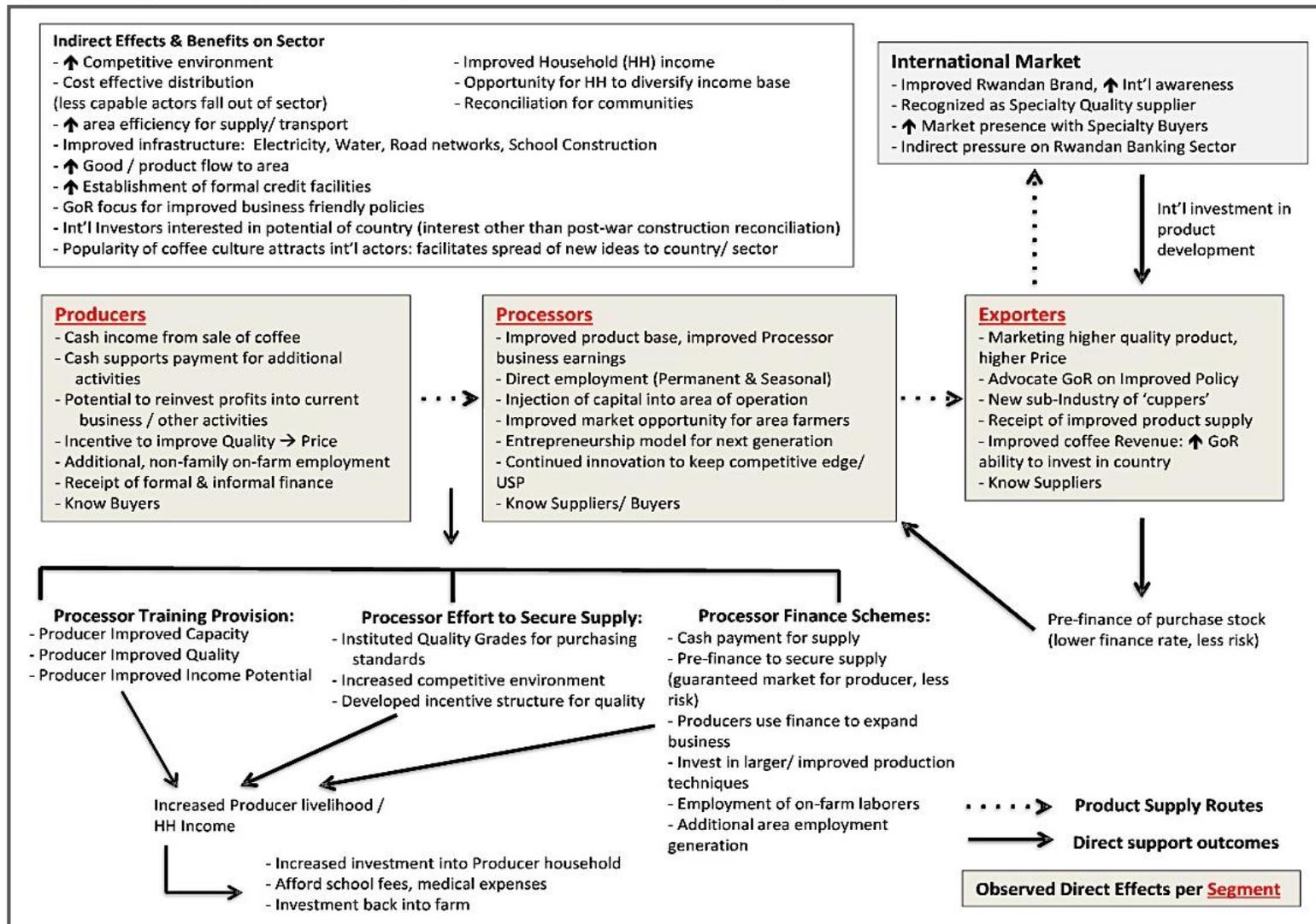
***Case Study 7.5. Decisions of Social Benefit over Technological Advancement***

A large Exporter in Rwanda explained his choice for not introducing more technically efficient machines in his business.

“I hire an additional 200 to 400 workers for each of my (five) washing stations during the coffee season. Without this business these people would have no other options for additional employment outside of the farm. I know there is machinery available that could do much of this work, but they are very expensive and I am not convinced it is in my best business interest or the best way I can use my business. What would I do with all these people if I purchased these machines? I know I have been successful, but I also know I can support other people through this success. Also through these positive relationships, I have been able to expand my business and increase my volumes and there is much community support to my success.” 2014 Export of green bean was reported at over 450 tonnes. (Ex\_R\_20, 2014)

The spectrum of entrepreneurs within Rwanda is wide ranging, from small scale producers recognizing opportunity and taking chances in order to maximize, to individuals ‘forced’ into entrepreneurial activity out of survivalist tendencies, or entrepreneurs distinctly choosing to establish privately owned processing stations, or local export firms operating within the formal sector. These actors are attracting external and internal investment, expanding frontiers and improving the scope of the national sector with entrepreneurs creating both direct and indirect benefits for actors, wider communities and the economy at large. The corresponding effects and benefits are presented in Figure 7.3 below. The diagram depicts varying actions, corresponding additionality and ensuing direct benefits realized through entrepreneurial action at each stage of Rwanda’s coffee chain as observed and interpreted through this research. Wider community, market and national indirect benefits are also compiled in the diagram. This Effects Diagram was comprised following research observations and discussions with respondents, however research has not analysed effects and/ or benefits through a quantitative or economic analysis. Again, the specific business segments investigated in this research are demarcated in **red**. Direct benefits are listed under each segment and linkages are shown through arrows. Indirect effects from the sector and entrepreneur actions are presented in the box within the diagram.

Figure 7.3. Effects Diagram of Entrepreneurial Action in Rwanda's Coffee Sector



(Source: Author Construct)

Due to Rwanda's entrepreneurs in its coffee sector, new, multiple off-flow benefits from entrepreneurial action were found to have filled voids or provided services that could be considered to be under the responsibility of a national government purview. Additional business strategies enacted by Processors and Exporters has led to additional direct benefits for Smallholder Producers as seen above in Figure 7.3. Many direct benefits were found to be instituted by entrepreneur's strategic business strategies, using benefits as incentives to secure supply as well as improve prospects of suppliers and wider communities.

As seen through a comparison with Ethiopia, other than the employment generated through bureaucratic additions into the ECX regulated market structure, minimal new benefit outcomes from entrepreneurial action were found in Ethiopia's coffee sector due to the inability of actors to create additional benefits or institute incentive schemes, revealing an adverse additionality climate.

### **7.3.2 Entrepreneurs as Architects of Change**

As observed through the *Effects Diagrams*, entrepreneurs, their outlook and related business action enables the will, capacity and incentive to pursue and fill not only market gaps, but also gaps from a void or lack of public sector activity or involvement. These 'gaps' can include extension training services, physical infrastructure development, community development, improved goods provision, financing services, production quality provision, input supply and transportation services. Entrepreneurial ability to undertake such tasks must also be supported through appropriate incentive structures and supportive environments. As seen throughout this research, Ethiopia has instituted a constrictive environment whereas Rwanda has fostered a climate of embraced potential using wider entrepreneurial benefits as part of a larger development focus. It should also be recognized that market opening and community 'development' increases demand flow and related sourcing opportunities, enabling additional prospects for entrepreneurial ventures. Differences in motivational strategies were observed between actors of different countries and the demotivating and motivating environments were found to have impacted entrepreneurial strategies and actions taken.

### 7.3.2.1 Ethiopia

Overall, it was observed that Ethiopian actors had a much more introspective focus and/ or business approach as compared to Rwandan counterparts. Actors and entrepreneurs alike seemingly focused on limited available business activity currently in operation, with a constricted view of the potential or opportunity to use business as a catalyst for change. While, perhaps some individuals may be uninterested in this type of business strategy, it is believed this outcome and larger impact stems from the political environment and market structure. As described by this Exporter,

*Before ECX, I was involved in multiple businesses stages and had an export and processing business, which had approved certifications for Organic and I was working towards Rainforest Alliance (certification). I was also investing in farmers and had close working relationships with them, especially my producers and processors supplying the 'certified beans'. Now, I am not able to have those businesses and regulations create barriers and I can no longer trace my supply, so I cannot claim certification... You see in Ethiopia, everyone is suspicious of one another and now there is no overlap for coffee and this has made us very inefficient. For example, private actors have over-invested and everyone has their own machinery. The Ethiopia coffee industry has the capacity to process 2.5 times the country's current production. Because there is no trust or willingness to work with others, there is no specialization or unique efficient capacities being built in this sector. There is high distrust at every level and businesses have responded accordingly. (Ex\_E\_10, 2015)*

Entrepreneurs operating businesses as Commercial Farmers, Processors or Exporters reported a low interest, willingness, or ability to use business as an additional opportunity for creating wider benefit as compared to Rwanda. None of the Processors or Exporters reported an interest in, or current implementation of, strategies aimed at creating additional social benefits. Only 23% of Commercial Farmers reported to have a willingness to include socially focused business strategies, or admitted to implementing similar schemes. Even respondents who stated to have integrated socially focused operations pre-ECX, reported to not currently be interested in, or willing to currently pursue socially focused activities. While Commercial Farmers are legally able to introduce out-grower schemes within the current regulatory environment, few have chosen to do so. With this lost connection and removal of integrated segment overlap, the potential for reflexivity and additionality such as farmer

training, financial flows, incentive structures, implementation of social benefits or innovative competitive arrangements is lost. Despite obvious understanding of the potential for businesses to provide additional benefits to other actors, to improve market structures, or address wider community needs, respondents reported that these types of strategic investments would not improve business or long-term strategy. These strategies were not only believed to be prohibitive to do so, but were considered a risky undertaking provided the current regulatory and political climate.

With limited interest or ability (actual or perceived) of using business to create wider benefits, whether through a purely altruistic purpose, or to create and/ or gain competitive advantage, entrepreneurship occurring in this type of entrepreneurial environment has obviously limited potential for additional benefit and was found to be severely reduced in its ability to positively influence structure or wider communities. As such, Ethiopia's constrictive market is considered to have widely diffused not only the potential for entrepreneurial action, but also potential for positive action to influence the wider structure and create benefit overflow.

Despite entrepreneurship's severely hindered role in the Ethiopian coffee sector, it cannot be considered as parasitic to the wider ecosystem. However the State, its current market structure, and regulatory environments, have largely eliminated the entrepreneur's ability to play a more expansive and beneficial role. Negative additionality is understood through the restrictive market nature to have hindered potential for not only entrepreneurial growth and expansion, but also quality improvement, lack of financial flows, farmer training, education opportunities, improved land management techniques or the creation of wider incentives for government investment into enterprising zones. Adverse reflexivity was seen through business strategies of reduced purchasing, a focus away from quality, lack of expansion, lack of innovation, eliminated lending opportunities within the chain, a regulatory environment non-conducive to entrepreneurship, and a market structure trending away from specialization and towards commercialization; eliminating much of the value-add potential. Additionally, entrepreneurs are without a platform to speak out or challenge the current structure

### 7.3.2.2 Rwanda

Rwanda was found to be much more socially conscious than Ethiopia, acknowledging potential benefits that may be provided through business action, but also through a wider concerted understanding and effort of the need to create these benefits. Research observations found a recognized responsibility from actors to the potential for business as a medium in which to provide social benefits and institute change. Within the growing partnership between private sector entrepreneurs and the Rwandan Government, entrepreneurship was observed to be developing a symbiotic relationship within the wider ecosystem of State agendas, viable business strategy and national need. This is considered as a positive evolution of the open market structure, related political embrace as well as the reconciliation with the country's recent past in which those who have been successful, were observed to feel a near universal responsibility towards those less fortunate.

While no Rwandan entrepreneur started a business specifically to provide social good at the expense of profit, the majority of entrepreneurs consciously used their business as a means to not only provide wider benefits for local suppliers or communities, but also as a longer-term strategy mechanism of gaining and maintaining a competitive advantage. Several entrepreneurs operating processing and exporting businesses took further distinct steps to increase and create a competitive edge and improve business prospects, investing through suppliers in monetary and non-monetary schemes, as shown in Table 7.3 below.

*Table 7.3. Strategic Business Investment and Perceived Outcome of Rwandan Entrepreneurs*

<b>Perceived Long-Term Outcomes</b>	<b>Examples of Strategic Investments Used</b>
- Strengthened relationship with suppliers	- Allowing producers to save payment at station
- Improved ability to plan supply quantities	- Provide loans to suppliers, repaid in product
- Improved product quality stock	- Provide year-round technical training/ services to producers
- Opportunity to benefit wider community	- Establishment of transport services for area producers, on-transport for processed product
- Personal and financial investment to secure sourcing relationships	- Production and distribution of processing waste (cherry mucilage waste), supply producers as compost
- Improved area infrastructure to improve business / logistics / transportation efficiency	- Graded pay scale for quality and time of supply
- Improved trust relationships	- Payment of school fees, medical expenses, funeral costs
- Improved business planning	- Invest in area infrastructure (electricity, roads, water)
- Improved standing with suppliers and within community/ area/ production zone	- 2nd Payment to producers with best quality, (in profitable season)
	- Awards ceremony, rewards provided to area's best producers/ make 'model farmers'

(Source: Author Construct)

As presented in Table 7.3, while consciously choosing and budgeting to invest in social schemes, entrepreneurs were also calculating for a longer-term payoff through the prospect of improved loyalty from suppliers. With expectation of increased future competition for many areas, choosing to operate business models built upon a foundation of social conscience was considered a good, long-term business strategy.

In this research, 60% of Processors and 74% of Exporters reported to have vested interests in providing social benefits through business. As presented in Section 7.2.3, much of the innovations observed were in relation to socially innovative methods as a type of trade-off to secure supply via non-monetary means. While no actor admitted to putting social agendas above business interests, several chose to use socially innovative methods as alternative, unique ways to compete within the current marketplace as well as to secure future business interests. Of those respondents found to have vested interests in providing some degree of social benefit through their business, 10% and 26% of Processors and Exporters respectively consider themselves to be operating a ‘Social Business’<sup>163</sup>. Entrepreneurs considering themselves to operate a social business did not pursue social strategy at the expense of profit, but considered the strategy an additional means of separating from competition. The Processor Entrepreneur’s mind-set in supporting smallholder producers was to attain long-term success through increased investment to suppliers in the short-term, with the goals of improved capacity (production, financial, business acumen) in order to secure long-term supply of dedicated and improved producers, with the expectation of increased profitability over time. Similar strategies were also employed by Exporters in support of Processors through the use of finance provision, training and pre-season purchase agreements.

As presented in Table 7.3, direct evidence of socially-focused activities were found to be through effective out-grower schemes, creating more secure markets for smallholder producers, seasonal employment structures, farmer training and support programs, quality graded purchase prices, collection services, and payments in-kind such as healthcare provision or children’s education costs. Wider community benefits were established through

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<sup>163</sup> Defined as a business with the prioritized goal of profit earnings, but also with the distinct approach and business strategy to use business in order to provide additional social benefits.

the provision of constructing or paving of roads, electricity access, instituting water purification systems and establishing schools and health centres for communities. Implementation of infrastructure, electricity and water improvements were also made in direct accordance with business needs for reduced costs and increased efficiency. As such, these strategies enabled the implementing entrepreneur to compete via non-monetary means (in addition to the purchase price) while also providing beneficial services to the producer and surrounding communities.

These actions and engrained business strategies were compounded through outcomes realized from benefit receivers. Smallholder Producer respondents in Rwanda reported to have observed changes to their community which included: improved standards of living, increased ability to pay for household needs such as: school fees, medical expenses, clothing, repairs to house or farm area, the ability to increase income, seasonal employment through additional work created at area processing stations and opportunities to obtain finance through some processing stations. Rwandan Processors and Exporters reported to have observed positive changes through the improvement to not only produce quality, but also to reduced taxes and regulations, improvements to area infrastructure and improvements to livelihoods and standard of living for area producers. Business efficiencies have also enabled Exporters to move and sell product faster in accordance with increasing demands of international markets.

Interestingly, nearly all Ethiopian respondents, while recognizing that area infrastructure and standards of living had improved, reported to believe improvements to be a result of overall country development, in contrast to the Derg and even Imperial Regimes, and not a direct result of the coffee sector expansion or related coffee business activities within the area. Ethiopian Smallholder Producer respondents also reported a reduction in opportunity for additional employment from a lost opportunity for working at area processing centres during the coffee season.

### 7.3.2.3 Rwanda's Socially Geared Coffee Zoning Policy

The symbiotic nature of Rwanda's entrepreneurs within wider national agendas is highlighted through legislation such as Rwanda's Coffee Zoning Policy; set to be implemented in late 2016. At the time of writing, the policy was still being negotiated and had yet to complete all required legislative approvals, however administrative institutions were already preparing for its rollout. The proposal, in essence, attempts to enforce Exporters and Processors to create a measure of socially beneficial action (heavily favoured towards smallholder producers) to be implemented within their 'designated sourcing zones'. In coffee producing areas deemed to be overly competitive<sup>164</sup>, sourcing zones were established for each processing station<sup>165</sup>. In order to maintain licences, the legislation proposes that processing stations are mandated to institute farmer training schemes, cash purchase of cherries, oversight of input supply and promotion of replacement of old trees into high-yield varieties. The processing station is proposed to also act as a financial guarantor for individual producers or producer groups. Through the policy's attempt at the stabilization of overly competitive areas, plans are also being made to impose more uniform coffee pricing structures for cherry, parchment and green bean, impacting Producers, Processors and Exporters, respectively<sup>166</sup>. Increased Export Fees will also now include additional support to a Coffee Research Fund (NAEB, 2015b).

This policy has obviously raised many issues and objections from actors both in and outside the sector. Widely geared towards the benefit of Smallholder Producers, Processors and Exporters complain to the mandated activities, arguing against forced increases to operating costs and a perceived inability to enforce Producer supply within designated Zones. Operational policies of private sector actors mandated by a national government as well as institutionalized pricing structures remain highly questionable and create an affront to much

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<sup>164</sup> A legitimate argument can be made to this premise given that within the country's most popular coffee producing areas too many processing stations have been constructed with area production unable to meet needed volumes. In some areas, processing stations are only operating at 60% of capacity due to undersupply of coffee cherries (TechnoServe, 2013b).

<sup>165</sup> Policy stipulates that processing stations will only source from their own designated zone and producers will only supply to the station managing the zone.

<sup>166</sup> In theory, prices would be revised weekly and disseminated. Plans have yet to be specified as to how market information will uniformly reach all actors.

of the positive interaction the Government of Rwanda has made with the country's re-emerging private sector, its entrepreneurs and coffee industry.

However, despite the challenges and conflicting economic and business philosophies between the Government and critics, this legislation provides evidence to the country's efforts at the top-most levels to use entrepreneurs and business as a medium for creating and implementing wider social benefit. While these efforts may, in some respects be misguided, it provides tangible evidence into a wider mind-set and interest from the State's perspective of how the private sector and its entrepreneurs can be architects of change through institutionalized additionality.

#### **7.4 The Entrepreneurial Ecosystem: Demonstrating Entrepreneur Reflexivity and Additionality**

The initial structural outcome for the entrepreneurial ecosystem shown in Figure 7.1 of Section 7.2.1, presented this researcher's conceptualization of the co-evolving interdependent elements: the individual entrepreneur and operational context and can be applied more generally to alternative contexts from just the coffee sector. However, from the review of tangible and empirical evidence of entrepreneurial action and related outcomes within the specific marketplaces researched, analysed and presented in Chapters 5 and 6 as well as Sections 7.2 and 7.3, a clearer and more defined picture of the *Entrepreneurial Ecosystem* has now emerged. This completed *Entrepreneurial Ecosystem*, showed below in Figure 7.4, builds directly from the empirical findings of this study and as such, this completed model remains highly contextualized to entrepreneurship within the Ethiopian and Rwandan coffee markets.

##### **7.4.1 The Entrepreneurial Ecosystem**

Building from the research premise of the individual entrepreneur as a reflexive agent within a wider co-evolving structure of opportunity pursuit, a key development of the *Entrepreneurial Ecosystem* reflects a scaffold for the relationship between the individual construct and operational context. Outcomes of this duality also provide evidence of entrepreneurship reflexivity and additionality found to have influence in both positive and

negative ways. This ecosystem is built from the foundations formed of the individual construct and operational context of an opportunity and each is reviewed briefly below.

Chapter 5 found that a distinct difference does exist between the internal constructs of the Entrepreneur and Non-Entrepreneur in which overall, Entrepreneurs demonstrated higher degrees of the tested drivers than Non-Entrepreneurs: Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation. However, more nuanced investigation of Entrepreneurs operating within different business segments and between different market structures of the two countries revealed variances, most noticeably within Ethiopia. These variances, specifically demonstrated through the relatively low Self – Efficacy, Innovativeness and Risk Tolerance Indexes, are believed to be influenced, in part, by the operational context. As such, Ethiopia's systems were found to have adversely influenced internal constructs of Entrepreneurs and their corresponding outlook and actions.

As found in Chapter 6, Ethiopia and Rwanda operate at differing ends of a spectrum in regards to both market liberalization and political embrace of entrepreneurship within the contexts of the coffee markets. Relying on state-enterprises and 'selected entrepreneurs' to direct economic growth, the Ethiopian Government remains highly sceptical and restrictive towards a market-led private sector comprised of unaffiliated entrepreneurs. This has resulted in a highly restrained coffee market, dampening prospects for entrepreneurs, which in return has severely hindered entrepreneurial dynamism and fostered a development of entrepreneurial apathy. Entrepreneurs have been largely restricted in approach, outlook and action and as a result ceased from implementing innovative strategies or continuing pursuit of opportunity in the coffee sector. The resulting political, financial, institutional and market regulatory structures have proven to incentivize against risk taking and innovation, resulting in de-motivated entrepreneurs limiting business scope and expansion potential, choosing instead to pursue proven and approved business agendas; often resulting in reduced market potential and revenue. As discussed in Sections 7.2 and 7.3, this has resulted in reduced investment between actors across the chain, a largely eliminated ability to improve value addition opportunities, strategies of reduced business activity, increased mistrust among

actors as well as the removal of opportunities to provide benefits to communities and actors throughout the chain.

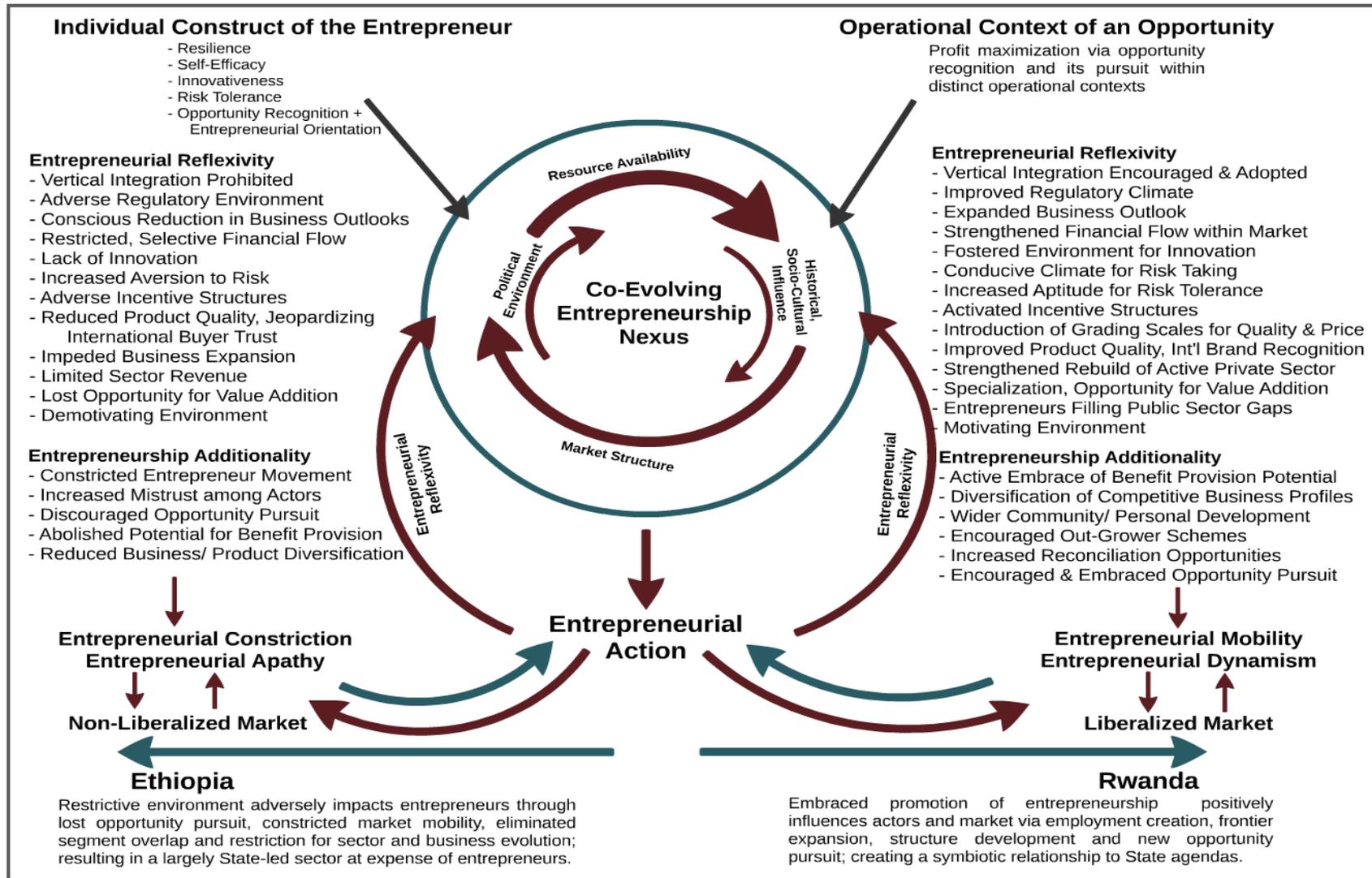
Since liberalizing its coffee industry, Rwanda has continued to support and enable entrepreneurship to flourish, particularly within its coffee sector, reaping the rewards from improved product marketability and sector viability through an improved international brand, as well as wider socio-economic development. This has resulted in a marked environment of entrepreneurial dynamism and increased entrepreneurial mobility through a climate found to encourage innovation, risk taking and ever expanded business outlooks. Opportunity for vertical integration and increasingly competitive environments has resulted in entrepreneurial actors not only diversifying business and product portfolios, but also creating wider benefits for actors and communities as an added measure of competitive advantage through monetary as well as non-monetary means.

Determined through this investigation, key elements of the broader operational context were found to be especially impactful to entrepreneurship: openness of the market structure, financial resource availability and accessibility, and political environment, specifically the political embrace of entrepreneurial potential. Historical contexts and socio-cultural influences were also found to be influential, however influences were perceived to be less active in the day-to-day operations and entrepreneurial approach and more impactful in regards to wider societal perceptions, acceptance, expectations and allowances. Historical contexts were found to have created a predisposition for successful private sector actors and entrepreneurs in regards to specific timing of market involvement or familial background.

The specific approach of this research in relation to analysing entrepreneurship as the entirety of a system, resulted in the development of a completed *Entrepreneurial Ecosystem*, was based from robust empirical findings of this study, in order to further contextualize in and out-flow of entrepreneurs operating within the coffee sectors of Ethiopia and Rwanda, depicted below in Figure 7.4. Foundational elements of the individual construct and operational context are displayed with the entrepreneurship nexus of the ecosystem comprised of the influences to the operational context found to be especially impactful;

arrows are weighted corresponding to perceived, direct influence following analysis outcomes of the operational context. Entrepreneurial reflexivity and additionality findings are also presented for each marketplace. Analysing the co-evolving interdependent, reflexive internal construct and operational context in its entirety, a more succinct picture is made not only to the appropriateness of viewing entrepreneurship as an interdependent duality of individual and context, but also to the distinct differences in entrepreneurial ability and achievement depending on specific, inherent operational contexts. Given the disparaging differences in entrepreneurial embrace by governments, and corresponding action and outlook by entrepreneurs, this research has found outcomes of entrepreneurial constriction and apathy and entrepreneurial mobility and dynamism within the Ethiopian and Rwandan coffee markets, respectively. Figure 7.4 below, is the completed *Entrepreneurial Ecosystem* of the Ethiopian and Rwandan coffee markets, built from the research results of this study.

Figure 7.4. Completed Entrepreneurial Ecosystem for the Ethiopian and Rwandan Coffee Markets



(Source: Author Construct)

As presented throughout this research, and as seen in Figure 7.4, entrepreneurial reflexivity was indeed found to be influential to wider structures through both positive and negative outcomes. Positive and negative means of additionality were also found, corresponding to the specific operational contexts and may be addressed through specific policy recommendations which will be detailed in Section 8.4.

## **7.4.2 Comparative Economic Improvements**

Ethiopia and Rwanda's economies are considered to have made large-scale changes and improvements over the past two to three decades. Each economy has achieved large, sustained GDP growth rates and are projected to continue as some of the global economy's top economic growth performers over the next several years (Holodny, 2015). However, as initially discussed in Section 6.3, each economy has achieved this growth through differences in economic and political focus. Coffee forms a major part of each country's economic profile, export sector and foreign exchange generator, additionally the industries employ a large proportion of each population and remains a critical cash crop for many rural smallholder producers. Analysing impacts to national economic growth, while not a specific part of this research purview, the success of each country's coffee sector could be considered to be linked to the overall success of each country's wider economy, and is briefly discussed in the following section.

### **7.4.2.1 Ethiopia**

In 2000, Ethiopia was regarded as having one of the highest poverty rates (56%) in the world. However, steady improvements in poverty reduction<sup>167</sup> have been shown, with rates decreasing to 44% in 2006 and 30% in 2011 (World Bank, 2015b). While Ethiopia's high GDP growth rates have been driven by major sectors such as construction, large-scale agribusiness production and commodity export, high rates of income disparity remain (Lefort, 2013; World Bank 2014b). Overall, improvements in standard of living, increased per capita incomes, increased life expectancy and increasing enrolments in education lend credence and evidence to the overall economy's continued improvement. However, the very poorest segments of the population (much of it smallholder producers) have yet to realize these

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<sup>167</sup> Proportion of population living on \$1.25 PPP per day (World Bank, 2015b)

economic improvements, with the country realizing relatively low levels of growth elasticity over the past 15 years (World Bank, 2015b). Additionally, high inflation rates and increasing food prices adversely and disproportionately impact the poor and rural producers. It can be argued that the economic improvement for Ethiopia would also indicate economic improvement for coffee producing areas, however chronically low coffee garden-gate purchase prices, eliminated opportunity for value addition and limited expansion capabilities have constrained greater economic improvements from being felt and the coffee sector's trend towards commoditization could have wide ranging adverse impacts on actors across the chain in regards to long-term economic development potential.

#### **7.4.2.2 Rwanda**

Rwanda has also seen steady economic growth and high rates of GDP since the early 2000s, with GDP per capita more than tripling from 2001 to 2014 (World Bank, 2013b; National Institute of Statistics Rwanda (NISIR), 2015). Rwanda is recognized for being hindered by its potential growing income disparity with 'development agendas' placing undue burdens on the poor. However additional action and investment to rural areas in regards to finance institutions, infrastructure and education has attempted to address these concerns (Ansoms and Rostagno, 2012; Murenzi, 2013). Market liberalization and direct Government support has also led to increasing economic investment, particularly in rural areas, which has realized an increased rate of business establishment by 38.1% in rural areas since 2011, with 47.9% of new jobs created by these new, rural area businesses over the same period (NSIR, 2015). Rwanda has also realised improvements in standards of living and increased life expectancy, but similar to Ethiopia, the poorest populations (smallholder producers) have yet to uniformly realize these improvements (NSIR, 2015). While prices also remain low, the sector is perceived to have enabled some degrees of economic development through expanded business opportunity and increasing demand.

Information such as national, regional or household survey data detailing economic improvement were unable to be obtained and as such, analysis determining correlations of national economic improvements to either coffee sector's advancement, or stagnation were unable to be conducted. However the success, or lack thereof, of each country's coffee

sector are believed to be important elements for the continued economic development of each country.

## **7.5 Conclusion and Emerging Findings**

This final research analysis discussion looked to understand entrepreneurship within, and as part of, a larger whole. As such, findings understood the individual construct and operational context as a duality, influenced by distinct operational contexts, which in turn, were found to influence wider structures through entrepreneurial reflexivity to institutions and existing structures, as well as create benefits to actors through entrepreneurial additionality. In looking at entrepreneurship as a whole, rather than a deconstructed piece, (as was done in Chapters 5 and 6) greater connectivity emerged as to the structure and agent, resulting in a completed depiction of the *Entrepreneurial Ecosystem* (as presented in Chapter 7).

### **Emerging Findings of Chapter 7:**

- Upon a final reflection of this discussion, focus, evidence, and outcome appears to trend in a more positive light towards Rwanda. This is believed to stem from not only Rwanda's more open market structure and its perceived encouraging and freeing entrepreneurial activity towards opportunity pursuit, but also from a national level embrace, revealing national approaches and policy pursuit geared at further engendering entrepreneurial action and growth within, and to, a wider populace. Admittedly, as has been discussed, uncovering direct evidence towards entrepreneurial action in Ethiopia was found to be more difficult and while entrepreneurship was observed to be much less dynamic, this can also be considered a result of the wider economic climate, political focus and market structure, and is also considered as an outcome of the research process.
- Entrepreneurs are believed to be contributors to socio-economic development through employment generation, pursual of market gaps, introduction of new economic activity and pushing sector frontiers further (Brixiova and Asaminew, 2010; Hall et al., 2012; Boso et al., 2013), and this research reinforces that current literature. However, as found in this chapter and throughout this research, in order to achieve this, entrepreneurs must be reinforced through an supportive and enabling environment allowing for the inherent

flexibility needed to test, experiment and attempt new combinations, fill gaps and challenge existing structures. This supportive environment, a key element in the *Entrepreneurial Ecosystem*, was formed from an enabling market structure, resource availability and accessibility, the political embrace of entrepreneurial potential and a historical platform for a conducive socio-cultural setting.

- Recognizing potential for entrepreneurs as architects of economic and social change, this research looked to understand the influences entrepreneurs and entrepreneurial action can have on wider contexts. Through this analysis, both positive as well as negative influences were found and are traced back to operational structures found to create both adverse and symbiotic environments for entrepreneurs within the Ethiopian and Rwanda coffee markets, respectively.
- This research defined *entrepreneur reflexivity* as the consequences to political, financial, market and socio-cultural structures due to entrepreneurial actions. Outcomes of Ethiopian entrepreneurship were found to have adverse reflexivity, evidenced through business strategies of reduced purchasing, focus away from quality towards commercialization, a lack of business expansion and opportunity pursuit, and lack of innovation. The Ethiopian environment further eliminated lending opportunities within the chain through a regulatory environment non-conducive to entrepreneurship and a market structure trending away from specialization and towards commercialization, eliminating much of the value-add potential and leaving entrepreneurs without a platform to speak out or challenge the current structure. Given that the continued enforcement of an adverse market structure and regulatory environment and the distinct lack of political embrace, resulting in a largely eliminated ability for entrepreneurs to play a more expansive and beneficial role, it is believed the Ethiopian State perceives a market-led private sector dominated by independent entrepreneurs to be a parasitic element to the State's wider agenda and preferred method of operation.
- Rwandan entrepreneurs however, were found to be creating a symbiotic relationship within wider national agendas, continually benefiting from the country's enabling

environment and positive reflexivity. This was particularly evident through improved product marketability, sector viability, a climate encouraging innovation, risk taking and expanded business outlooks and diversification, with opportunity for vertical integration and increasingly competitive environments. Building from this success, the Rwandan Government was observed to be increasingly using entrepreneurs in order to cost effectively fill gaps traditionally addressed through the Public Sector and address wider socio-economic development challenges; demonstrating the case that entrepreneurs can be effective architects of change

- This research defined *entrepreneurial additionality* as the additional, social and interpersonal benefits created through new entrepreneurial inputs or actions, establishing a greater aggregate system. Within Ethiopia, negative additionality was understood through the constricted market found to have hindered potential for not only entrepreneurial growth and expansion, but also lack of financial flows to actors within the chain, producer training and education opportunities, improved land management techniques or creation of wider incentive and benefit mechanisms.
- Additionality was evidenced in Rwandan entrepreneurs through the nearly uniform embrace of socially conscious measures, used as a means of establishing or increasing a competitive advantage via monetary and non-monetary means. These included, but are not limited to, out-grower schemes, seasonal employment structures, farmer training and support programs, quality graded purchase prices, collection services and payments in-kind through healthcare provision or children's education costs. Additionally, wider community benefits established roads, electricity access, instituted water purification systems, schools and health centres for wider community benefit, but were also implemented due to business need for reduced operational cost and increased efficiency.

#### **Research Contributions of Chapter 7:**

- The conceptual framework designed for this research resulted in the creation of the *Co-Evolving Entrepreneurship Nexus*, and research analysis led to the development of the *Entrepreneurial Ecosystem*, presenting empirical findings following analysis of

entrepreneurship as an interdependent, co-evolving duality of individual and context (Sarason et al., 2006). With this recognized space to appreciate the reflexive nature of entrepreneurs to influence wider structures, empirical evidence was discovered and analysed, demonstrating the reflexive nature of, and benefit potential for, the entrepreneur as an architect of change.

- This research introduced the author's conceptualization and development of the *Entrepreneurial Ecosystem* as a mechanism in which to model and present the interconnected, living and evolving elements within the ecosystem. Inclusive of the:
  - Individual construct
  - Operational context of an opportunity
  - Influences on structure from entrepreneurial action
  - Entrepreneurial benefit returns to structure

Creating a macro-level view of differing outcomes based on opposing structures and marketplaces. This conceptualization initially presented a more generalized model for possible future application analysing entrepreneurs within alternative environments. The completed *Entrepreneurial Ecosystem* presented a highly contextualized, results based ecosystem, which demonstrated entrepreneurship specifically within the Ethiopian and Rwandan coffee market contexts.

- Finally, this research found and demonstrated the analysis of entrepreneurship of the Ethiopian and Rwandan coffee markets. The outcome of this research analysis determined Ethiopia to have developed a climate of entrepreneurial constriction and entrepreneurial apathy and Rwanda to have developed a climate of entrepreneurial mobility and entrepreneurial dynamism.

## Chapter 8 – Conclusion

### 8.1 Introduction

This research has looked to gain amore acute understanding of entrepreneurship within, and as part, of a larger whole; interpreting the individual construct and operational context of entrepreneurship as an interdependent, reflexive duality. Given this reflexive notion, analysis was also undertaken to understand if and how entrepreneurial reflexivity influences systems, structures and institutions, as well as if entrepreneurs have the potential to create additional social change. Perhaps an ambitious endeavour, this study looked to present an improved depiction of the entrepreneurial face within a developing economy context as well as add clarity to the entrepreneurial blueprint; both of which have remained blurred in the current discourse without a uniformed definition across the interdisciplinary field (Jennings et al., 2013; Mazzucato, 2015). Through this pursuit, research relied upon the development of distinct frameworks, matrixes and result conceptualizations in order to chart not only this researcher’s evolving journey of understanding through theoretical application, but also to more effectively present and analyse empirical data, research findings and result interpretations. A final list is presented in Table 8.1.

The conceptual framework, the *Co-Evolving Entrepreneurship Nexus*, first introduced in Figure 2.3 of Section 2.3.2, was informed by elements of Structuration Theory in understanding entrepreneurship as an interdependent, yet reflexive duality. This specific research approach enabled the initial deconstruction of the nexus in order to analyse first, the individual construct (Chapter 5) and second, the operational context for opportunity within the respective coffee markets of Ethiopia and Rwanda (Chapter 6). Finally, research analysed the nexus in its entirety in order to capture reflexive influences and additional benefits (Chapter 7).

Analysis based from the conceptual framework resulted in a tangible, completed depiction of this researcher’s conceptualization of the *Entrepreneurial Ecosystem* built from empirical findings of entrepreneurship within the Ethiopian and Rwandan coffee markets; introduced in its entirety in Figure 7.4 of Section 7.4.1. Used to highlight the direct outcomes from

analysis of entrepreneurs across multiple different business models within the Ethiopian and Rwandan coffee markets, this ecosystem enabled the capture of entrepreneurial action onto wider systems, political outlooks, institutions and market structures as well as showcasing the direct and indirect interpersonal and social benefit overflow realized across the coffee chains. This ecosystem also depicted the differences for entrepreneurs operating within markets at opposing ends of the liberalization and political embrace spectrums, demonstrating the outcomes of entrepreneurial constriction and apathy to entrepreneurial mobility and dynamism for Ethiopian and Rwandan actors, respectively. Through analysis, configuration of the ecosystem further demonstrated the potential, if enabled, for entrepreneurs to be architects of change. While the initial model for of the entrepreneurial ecosystem could be applied more generally, the final completed *Entrepreneurial Ecosystem* is a direct reflection of the specific contexts and actors analysed through this study.

Building from the understanding of the individual construct, influences of operational context on entrepreneurship, and the results from the marketplaces represented in the *Entrepreneurial Ecosystem*, this research concludes with the presentation of an *Entrepreneurship Blueprint*<sup>168</sup> and its corresponding *Entrepreneurship Matrix* as a mechanism to provide a contextualized macro-level framework, paired with micro-level parameters for improved understanding, classification and analysis for future, wider work across the entrepreneurship field. The Blueprint and Matrix were built from the specific research findings from this study, however the key insights extrapolated are meant to model a more generalized framework that can be used for further analysis of entrepreneurs in alternative settings. The *Entrepreneurship Blueprint* and *Matrix* are presented below, in Section 8.3.1 as Figures 8.1 and 8.2, respectively.

As seen across this thesis, research relied upon participatory qualitative and quantitative methods, using systematic analysis of research data by exercising a heavier concentration on participatory qualitative approaches. The remainder of this discussion will present key

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<sup>168</sup> The Entrepreneurship Blueprint is meant as a fluid representation built from research outcomes, to be used as a guidance mechanism for future conceptualizations and design of entrepreneurship study across differing contexts. As such, this Blueprint is not meant to be interpreted as an absolute construction, but as merely a set of parameters to aid future research.

research findings and contributions, policy recommendations as well as proposals for further study.

## **8.2 Key Research Findings**

This research conducted a comparative analysis of respondents within the *Entrepreneurial Range* (Non-Entrepreneur, Potential Entrepreneur and Entrepreneur) as well as Entrepreneurs across business segments of the coffee chains (Smallholder Producer, Processor and Exporter) of Ethiopia and Rwanda, in order to address the overarching questions of:

- *What* internal characteristics, or drivers, of the individual construct separate an entrepreneur from a non-entrepreneur?
- *What* external dynamics of the operational context, or determinants, shape an entrepreneur's approach, outlook and opportunity pursuit?
- *How* drivers and determinants can be fused to reveal influences from entrepreneurial reflexivity and additionality on wider structures within a co-evolving, interdependent, entrepreneurial ecosystem?

This research developed a framework for understanding and testing entrepreneurship within emerging markets. However, findings are based from the specific, comparative examination of entrepreneurship within the coffee sectors of two African countries. While these findings are believed to be highly applicable to the sector and specific markets analysed, it is recognized that characteristics of entrepreneurship may not be the same across alternative sectors.

### **8.2.1 Analysing the Individual Construct (Drivers)**

Analysing the individual construct of an Entrepreneur through the testing of selected drivers: Resilience, Self-Efficacy, Innovativeness, Risk Tolerance, and Opportunity Recognition and Entrepreneurial Orientation (OR+EO), served to not only reinforce existing literature in understanding these drivers as key components to entrepreneurship, but also demonstrated new evidence that a distinct difference does exist between Entrepreneurs and Non-Entrepreneurs in regards to predisposed strengths of certain, inherent drivers. Respondents were classified across the Entrepreneurial Range, discussed in detail in Section 5.2.3, accounting for specific business models and entrepreneurial classifications enabling the

ability to analyse the individual construct across business segments, within entrepreneur classification and between countries.

Results revealed that overall, Entrepreneurs have higher degrees of the tested drivers than Non-Entrepreneurs. However, Entrepreneurs operating within different business segments and between different market structures of the two countries also revealed some variances. Interestingly, Entrepreneurs from both countries had the same OR+EO Driver Index score, indicating that entrepreneurs, regardless of operational context, have similar degrees of the ability to recognize or be ‘pulled’ towards new opportunities. As such, it can be deduced that alternative external factors enable or prohibit the actual pursuit. Specifically, Innovativeness, Self-Efficacy and Risk Tolerance were found to be particularly low for Non-Entrepreneurs, irrespective of country or business, providing evidence as to why Non-Entrepreneurs are perhaps unable to make, or unwilling to take, the tangible steps towards opportunity pursuit.

Ethiopian Entrepreneurs were found to have statistically significant differences between Entrepreneurs and Non-Entrepreneurs for Resilience, Innovativeness, and OR+EO Indexes only. Respondents revealed no statistical difference between those classified as Non-Entrepreneur and Entrepreneur for tests on Self-Efficacy and Risk Tolerance drivers, indicating similar and relatively low scores for Self-Efficacy and Risk Tolerance Indexes. Additionally, Ethiopia’s relatively low degrees for Innovativeness, Self-Efficacy and Risk Tolerance are interpreted to be an outcome of the restrictive operational context due to the opaque market structure, conscious lack of political support, as well as the difficult and impeding institutional and regulatory structures, proving to stifle innovation or interest in new opportunity pursuit. Rwandan Entrepreneurs in contrast, were found to have statistically significant differences between Entrepreneurs and Non-Entrepreneurs for all tested drivers. Additionally, the relatively high degrees for each Driver, in comparison to Ethiopia, are interpreted as a result of the country’s more open market structure, political embrace of entrepreneurship in the coffee sector and its evolving, streamlined regulatory processes aimed at improving cost and efficiency for business operations, enabling entrepreneurs so inclined, to succeed in pursuit of new and unique opportunity.

Differences resulted in variances found between Ethiopian and Rwandan Entrepreneurs specifically for Self-Efficacy and Risk Tolerance Indexes. These variances were found to be statistically significant and with lower Index scores for Ethiopian Entrepreneurs as compared to Rwandan counterparts, inferring that influences from the specific, external operational context of Ethiopia adversely affected Ethiopian actors through a demotivating environment and reduced risk tolerance. No statistically significant differences were found for Resilience or OR+EO Indexes, indicating similar levels for Entrepreneurs of both countries.

Additional socio-demographic elements were found to have significant influence towards the entrepreneurial behaviour of respondents. In both countries, higher attainment of education was found to be influential to increased entrepreneurship probability as a key contributing factor of human capital development. Business inheritance was also highly impactful to successful entrepreneurship probability, with respondents that *did not inherit* their business found to be much more likely to be an entrepreneur. Respondents that *did inherit* their business were found to have a negative probability of entrepreneurship and were much less likely to be an entrepreneur. An increase of years spent in education was also found to increase the probability of entrepreneurship and a higher degree of financial access was also found to have a positive influence on entrepreneurship probability, with a lower degree of financial access resulting in an adverse probability to entrepreneurship.

### **8.2.2 Analysing the Operational Context (Determinants)**

Analysing the operational context of both coffee sectors revealed Ethiopia and Rwanda to operate at differing ends of a spectrum in regards to both market liberalization and the political embrace of entrepreneurship. Ethiopia's restrictive market and increasingly strong grip from the state-led growth agenda revealed a Government highly sceptical and prohibitive towards an unencumbered, market-led private sector and its entrepreneurs. This research found the Ethiopian Government to show less interest and trust in private sector actors, specifically entrepreneurs operating outside of dictated national interests and sanctioned approaches. Ethiopia's restricted market and financial climate have further confined entrepreneurial action along the coffee chain with Entrepreneurs unable to source adequate financing needs or diversify business involvement throughout the chain. Results

found this to essentially force entrepreneurs to limit their own business scope and scalability as well as demotivate new entrants to the sector. Additionally, the political, financial, institutional and market regulatory structures have proven to actively incentivize against risk taking. As such, entrepreneurs enacted business strategies of limited scope and expansion potential in which demotivated entrepreneurs choose instead to pursue proven and approved business agendas; despite resulting reduction in market potential and revenue. The reduced business strategies were also observed to have limited the wider expansion of the coffee sector as a whole.

This has resulted in a highly restrained coffee market, dampening prospects for entrepreneurs, severely hindering entrepreneurial dynamism and has fostered the development of entrepreneurial apathy. As such, Ethiopian Entrepreneurs, having been largely restricted, were found to have all but ceased from implementing innovative actions or continuing pursuit of opportunity. Additionally, an entrepreneurial ‘brain-drain’ is essentially taking place in Ethiopia due to potential new entrants choosing to pursue alternative income generating means as opposed to new business establishment within coffee or other sectors across the economy.

Rwanda’s open market structure was found to encourage entrepreneurial mobility and political and institutional support was found to have enabled entrepreneurship to flourish within its coffee sector, reaping the rewards from improved product marketability, sector viability as well as wider socio-economic development. Continuing to build capacity and confidence in the private sector, the Rwandan Government has fostered a climate found to encourage innovation, risk taking and ever expanding business outlooks. This has resulted in a marked environment of entrepreneurial dynamism and increased entrepreneurial mobility. Through opportunity for vertical integration and increasingly competitive environments, entrepreneurial actors are not only diversifying business and product portfolios, but are also creating wider, innovative strategies and social benefits for actors and communities as an added measure of gaining or maintaining competitive advantage through monetary as well as non-monetary means.

Through investigation into the influences on entrepreneurial outlook, choice and action, the largest impacts to entrepreneurial behaviour were found to be openness of market structure (mobility), resource availability (access to adequate, affordable financing) and political environment (perception of effectiveness of entrepreneurship) identified in Table 6.14 in Section 6.6. Historical and socio-cultural influences are also considered highly impactful, but were found to be more influential in laying the foundation to the perception, expectation and embrace of entrepreneurs within a specific setting. Historical contexts were found to also create a predisposition for successful private sector actors and entrepreneurs in regards to the specific timing of market entry (i.e. post conflict) or familial background (specifically in the case of Ethiopia), to an extent, determining who can succeed as an entrepreneur.

### **8.2.3 Analysing Entrepreneurship Interdependence and Reflexivity**

The final analysis of this research looked at entrepreneurship as the entirety of a system. Through analysing the interdependent internal construct and operational context of entrepreneurship as a whole, a more succinct picture has come into focus not only vindicating the appropriateness of viewing entrepreneurship via Structuration Theory, as a duality of individual and context (agent and structure), but also in showing the distinct differences in entrepreneurial ability and achievement depending on specific, inherent operational contexts.

As demonstrated through this research, entrepreneurs must be reinforced through an enabling environment allowing for the inherent flexibility needed to test, experiment and pursue new combinations as well as challenge existing structures. This conducive environment is formed of an empowering market structure, a favourable regulatory climate, resource availability and accessibility, political embrace of entrepreneurial potential and a historical platform resulting in an encouraging socio-cultural setting. Within the marketplaces investigated, both positive and negative influences were found and are traced back to the operational structures, which created adverse as well as symbiotic environments for entrepreneurs within the Ethiopian and Rwandan coffee markets, respectively.

Outcomes of Ethiopian entrepreneurship were found to demonstrate adverse reflexivity to the wider structure, evidenced through business strategies of reduced purchasing and focus away from quality, a lack of expansion, a lack of innovation, eliminated lending or training opportunities within the chain and a regulatory environment not conducive to business efficiency or entrepreneurship. With a market structure eliminating much of the potential value-addition, this largely eliminated the ability for Ethiopian entrepreneurs to play a more expansive role in creating benefit overflow for communities and the wider economy.

Rwandan entrepreneurs were found to have realized a positive reflexivity to wider systems and structures which has resulted in the creation and fostering of a symbiotic relationship with political agendas and national needs. This entrepreneur-enabling environment was particularly evident through effective market mobility for actors throughout the chain and was found to improve product marketability, institute a climate encouraging innovation and risk taking, as well as encourage expanded business outlooks and diversification through opportunity for vertical integration and increased sector viability.

Demonstrating that entrepreneurs can be effective architects of change within Rwanda, entrepreneurial additionality, was found to use benefit overflow in order to establish or increase a competitive advantage via monetary and non-monetary means, particularly with a social consciousness and alertness to wider need. While social agendas did not outweigh profits, examples of additionality included: effective out-grower schemes creating more secure markets for smallholder producers, seasonal employment structures, producer training and support programs, graded purchase prices according to quality levels, collection services, and in-kind product payment through healthcare provision or education costs. Wider community benefits established roads, electricity access, instituted water purification systems, schools and health centres for community benefit, but also to reduce business cost, increase efficiency as well as build positive relationships with suppliers and wider communities.

### 8.3 Key Research Contributions

This research into entrepreneurship attempted to implement elements of an approach, which had previously only been discussed within a theoretical realm, particularly when concerning entrepreneurs within a developed economy context. As such, this research developed its own conceptual framework to specifically allow for the unique approach and ensuing empirical analysis into entrepreneurs operating within an emerging market context. Informed by elements of Structuration Theory, analysing entrepreneurship within a developing economy or emerging market context, the results of this research reinforced areas of current literature as well as contributed new findings in regards to personal characteristics of an entrepreneur and potential for structural influences on action. Research results have also contributed to push the theoretical and empirical entrepreneurship discourse further, presenting additional evidence and filling gaps within the field in regards to the individual construct, business strategies, approaches and outlooks of the entrepreneur, as well as influences from operational contexts. Highlighted contributions from this research, its outcomes, and results are presented below:

- This research introduced multiple unique terms and conceptualizations used to define, describe and structure this study and are detailed below in Table 8.1.

*Table 8.1. Terms, Conceptualizations and Frameworks Introduced in this Research*

	<b>Definition</b>
<b>Co-Evolving Entrepreneurship Nexus</b>	The conceptual framework for this research reflecting the interdependent nature of the individual entrepreneur and operational context, showing the potential for entrepreneur reflexivity to wider systems. This conceptual framework built from Sarason et al., (2006) theoretical extrapolation from Shane and Venkataraman (2000) individual – opportunity nexus.
<b>Entrepreneurial Range</b>	A method and classification tool used to classify respondents according to: specific business segments (Decaffeinated Producer, Smallholder Producer, Commercial Farmer, Processor and Exporter) and entrepreneur classification range (Non-Entrepreneur, Potential Entrepreneur and Entrepreneur).
<b>Entrepreneurial Ecosystem</b>	A modelled conceptualization used to depict the evolving outcomes and influences to entrepreneurship as well as the tangible reflexive results from entrepreneurial action within opposing liberalized and non-liberalized market structures and levels of political embrace as found in the Ethiopian and Rwandan coffee sectors.
<b>Entrepreneurship Blueprint</b>	A macro-level framework attempting to present a more generalized application for representing the interdependence of entrepreneurship, providing a fluid guide for supporting future approaches for entrepreneurship study and analysis. Discussed in Section 8.3.1.
<b>Entrepreneurship Matrix</b>	A micro-level set of parameters to be used in conjunction with the Entrepreneurship Blueprint, using evidence gained from this research to showcase specifics of the determinants and drivers needed for successful entrepreneurial dynamism.

(Source: Author Construct)

- Given its interdisciplinary nature, a multitude of explanations for entrepreneurship have been introduced throughout the existing literature, however the field continues to lack a uniformed definition (Shane and Venkataraman, 2000; Shane, 2003; Jennings et al., 2013; Mazzucato, 2015). Introduced in Section 2.2.1, this research developed and presented its own definition of the entrepreneur as:

*An individual aimed at profit maximization through opportunity recognition and its pursuit, which has resulted in unique, tangible action towards opportunity recognized.*

Uniquely, this definition understands profit not only in monetary terms, but also through non-monetary means through benefits such as secured supply and/ or sourcing routes, secured market expansion opportunities, additional earned payments in-kind through technical agriculture or business trainings, or the implementation and receipt of social benefits.

- As understanding of the internal characteristics of the individual construct of entrepreneurs in emerging markets has remained limited (Williams and Nadin, 2010), this research further contributed to the understanding of the individual construct of the entrepreneur. Presented in Section 5.4, results determined that there is a distinct, statistically significant difference between Non-Entrepreneurs and Entrepreneurs in relation to the drivers tested. Additional variances of Self-Efficacy, Risk Tolerance and Innovativeness were determined to be due, in part, to the specific operational contexts.
- Detailed understanding of influences on entrepreneurship given specific operational contexts within emerging markets was limited due to the need for additional empirical evidence and specific study (Boso et al., 2013). However, investigation through this research, highlighted in Sections 6.2, 6.3, 6.4 and 6.5, resulted in key elements of the broader operational context found to be especially impactful to entrepreneurship: market structure, resource availability, affordability and accessibility, and political environment, specifically the political embrace of entrepreneurial potential. Historical contexts and socio-cultural settings were found to have greater influence in regards to wider societal

perceptions, acceptance, expectations and allowances and less direct impact on day-to-day business operations. Discussed in Sections, 6.2.1.1 and 6.2.2.1, historical contexts were found to also have potential to create a predisposition for successful private sector actors and entrepreneurs in regards to the specific timing of market entry or familial background.

- Analysed in Section 7.2 and 7.3, entrepreneurs were found to indeed be reflexive to wider systems, being influenced by operational structures and in turn, influencing operational structures and wider economies. Additionally, entrepreneurs were shown to be reflexive architects of change through economic advancement, employment creation, improvements to production and portfolio diversification, forced improvements to market structures, the stretching of sectoral frontiers as well as creating wider direct and indirect social benefits.
- The specific, unique research approach and analysis used to understand entrepreneurship has shown it as an interdependent, reflexive duality of individual and context (Sarason et al., 2006). Research outcomes of the *Co-Evolving Entrepreneurship Nexus*, introduced in Section 2.3.1, and the resulting *Entrepreneurial Ecosystem* of the Ethiopian and Rwandan coffee markets, presented in Section 7.4.1, has created a recognized space for appreciation of the reflexive nature of entrepreneurs in influencing wider structures as well as the entrepreneur's ability as an architect of change.

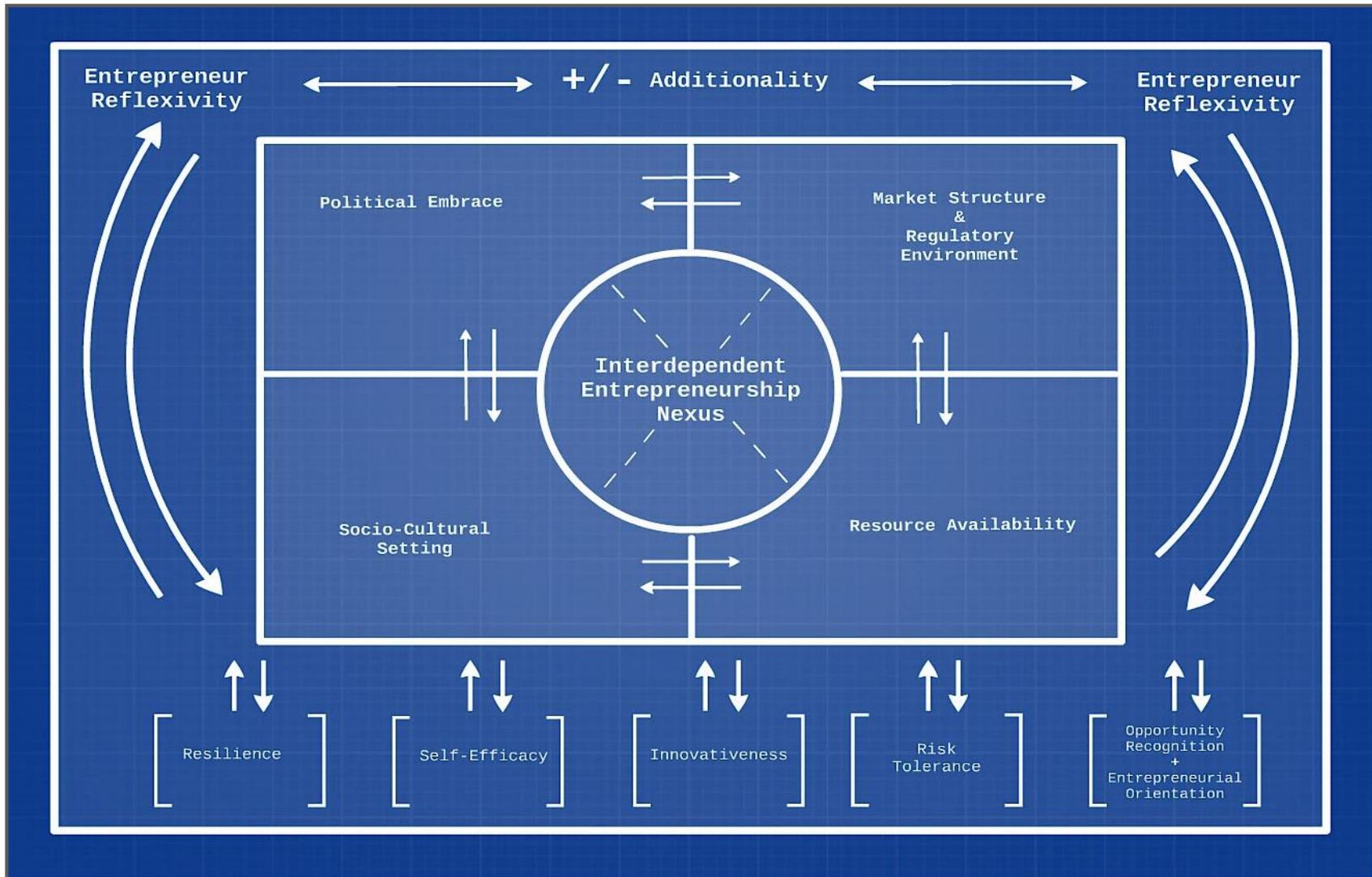
### **8.3.1 The Entrepreneurship Blueprint and Entrepreneurship Matrix**

The final outcome and research contribution of this research is the *Entrepreneurship Blueprint* and corresponding *Matrix* are meant to be used in tandem as a mechanism in which to support a more widely applicable conceptual design and approach for future research. Entrepreneurship is believed to be highly relative in regards to the industry, specific timeline of economic evolution, operational context as well as the specific enterprising individual. As such, it is understandable that no one conception or even definition can reasonably be used across all assessment models. As such, the *Entrepreneurial Ecosystem* presented findings form robust empirical analysis to depict a micro-level assessment and direct outcome of

entrepreneurs and their actions in the coffee sectors of Ethiopia and Rwanda. Building from research undertaken, its corresponding analysis and interpretation, the development of the *Entrepreneurship Blueprint* presents a structural outcome for a macro-portrayal of the overlapping and interlocking elements of entrepreneurship, meant to house analysis within any context or economy. While the Blueprint is a macro-level conception, the *Entrepreneurship Matrix* uses direct evidence gained from this research to provide corresponding micro-level parameters needed for successful entrepreneurial dynamism within a developing economy in order to provide contextual evidence used to guide future classification and analysis of entrepreneurial actors and unique contexts.

As will be seen, the Blueprint presents a structure for approaching entrepreneurship as an investigation into both the individual and context, demonstrating how the individual construct is interwoven into the fabric of a specific context. Additionally, the influences onto the wider structures can be seen through entrepreneurial reflexivity and potential for positive as well as negative additionality. The Matrix in turn, uses research findings to more intimately showcase how specific drivers within the individual construct of an entrepreneur are interrelated to the foundational elements of the operational context. Within this Matrix, high degrees of the listed drivers are assumed in order to show how an Entrepreneur may relate with a specific element of the operational context. The *Entrepreneurship Blueprint* is presented below in Figure 8.1 and the *Entrepreneurship Matrix* is presented in Figure 8.2.

Figure 8.1. The Entrepreneurship Blueprint



(Source: Author Construct)

Figure 8.2. The Entrepreneurship Matrix

	<b>Recognized Political Embrace</b>	<b>Open Market Structure / Efficient Regulatory Climate</b>	<b>Financial Availability / Accessibility</b>	<b>Encouraging Socio-Cultural Setting</b>
<b>Resilience</b>	A high degree of belief in self and in motivating environment improves trust in political environment / entrepreneurial potential. Entrepreneur has greater trust in ability to be allowed to continue pursuit, despite potential failures	Ability to withstand market pressures, shocks or business setbacks. Has capability to continue opportunity pursuits largely unrestricted, is also supported through ease of doing business and in trusted legality of business operations and structures	Willingness to continue pursuit of finance required for business expansion or new opportunity. Use of additional capital/ financing supports business activities and trust in ability to also succeed in future endeavors	Failure is not demonized within society and an entrepreneur is respected for ability to continue, despite adverse circumstances. Entrepreneur appreciated for work ethic and success
<b>Self-Efficacy</b>	Recognized acceptance and corresponding positive policy focus supports entrepreneur's self-belief for involvement within motivating environment. Heightened interest in business and related endeavors	Belief in ability to pursue and succeed in new combinations across markets via creation of dynamic environment for motivating entrepreneurial strategy and action. Entrepreneur has belief in sector's and product's profit making potential	Entrepreneurial belief in financial returns, willingness and ability to pursue new activities, belief in self to succeed paired with required finance in which to do so	Motivating, community support provides encouragement. Entrepreneur also has opportunity to act as role model and a business success story
<b>Innovativeness</b>	Creates flexibility for R&D, trials and failures needed for entrepreneurial innovation and sector expansion. State-led/ State-financed innovation can provide foundational elements entrepreneurs can build from	Active incubation / protective policies for start-ups and emerging industries. Provides protective environment for new trials/ operational methods/ product diversification. Rewarded interest to exploration of market gaps	Enabled space for investment in which to test new business ideas, expansion, methods, products and improvement strategies for pursuit into new, unique areas	Community does not disparage implementation of new ideas/ techniques/ innovations or new operational strategies. Lack of potential criticism emboldens entrepreneur
<b>Risk Tolerance</b>	Decreased risk aversion from protective policies support risk taking and innovation. Failure understood as part of entrepreneurial process	Supportive parameters for risk taking via supportive regulatory environment and protection policies or safety nets for failed attempts. Ease of business start-up, licensing	Access to finance mechanisms reducing risk and increases ability for diversification into untested endeavors, operations and techniques.	Risk taking entrepreneurs do not need to see other's prior successes before new undertaking, limit risk perceived for new entrants
<b>Opportunity Recognition + Entrepreneurial Orientation</b>	Systems, policies and mechanisms enable clearer paths to opportunity pursuits, supports 'push – pull' effect of entrepreneurship, supports individual's unique reading of marketplace	Free market structure creates visible pathways for entrepreneurial read and understanding of marketplace and ability to enact business strategies. Actively use and benefit from use of knowledge stock	Increased ability to be an active player in the market. Financing accessibility enables 'pull' for expansion, diversification and 'push' of new pursuits to be enacted/ operationalized	Entrepreneurs supported to become active market players and enforcers of change. Environment does not diminish viability for opportunity pursuit

(Source: Author Construct)

## **8.4 Policy Recommendations**

This research has shown the most significant influences to entrepreneurship within the Ethiopia and Rwandan coffee markets to be an open and enabling market structure, access to finance, and a conducive political environment willing to embrace entrepreneurial potential for wider economic development. While the findings of this thesis are highly contextual to entrepreneurs within these specific research contexts, extrapolating findings and insights can inform wider analysis and policy prescriptions for emerging market settings or alternative sectors more broadly. Engendering entrepreneurship within emerging markets or developing countries was found to require the opportunity for growth of a vibrant private sector led by innovative, risk tolerant entrepreneurial actors focused on profit generation and the potential to use business as an additional mechanism to create institutional and social benefit. Policies supporting 1) the coffee sectors researched as well as 2) wider entrepreneurial growth needs are listed below and recommendations are built from direct empirical findings and outcomes from this research. While the policies described below are directed from result analysis of the specific research contexts, several outcomes are believed to have the potential to also be applied more widely.

While Rwanda has been found to have an outlook and related policy implementation geared towards the support and expansion of entrepreneurial actors within the coffee sector, improvements can still be made. Conversely, as has been shown, Ethiopia's perceived unwillingness to embrace and support unaffiliated, private sector entrepreneurs operating within the coffee sector speaks to a larger concern, and is one that is not considered able to be simply rectified by the improvement or implementation of adjusted policy. Rather, the mind set and outlook of the current regime must first be addressed prior to any meaningful, legislative changes taking hold.

Given the current coffee markets and political climates analysed, improvements can be made in order to better support the sector and to further empower entrepreneurial actors through addressing issues of limited resources, human capital development, policy environments, financial structures, regulatory climates and infrastructure needs. Some of the largest concerns of the coffee sectors reported by entrepreneurs are centred on: price, finance and need for technical training. A list of concerns and corresponding options for policy

improvements addressing entrepreneurship and the coffee sectors of Ethiopia and Rwanda are discussed below.

**Coffee Sectors:**

**Low price, price volatility and inability to predict seasonal pricing** was a major concern for actors across both coffee chains. While actors in producing counties have very limited means of impacting global pricing, opportunity exists to improve base pricing structures through unique product diversification, improved quality and value-added schemes such as certification or micro-lot production. Neither Ethiopia nor Rwanda have instituted hedging mechanisms or related safeguards against low prices. While both governments cite an inability to finance such endeavours, the lack of a localized hedge or institutionalized floor price continues to leave each market highly susceptible to external shock; with the coffee business remaining a highly risky endeavour. Given the disproportionate number of income dependent actors involved in each coffee sector, development of such a mechanism could be considered an integral element of a wider development strategy.

**Increased technical training and knowledge awareness** is a critical need particularly at the smallholder producer level. While some Rwandan Entrepreneurs operating processing or exporting businesses have instituted training schemes as a way to build or improve relationships with producer suppliers as well as a competitive advantage, widespread training schemes are not currently implemented in either country. As discussed in Sections 6.3.2.1 and 6.3.2.2, both countries rely on donor-financed projects to provide the majority of technical agricultural assistance programs or business training to Producers, Processors and Exporters, however the spread and depth of these initiatives are limited. Improved market awareness, especially on pricing information, continues to be a critical need to empower actors throughout the chain with accurate, timely information for forecasting, pricing and business planning.

**Improvements to (physical) infrastructure**, specifically roads, electricity access and water connectivity will greatly reduce operational costs involved in processing and transportation. The high cost of business related to poor infrastructure remains one of the most difficult barriers for new business emergence and business expansion (MTI, 2010).

**Improved contracting systems with international buyers** are reported to be a large challenge for both suppliers as well as international buyers. Often, contracts are not finalized until a product sample has been tested and approved by a buyer; purchase price negotiated and export terms finalized. Reportedly, most contracts do not include pricing differentials. The lack of price differentials, particularly for futures contracts places an undue risk on the exporter as most contracts are completed weeks to months following harvest and processing. Buyers have also complained of not receiving the same quality and product profile as agreed through the approved and accepted sample. A streamlined contracting system, inclusive of improved pricing standards should decrease risk for the exporter and increase product stability for buyers. However, at the time of writing this was considered highly unlikely. As initially discussed in Section 4.2.3, given the current market, large conglomerates of international buyers dominate the import market with a single supplier or even country in no position to demand terms.

**Wider Entrepreneurial Growth:**

**Financial inaccessibility and unaffordability** continues to be a major hurdle to entrepreneurs as well as overall sector advancement for both Ethiopia and Rwanda. As discussed in Section 6.5.1, each country is challenged by liquidity constraints and a distinct need for foreign exchange. Macroeconomic solutions to the liquidity constraint could come through bank recapitalization, which could increase liquidity and reduce the cost of lending (Traore et al., 2013). Stabilizing fiscal environments, enabling more reasonable interest rates<sup>169</sup> would also make financing more affordable for formal businesses as well as improving financial systems to incentivize domestic savings and investment (Beyene, 2002). In Ethiopia's case, this would include restricting the current monopoly the Central Bank of Ethiopia has over the financial market and equating the playing field between state-enterprises and private sector institutions. Supportive and innovative strategic financing initiatives should be implemented in order to support entrepreneurs and further develop the sector, inclusive of equity financing and equipment leasing opportunities through designated fund options.

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<sup>169</sup> Ethiopian interest rates reported to reach as high as 27%, Rwandan interest rates range from 14 to 21%

**Improved access to credit** for micro, small and medium businesses, including smallholder producers, is greatly needed. Admittedly, micro and small businesses as well as rural, smallholder producers are the most difficult, expensive and often inefficient clientele. However, these actors do account for the vast majority of operators within both coffee sectors and as such, improved financial services would have wide ranging benefits and economic implications. Enabling improved credit access would require the implementation of safety nets for investors and investees, increased MFI registration requirements, and easier conditions to access credit including widening the range of accepted collateral options (Traore et al., 2013). Undeniably, current financial climates and lending opportunities are risky, however the burdensome cost of collateral (125%+ loan requisition) creates a discouraging and prohibitive environment. Specifically for coffee entrepreneurs, land, coffee trees, equipment and at times, stations are not eligible as collateral, eliminating most coffee actors from any form of formal financing.

**Improve and streamline regulatory processes** in order to improve ease and efficiency to operating a business. As presented in Sections 6.3.1.1 and 6.3.1.2, Ethiopia and Rwanda had large differences in regards to global rankings in the World Bank's Ease of Doing Business Reports, highlighting extreme differences in time, expense and difficulty in business registration, licencing and operation. 2015 rankings reveal Ethiopia, which continues to have a disabling environment, dropping eight spots in three years to 132, with Rwanda continuing to improve, ranked at 46; both rankings are out of 189 countries. Improvements to both countries can still be made through reduced cost of business licencing, registration and enhanced facilitation of business operations and needs (Beyene, 2002). Additional improvements can be made in the areas of business entry, taxation, legislative policies, acquisition of construction permits as well as land registration and ownership. Improvement can also support reduced cost and increased efficiency for cross boarder trade as well as import and export (Traore et al., 2013). Ensuring ease, cost and efficiency of cross boarder trade is particularly important to both countries as both must transport export bound coffee to cross-boarder ports in Djibouti City, Djibouti and Mombasa, Kenya.

**Improved education access and increasing length of time spent in school.** As analysed in Sections 5.3.1 and 5.3.4, education was found to have an impact on entrepreneurship, with

actors receiving a higher degree of education found to have a higher probability for entrepreneurship. In this respect, state-led investment into education sectors should be made a priority element within a wider strategy of building a dynamic private sector led by entrepreneurial growth. Additional initiatives aimed at fostering entrepreneurial growth should include increasing access to market information as well as business development training to improve human capital and related managerial skillsets.

## **8.5 Proposals for Further Research**

Recently, much has been written, and speculation made, highlighting the budding potential for emerging economies as new economic ‘hot-spots’, if only the potential for entrepreneurship would be effectively harnessed (Boso et al., 2013). Given this burden for success, the role of entrepreneurs within emerging economies remains a crucial ingredient to wider socio-economic development. In the pursuit of actively moving economic frontiers forward, the need for entrepreneurs to play the role of change-maker has never been more vital.

While this research has made inroads into the understanding of the individual entrepreneur and the interwoven interdependence between the entrepreneur and their specific and unique operational contexts, work remains to be done in regards to truly unleashing the power of entrepreneurship and the positive impacts, both directly and indirectly, that entrepreneurs can create for their environments. Building from the approach used and outcomes obtained, further research should be geared towards using knowledge of the positive impacts of entrepreneurship, in order to engage with and advocate for government acceptance and implementation of constructive strategies to embrace the political, financial and market climates necessary in order to support entrepreneurial outlook and opportunity pursuit. Ideas for further research are as follows:

- This unique conceptual framework, the *Co-Evolving Entrepreneurship Nexus* or *Entrepreneurship Blueprint* and corresponding *Matrix* should be implemented in future research on entrepreneurship within emerging market contexts to analyse alternative sectors and/ or other countries in order to test applicability and effectiveness of developed

frameworks. The cocoa industry in West Africa is recommended due to similar industry construction to that of the coffee sector.

- The concept of reflexivity from entrepreneurial action as well as co-evolution of the individual entrepreneur and the specific operational context presents a unique and new approach for analysing entrepreneurship. However, to truly gauge and showcase evidence of co-evolution, a longitudinal study should be undertaken to examine changes and impacts to individuals, institutional structures, and contexts overtime. Given the limited timeframe for this specific study, a longitudinal study was unable to be implemented, however it is recognized that it would have added substantive weight to the arguments presented in this thesis.
- In Chapter 7 this study discussed entrepreneurs as architects of change and also analysed elements of positive additionality found be largely an outcome od entrepreneurial action through specific means of maintaining of gaining a competitive edge. Additional and interesting work could be carried out analysing the impacts and outcomes from social entrepreneurship within these contexts.
- While this study did not specifically apply a gendered lens to its analysis of entrepreneurship, this is recognized as a limitation. Further research could be undertaken in assessing how gender and related power dynamics may change entrepreneurship in regards to access within these contexts.
- The formal development of partnerships with local coffee industries should be made, enabling proprietary information to be released and analysed. Corresponding financial modelling should be used to test and relate profitability to entrepreneurial performance as indicated through this research and against frameworks developed.
- If accurate profitability and revenue receipts can be obtained from Ethiopian and Rwandan coffee sectors, data should be used to improve understanding of the financial implications on the sector and wider economies due to entrepreneurial involvement.

Uncovering and analysing empirical data demonstrating the financial impacts of creating an economic climate of entrepreneurial dynamism vs. the impacts of entrepreneurial apathy can be a key tool in advocating for appropriate government strategy.

- National, regional and household level data should be used in further economic analysis in order to determine wider economic improvements, correlations and patterns between successful (or unsuccessful) growth of the coffee sector, individual coffee actors, and economic development trends.

## **8.6 Conclusion**

The entrepreneurship phenomenon has been established through this research to be an interdependent duality of the individual construct and operational context, complete only with the inclusion of the reflexive outcomes from entrepreneurial actions onto wider structures of an emerging economy. This research has provided evidence and empirical analysis showing distinct differences between the individual construct of the entrepreneur and non-entrepreneur. The entrepreneurial approach, outlook and opportunity pursuit proved to be influenced by divergent degrees of political acceptance, economic liberalization, resource attainability, market structure favourability as well as historical and socio-cultural evolutions. The inherent policies, institutions, regulations, structures and business strategies proven through this research to influence entrepreneurship, were also found to be influenced by it. As shown, the colourful mosaic that is entrepreneurship is more than just the unique brilliance of a single individual or a government's agenda in building an economy. Instead, entrepreneurship is a result of the combined efforts of each, built through a vibrantly complex and multi-layered process, fusing both the entrepreneurial spirit and its conducive environment.

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## Appendix A – Participatory Budgeting

### Ethiopia Smallholder Producer Coffee Costing Models for Production and Sale of Red Cherry and Sun-Dried

The following presents various costing model scenarios developed through participatory budgeting exercises conducted with Ethiopian Smallholder Producers in order to present the potential lower and uppermost profit scenarios for seasonal low and high prices. Models and related cost structures are derived from average input calculations, farm size and productivity estimates and are calculated on a ‘per farm’ or ‘per producer’ basis. This model is calculated with assumptions of production of 600 trees on ½ hectare of productive farmland resulting in a total production of 420kg of red cherry<sup>170</sup>. As discussed, Ethiopian Smallholder Producers will typically sell only some red cherry at time of harvest, processing the remaining by hand for storage on farm site. The remaining sun-dried pods are used as a type of savings mechanism in which households will sell throughout the rest of the year, as needed. This model has estimated 1/3 of total red cherry is sold at harvest (126kg), with the remaining 2/3 processed by hand and stored on farm site as sun-dried (249.5kg) for sale throughout the rest of the year<sup>171</sup>.

The figures displayed below in the Table A.1, show total cost of production, harvest and transport to buyer (ECX Primary Market) for an average producer with 600 coffee trees. Information displayed is from participatory budgeting sessions with smallholder producers in Ethiopia, unless otherwise noted. Data provided was through memory recall and as such the potential for inaccuracies are acknowledged.

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<sup>170</sup> Productivity for Red Cherry in Ethiopia is estimated at 0.7 kgs of red cherry per tree (FAO, 2014). Accounting for sun-dried processing an additional weight loss of 0.10 kgs is incurred. Land purchase and/or start-up costs are not costed (E\_5, 2015).

<sup>171</sup> For most ‘average producers’, coffee earnings are not enough to sustain households throughout an entire year, with the 3 to 4 months prior to the start of the coffee harvest, typically being referred to as lean periods or hungry season.

*Table A.1. Ethiopian Average Smallholder Producer Input Cost Requirement*

<b>Farm: Production, Harvest &amp; Supply of Red Cherry &amp; Sun-Dried</b>	<b>Cost per Unit Eth Birr</b>	<b># of Units</b>	<b>Total Eth Birr</b>	<b>Total USD</b>
<b>Labour Off- Season</b>	own/ family labour, not costed			
<b>Labour On-Season</b>				
Wages (5 Labourers)	20	10 days	1000	\$47.62
Feeding Labourers (5 Labourer)	4	10 days	200	\$9.52
<b>Tree Maintenance</b>				
Tree maintenance	3	600 trees	1800	\$85.71
Pruning	own/ family labour, not costed			
Mulching	500	/ farm	500	\$23.81
Compost	300	/ farm	300	\$14.29
Ploughing	1000	/ farm	1000	\$47.62
Weeding	500	/ farm	500	\$23.81
<b>Harvesting / Transport</b>				
Cost of harvest sac (estimated 80kg/ sac)	40	5 sacs	200	\$9.52
Labourer transport to Market (2 people)	50	2 people	100	\$4.76
<b>Subtotal Cost – Producing/ Harvesting Red Cherry only</b>			<b>5,600</b>	<b>\$ 266.67</b>
<b>Household Production / Storage of Sun-Dried</b>				
Cost of Drying Cherry	300	/ farm	300	\$14.29
Construction of bed for drying	100	2 beds	200	\$9.52
Transport sun-dried pods to household storage	100	/ trip	100	\$4.76
Transport to Market	50	2 trips	100	\$4.76
<b>Subtotal Cost - Producing, Harvesting, Processing Sun-Dried</b>			<b>700</b>	<b>\$ 33.33</b>

(Source: Author Participatory Budgeting)

The following scenarios in Tables A.2 and A.3 below, are used to present the possible profit range for an average Smallholder Producer, accounting for seasonally low prices and seasonally high prices through sale of both red cherry and sun-dried pods. Prices are taken from average pricing data for the 2013 and 2014 seasons. As seen below in Table A.2, the first scenario presents low prices for Red Cherry sold at Eth Birr 8/kg (\$0.38/kg)<sup>172</sup> and Sun-Dried sold at Eth Birr 30/kg (\$1.43/kg)<sup>173</sup>.

<sup>172</sup> Internationally, coffee is priced and traded at US cent / lb. However, this typically does not take place until the export level, with smallholder producers dealing in local currency price/ kilo. As such, prices have been accounted for and calculated using producer statements at price per kilo.

<sup>173</sup> Exchange rate taken as an average across 2013/14 seasons at \$1.00 = Eth Birr 21.

*Table A.2. Ethiopian Profit Scenario 1, Sale of Product at Low Price*

<b>Scenario 1 (Low Price)</b>	<b>Total Eth Birr</b>	<b>Total USD</b>
<b>Total Cost of Red Cherry</b>	<b>5,600</b>	<b>\$266.67</b>
Earnings from Sale of Red Cherry @ 8 Birr / kg	1,008	\$48.00
<b>Revenue of Red Cherry</b>	<b>-4,592</b>	<b>-\$ 218.67</b>
<b>Total Cost of Sun-Dried</b>	<b>700</b>	<b>\$33.33</b>
Earnings from Sale of Sun Dried @ 30 Birr/ kg	7,484	\$356.40
<b>Revenue of Sun-Dried</b>	<b>6,784</b>	<b>\$323.07</b>
<b>Net Profit for Season</b>	<b>2,192</b>	<b>\$104.40</b>

(Source: Author Construct)

Results of the Low Price Scenario show the net, annual profit to be \$104.40 or just \$8.70 per month. Table A.3, presents a scenario of high seasonal prices for Red Cherry sold at Eth Birr 15/kg (\$0.71) and Sun-Dried sold at Eth Birr 32/kg (\$1.52/kg). Given the high price scenario, accounting for the input cost requirements shown in Table A.1 above, this model reveals a net, annual profit earning of \$170.15, or a monthly profit earning of \$14.18.

*Table A.3. Ethiopian Profit Scenario 2, Sale of Product at High Price*

<b>Scenario 2 (High Price)</b>	<b>Total Eth Birr</b>	<b>Total USD</b>
<b>Total Cost of Red Cherry</b>	<b>5,600</b>	<b>\$266.67</b>
Earnings from Sale of Red Cherry @ 15 Birr / kg	1,890	\$90.00
<b>Revenue of Red Cherry</b>	<b>-3,710</b>	<b>-\$176.67</b>
<b>Total Cost of Sun-Dried</b>	<b>700</b>	<b>\$33.33</b>
Earnings from Sale of Sun Dried @ 32 Birr/ kg	7,983	\$380.14
<b>Revenue of Sun-Dried</b>	<b>7,283</b>	<b>\$346.81</b>
<b>Net Profit for Season</b>	<b>3,573</b>	<b>\$170.15</b>

(Source: Author Construct)

Demonstrated through the Ethiopian Cost Scenarios, sale of red cherry revealed losses at both low price and high price scenarios. While respondents reported to prefer the sale of sun-dried for profitability reasons, the sale of red cherry at time of harvest often presents the only opportunity for smallholder producers to obtain actual cash, even if sale results in an overall profit losses.

## **Rwanda Smallholder Producer Coffee Costing Models for Production and Sale of Red Cherry**

The following costing models were developed through participatory budgeting sessions with Rwandan Smallholder Producers in order to present potential lower and uppermost profit scenarios for low and high prices. Models and related cost structures are derived from average input calculations, farm size and productivity estimates, and are calculated on a 'per farm' or 'per producer' basis. This model is calculated with the assumption of farm production of 500 trees on ½ hectare, resulting in a total production of 675kg of red cherry<sup>174</sup>. In Rwanda, Smallholder Producers typically sell all red cherry at time of harvest to Processors operating coffee washing stations (CWS). The figures displayed below in the Table A.4, show total cost of production, harvest and transport to buyer (CWS) for an average producer with 500 coffee trees. While Rwanda productivity of red cherry per tree is greater, as will be seen, cost of inputs, including labour, is higher than Ethiopia. Additionally, as presented in Section 4.5, Ethiopia typically achieves red cherry garden gate prices 20% to 40% higher than Rwanda.

Information displayed is from participatory budgeting sessions with smallholder producers in Rwanda, unless otherwise noted. Data provided was through memory recall and as such the potential for inaccuracies are acknowledged.

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<sup>174</sup> Productivity for Red Cherry in Rwanda is estimated at 1.35 kgs of red cherry per tree (NAEB, 2013; R\_5, 2014). Additionally, Rwandan smallholder producers are reported to leave more spacing between trees, resulting in a slightly reduced number of trees per plot. Average smallholder producers are expected to have 500 trees on a ½ hectare of production area. Land purchase and/or start-up costs were not costed.

*Table A.4. Rwandan Average Smallholder Producer Input Cost Requirement*

<b>Farm: Production, Harvest &amp; Supply of Red Cherry</b>	<b>Cost per Unit Rw Franc</b>	<b># of Units</b>	<b>Total Rw Franc</b>	<b>Total USD</b>
<b>Labour Off- Season</b>	own/ family labour, not costed			
<b>Labour On-Season</b>				
Wages - Harvest (2 people, 10 days)	1500	20 days	30,000	\$43.48
On Farm Work Costs (feed people while working)	250	20 days	5,000	\$7.25
<b>Farm Maintenance</b>				
Pruning	60	500 trees	30,000	\$43.48
Mulching	100	500 trees	50,000	\$72.46
Applying Pesticide Labour (1 person, 2 days)	1,000	2 days	2,000	\$2.90
Applying Fertilizer Labour (1 person, 2 days)	1,000	2 days	2,000	\$2.90
<b>Transport, post-harvest</b>				
Post Harvest Delivery cost	500	13 trips	6,500	\$9.42
<b>Subtotal Cost - Producing, Harvesting Red Cherry only</b>			<b>125,500</b>	<b>\$181.88</b>

(Source: Author Participatory Budgeting)

The following profit scenarios for Rwandan Smallholder Producers in Table A.5 and A.6 below, present the possible profit range for an average smallholder producer, accounting for seasonally low prices and seasonally high prices for the sale of red cherry directly to a CWS. Prices are taken from the average pricing data for the 2013 and 2014 seasons.

*Table A.5. Rwandan Profit Scenario 1, Sale of Product at Low Price*

<b>Scenario 1 (Low Price)</b>	<b>Total Rw Franc</b>	<b>Total USD</b>
<b>Total Cost of Red Cherry</b>	<b>125,500</b>	<b>\$181.88</b>
Earnings from Sale of Red Cherry @ 150 Birr / kg	101,250	\$146.74
<b>Net Profit for Season</b>	<b>- 24,250</b>	<b>- \$35.14</b>

(Source: Author Construct)

Results from the Low Price Scenario in Table A.5, show low prices for Red Cherry sold at Rw Franc 150/kg (\$0.22/kg)<sup>175</sup>. Given the Low Price Scenario, analysis into the annual profit actually reveals a net loss of (\$35.14). Table A.6 below, presents a scenario of high seasonal prices for Red Cherry sold at Rw Franc 250/kg (\$0.36/kg). Results of the High

<sup>175</sup> Exchange rate taken as an average across 2013/14 seasons at \$1.00 = Rw Franc 690.

Price Scenario, accounting for the input cost requirements shown in Table A.4, this model reveals an annual net profit earning of \$62.68, or a net profit of \$5.22 per month.

*Table A.6. Rwandan Profit Scenario 2, Sale of Product at High Price*

<b>Scenario 2 (High Price)</b>	<b>Total Rw Franc</b>	<b>Total USD</b>
<b>Total Cost of Red Cherry</b>	<b>125,500</b>	<b>\$181.88</b>
Earnings from Sale of Red Cherry @ 250 Birr / KG	168,750	\$ 244.57
<b>Net Profit for Season</b>	<b>43,250</b>	<b>\$ 62.68</b>

(Source: Author Construct)

Costings could not be generated for specific business segments or between specific entrepreneur classifications. However, as demonstrated through the costing scenarios developed through participatory budgeting with Smallholder Producers in both Ethiopia and Rwanda, coffee production for the average, smallholder producer was not found to be particularly lucrative for actors in either country. The lucrative perception of the industry can perhaps be understood through industry practice of a relatively large lump-sum payment received for product delivery<sup>176</sup>. However, when costing out the required inputs and investments, and assessing income potential over-time, coffee for the ‘average’ smallholder producer becomes much less lucrative. Considering that the majority of these coffee-producing households are essentially required to stretch the cash earned from coffee income across the rest of the year it begs the question:

Is coffee really the right investment for the ‘average smallholder producer,’ which is not willing or able to take entrepreneurial action in order to improve business standing or expand earning potential?

<sup>176</sup> Smallholder Producers typically have just a few harvests over a 1 to 3 month span of the season

## Appendix B – Semi-Structured Questionnaire

Smallholder Producer/ Commercial Farmer/ Processor/ Exporter

### Demographics of Respondent

Date of Interview
Name
Contact Details
Business Name & Location
Position in Company
PLC vs. SP, other? (Ethiopia Only)
Age/ Year of Birth
Gender
Education Level
Year Business Established
Business Size (Volumes/ Revenue, Land Size, # of Trees...)
Did you inherit your business? (Y/N)
Is coffee main source of income?
Are you currently engaged with other business interests? (Y/N) What other income generating activities are you involved in (on/off farm)? (Producers only)
Do you hire employees? Permanent/ Seasonal? How many?
Are you currently investing in your business to expand/ improve? (Y/N) Why?
What is the focus of your business (for Profit/ Social?) What do you believe your business can achieve?
Are you a member of a cooperative? (Producers only) Why/ Why not?

Business history?

Personal history with coffee / Family lineage with coffee?

How did you learn about coffee?

What are the major reasons you have chosen to be involved in coffee?

Explain your business model

What do you believe makes you successful?

# of coffee businesses owned (how many/ where/ across which segments)

Strategies for interacting with suppliers / buyers

What have your experiences been as a business owner in this country/ in the coffee sector?

What challenges or risks are you currently facing?

What risk mitigation mechanisms have/ do you implement?

Why continue with coffee despite challenges/ hardships/ risks?

Is there competition in your area?

How do you respond?  
What are the biggest impacts to your business (+/-)?  
What are the top 3 Risks to business:  
How respond?

How have you responded following difficult seasons or when your business has incurred losses?  
What do you do when prices low?

Are you doing anything different from your competitors or neighbours? (Innovations?)  
Have you changed your business strategy according to the market?  
How?

What opportunities do you see in coffee/ for the sector?  
What are your future plans?  
Any barriers to your business growth?

How are you different than others who have not been able to make business a success?  
What are specific characteristics of entrepreneurship in sector?  
What is necessary for Entrepreneurs to be successful?

What support if any have you received from NGOs or Government?  
What changes have you observed in yourself and community/ country since becoming involved with coffee? ?  
(i.e. physical infrastructure/ wealth/ increased external involvement?)

Does coffee have any unintended consequences (+/-)?

Any recommendations or improvements would you make for the coffee sector or wider business climate?

Views towards Government approaches/ focus

## **Appendix C – Key Informant Interview Example Questions**

Questions below present examples of discussion points held with Key Informants interviewed in Ethiopia and Rwanda.

Key Informants included Government Officials, NGO Actors, Sector Actors (exclusive to Producer/ Processor/ Exporter), Financiers, International Buyers and Expatriates involved with sector or related business ventures.

### **Example Questions:**

What is your role?

How does it impact/ work with the coffee sector or wider business development themes?

Do you believe the current economic and/ or political climate impacts the coffee sector? Specifically impacts entrepreneurs? How? Why?

How can it be improved?

Are there any adverse policies, financial constraints, regulations that are specifically hurting growth?

Does (specific policy, known financing issues, etc) impact actors either positively or negatively? How? Why?

Has external investment (lack of) changed perspective in the sector? How?

What does it take for an entrepreneur to be successful in this country?

What are some of the major obstacles to success for the entrepreneur, coffee sector, more broadly?

What challenges are observed for market development/ business expansion?

What role do you believe entrepreneurship has in helping (or hurting) the coffee sector and/ or wider economy at large?

What role has Government (or specific agency, ministry, project, service provider) played in developing sector?

What more can / needs to be done?

How has the NGO/ Donor/ International Buyers sector addressed challenges in the sector or wider economic development constraints?

What type of communication or constructive working relationship exists between coffee sector actors and Government policy makers?

## Appendix D – Structured Questionnaire, Likert Scale

Questionnaires were translated into Amharic and Kinyarwanda for Ethiopia and Rwanda, respectively.

Name: \_\_\_\_\_

Date of Interview: \_\_\_\_\_

Segment (P-Non Ent/ P-Pot Ent/P- Ent/ CF/ Pr/ Ex ): \_\_\_\_\_

Area of Operation: \_\_\_\_\_

This is a general assessment of how you perceive yourself. Please be as honest as possible. The questions are generalized and intended to indicate which ranking most accurately reflects you and your behaviors in regards to coffee. There is no right or wrong answer.

Test Question	Absolutely Never	Very Little	Occasionally (Neutral)	Often	Definitely Always
When the coffee prices are very high you are happy? (1=low, 5=high)	1	2	3	4	5
Resilience	Absolutely Never	Very Little	Occasionally (Neutral)	Often	Definitely Always
	1	2	3	4	5
Questions					
If you experience losses in your business, how often do you <i>actively</i> implement ways to replace the losses encountered?	1	2	3	4	5
If an event is very stressful, for example pests invade your coffee plantation and the harvest is lost, to what degree is it difficult for you to recover <i>personally</i> from that event?	1	2	3	4	5
If situations are very difficult, to what degree do you look for ways to improve <i>yourself</i> ?	1	2	3	4	5
When circumstances happen that are outside of your power, how often do you still try to control the situation?	1	2	3	4	5
How often are you able to adapt and be flexible to new circumstances and situations?	1	2	3	4	5
How often are you able to maintain a positive outlook even when things look hopeless?	1	2	3	4	5

<b>Self – Efficacy</b>	<b>Absolutely Never 1</b>	<b>Very Little 2</b>	<b>Occasionally (Neutral) 3</b>	<b>Often 4</b>	<b>Definitely Always 5</b>
<b>Questions</b>					
To what degree do you believe you are largely in control of what will happen in your life?	1	2	3	4	5
To what degree is this statement true: I do not plan too far ahead in the future (10 years +) because many things turn out to be a matter of luck, that I have no control over.	1	2	3	4	5
To what degree do you feel confident in yourself and feel strong and in control of your life and business?	1	2	3	4	5
To what degree do you believe that your life is, to a great extent, controlled by accidental occurrences?	1	2	3	4	5
When you make plans, how often are you able to succeed with the plans/ meet your targets?	1	2	3	4	5

<b>Innovativeness</b>	<b>Absolutely Never 1</b>	<b>Very Little 2</b>	<b>Occasionally (Neutral) 3</b>	<b>Often 4</b>	<b>Definitely Always 5</b>
<b>Questions</b>					
How often do you look for ways to improve working methods or experiment with new ideas?	1	2	3	4	5
How often will you try something <i>totally new</i> , even if you are unsure about the outcome?	1	2	3	4	5
How often do you <i>actively</i> pursue new ways to improve your skills, knowledge or business, if new ways are uncommon?	1	2	3	4	5
Even if something is working well, to what degree will you still try to improve it?	1	2	3	4	5
How often do you generate creative or unique ideas (that you have not witnessed before) for solutions to problems?	1	2	3	4	5
If you are unsure of the outcome of a risky activity, how likely is it that you will also try it?	1	2	3	4	5

<b>Risk Tolerance</b>	<b>Absolutely Never</b>	<b>Very Little</b>	<b>Occasionally (Neutral)</b>	<b>Often</b>	<b>Definitely Always</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Questions</b>					
To what degree do you implement measures to protect yourself from risk (business)?	1	2	3	4	5
To what degree do you try to try to avoid risk in business?	1	2	3	4	5
To what degree is this statement true: I am known in my community as someone who is willing to try new things/take risks.	1	2	3	4	5
How often will you start an activity even if you have no prior knowledge of anyone else attempting it?	1	2	3	4	5
How often will you invest money in an activity if you are not confident in the return?	1	2	3	4	5
To what degree do you see risk (business) as a challenge?	1	2	3	4	5
How often are you willing to try something new, even if you know you <i>may</i> fail?	1	2	3	4	5
To what degree is this statement true: I only start a new activity after I have seen someone else's success.	1	2	3	4	5

<b>Opportunity Recognition + Entrepreneurial Orientation</b>	<b>Absolutely Never</b>	<b>Very Little</b>	<b>Occasionally (Neutral)</b>	<b>Often</b>	<b>Definitely Always</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Questions</b>					
While going about routine day-to-day activities, How often do you see new opportunities or business venture ideas?	1	2	3	4	5
To what degree do you see and understand changes in the marketplace or business environment?	1	2	3	4	5
To what degree are you willing to pursue new opportunities if you believe they are viable, even if it is risky?	1	2	3	4	5
How often do you use your existing market knowledge and understanding to pursue new opportunities?	1	2	3	4	5
To what degree is this statement true: The new opportunities I have recognized over the years have been mostly related to each other.	1	2	3	4	5
To what degree is this statement true: Seeing new opportunities does not come naturally to me.	1	2	3	4	5
To what degree are you proactive in going after opportunities you see as beneficial to your business?	1	2	3	4	5

<b>Access to/ Need of: Capital &amp; Financing</b>	<b>Absolutely Never</b>	<b>Very Little</b>	<b>Occasionally (Neutral)</b>	<b>Often</b>	<b>Definitely Always</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Questions</b>					
How often do you require additional financing for your business?	1	2	3	4	5
How easy is it for you to get additional capital from a formal lending institution, such as a commercial bank?	1	2	3	4	5
To what degree is this statement true: If I borrow money from family/ friends it creates a strain and/or conflict in our relationship.	1	2	3	4	5
To what degree is this statement true: The profit I make each year is enough for me to invest and expand my business in the ways I want.	1	2	3	4	5
To what degree is this statement true: I believe I have all the requirements for a financial institution to give me a loan?	1	2	3	4	5
What Institution?					
Why or why not? What is missing?					

**How would you like to see financing opportunities improve?**

**What do you consider major financial hurdles to be for you personally or nationally?**

<b>Please rank where you source your additional financing.</b> 1 = high 6 = low	<b>Rank only actual sources of financing</b> (1st, 2nd, 3rd...)	<b>Rank preferences of where you prefer to get financing</b> Rank: 1 – 6
<b>Formal Lending institution, such as commercial bank</b>		
<b>Informal Lenders, such as community traders</b>		
<b>Micro-Finance Institutions, such as Umurenge SACCO</b>		
<b>Family and Friends</b>		
<b>Buyers</b>		
<b>Other</b> (Please list)		

**Do you need additional finance for your business at this current point in time?** (Y/N)

<b>Answer 1-5</b> (1=low, 5=high)	<b>Rank</b> (1-5)
<b>To what degree is coffee an important part of your entire livelihood?</b>	
<b>To what degree do you believe you have an influence on prices or an ability to change/ negotiate the prices that you get?</b>	

**Do you have access to a Phone?**  
(Y=1, N=2)

**How do you access information/ market information?**

