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The politics of upgrading in global value chains: The case of Rwanda's coffee sector

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Abstract

Two parallel tracks of research on economic transformation in developing countries have operated at a distance from each other over the last two decades. A global track – global value chains/global production networks (GVC/GPNs) – has focused on the increasing interconnectedness of global trading networks and has overlooked the role of the state and the explanatory power of domestic political economy. Meanwhile, a domestic track – including literature on developmental states, industrial policy and political settlements – has tended to take a methodologically nationalist perspective to examine economic transformation in developing countries, with limited reflections on external economic and political pressures. This paper contributes to an emerging stream of literature that examines how the domestic and global scales influence how developing country governments and firms tackle the challenge of economic upgrading. By combining insights from the political settlements and GVC/GPNs literature, this paper examines the Rwandan government's attempt at upgrading its coffee production to enter specialty coffee markets. It shows how the existing GVC/GPNs literature makes an important contribution to describing how multipolar governance influences the pathways for economic upgrading in Rwanda's coffee sector, but that even where access is granted, benefits are captive to the demands of international buyers, and gains for some have not translated across the sector. Insights from the political settlements literature showcase how domestic politics influences who benefits from insertion to GVC/GPNs and how the unequal provision of opportunities affects political stability.

Keywords: Rwanda, global value chains, global production network, political settlement, state, Rwanda, coffee, state-business relations

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1 Introduction

'The Rwandan farmer only receives a small fraction of value of the coffee that is exported. We are trying to change that… For us, in Rwanda, the coffee sector's future depends on increasing value-addition.'[1]

Since the 1990s, global value chains (GVC) and global production networks (GPN) scholarship has dominated the study of 'economic upgrading' – countries and firms moving to higher-value activities in GVC/GPNs with improved skills, knowledge and technology. These influential frameworks have been used to illustrate examples of upgrading across several sectors in developing countries (Pipkin and Fuentes, 2017). As the GVC/GPN literature blossomed in its examination of the global market engagement of firms across national boundaries, it was regularly criticised for neglecting the role of the state (Cramer, 1999) and retaining an 'overly depoliticized upgrading narrative' (Vicol et al., 2018: 26). Recent influential GVC/GPNs work has contributed to address this gap (Smith, 2015; Horner, 2017; Mayer and Phillips, 2017; Alford and Phillips, 2018).

The developmental state (DS) literature, which explained the successful catch-up development experiences of Northeast Asian states, was cast as a moving target (in relation to the state-centric work) within initial GVC/GPN literature (Gereffi, 1994). Similar to the GVC/GPNs literature, however, the DS literature was always relatively light on its discussions of domestic political economy. Within the DS literature, the study of state–business relations restricted itself to highlighting the importance of 'mutuality' or 'reciprocity' in state–business relations rather than analysing power relations (Amsden, 2001). The political settlements framework – initially developed by Mushtaq Khan (1995, 2010) – digs deeper into domestic political economies, focusing on how politics shapes economics outcomes. Yet the political settlements framework has also been criticised for failing to adopt multiscalar levels of analysis (Gore, 1996; Hickey et al., 2015).

Where GVC/GPNs scholarship has argued that fragmented and decentralised value chains alter the traditional role of industrial policy in economic development, DS literature and new industrial policy scholarship highlight that industrial policy remains a prerequisite for international development (Lauridsen, 2018). This divide contributes to a gap within the literature on international political economy – where the interaction between domestic political economies and global economic change is a core analytical focus. This paper aims to contribute to the growing effort to fill that gap, combining insights from the political settlements and GVC/GPNs literature to examine how a politically sensitive GVC/GPN framework can help illuminate changes that have taken place in the Rwandan coffee sector over the past two decades.

The case of Rwanda is particularly apt for this study, given that the government has been lauded for its effective policymaking, developmental state-like ambitions and

[1] Interview, National Agriculture Export Board (NAEB), February 2012.

economic successes (Booth and Golooba-Mutebi, 2012; Abbott et al., 2017). During 1999-2014, Rwanda's annual GDP growth was 7.7 percent and its annual growth in GDP per capita was 5 percent (Diao and Mcmillan, 2018). Rwanda is a small, landlocked country, still largely dependent on primary commodities, but trying to access high-value segments of GVC/GPNs. The Rwandan Patriotic Front (RPF) government – which has ruled the country since the 1994 genocide – has been committed to reducing its dependency on low-quality coffee exports, which has been a characteristic of most of Rwanda's independent history. Rwandan coffee now has a growing reputation in international specialty markets and the sector's transformation has been widely applauded for its success by international financial institutions (Boudreaux, 2011), prominent economists (Easterly and Reshef, 2010) and the international press (Goering, 2006; Gambino, 2018). However, the area of land under coffee cultivation and national coffee production is actually much lower than it was before 1994, and a domestic coffee paradox exists whereby 'coffee productivity is among the lowest in the world yet international buyers consistently rate its coffees among the very best in the world' (Clay et al., 2016, 3).

This paper examines what a politically sensitive GVC/GPN framework can tell us about the domestic coffee paradox in Rwanda. It begins with a discussion of the evolution of the literature on the state's role in GVC/GPNs and political settlements, highlighting how an infusion of insights from political settlements can shine more light on how the domestic political economy influences the processes and outcomes of economic upgrading. The next section details the evolution of Rwanda's coffee sector, showcasing how insights from existing GVC/GPN studies help elucidate the pathways through which transformation has occurred and can partially explain outcomes associated within the sector. The paper then discusses the political settlement in Rwanda, highlighting how domestic politics influences how opportunities are distributed within the sector.

Research for this paper was conducted during fieldwork visits to Rwanda between 2011 and 2018. The bulk of the research on Rwanda's coffee sector was conducted during fieldwork between October 2011 and May 2012, and in May 2013 and January 2015. A total of 570 semi-structured interviews have been conducted in Rwanda across several sectors, 132 of which were specific to the coffee sector, with Rwandan government and military officials, donors, private sector, cooperative representatives, journalists, consultants and some individual farmers. Economic data provided by the government and exporters was triangulated with interviews, and historical data was collected by accessing government archives, government data, consultancy reports, firm data and existing academic literature.

2 GVC/GPNs and political settlements: Weaving together parallel literatures

2.1 GVC/GPNs

The origins of the GVC/GPN literatures have been discussed in depth (Bernstein and Campling, 2006; Bair, 2005, 2009; Hess and Yeung, 2006; Neilson, 2014). Though there are differences between the GVC and GPN approaches – particularly in relation to the broader formulation of GPNs as a 'network' to encompass more actors than a firm-centric 'chain' – this paper will discuss the two approaches interchangeably, with GVC/GPNs referring to a commodity-specific approach to understanding the organisation of the political economy of the global coffee industry. This section will introduce the evolving discussions of the forms of governance in GVC/GPNs and the role of the state in promoting upgrading.

Discussions of the governance of GVC/GPNs have largely taken a 'top-down' approach. Gary Gereffi's initial work (1994) distinguished between producer-driven commodity chains (PDCCs) and buyer-driven commodity chains (BDCCs). PDCCs are characteristic of capital-intensive industries in which manufacturers control vertically organised suppliers, as opposed to light manufacturing industries where globally dispersed subcontracting networks are managed by designers, retailers and other brand-name firms (Gereffi, 2001). Subsequent GVC/GPNs work has found that most commodity chains have become increasingly buyer-driven since the 1970s and 1980s, when American retailers joined manufacturers to search for offshore suppliers of most consumer goods. This coincided with a global trend to embrace outward-orientation in developing country economies and end import substitution policies. This has been particularly evident in agro-processing sectors, where supermarkets operated as 'big buyers' and exerted increasing control over growers in developing countries (Dolan and Humphrey, 2000). An influential fivefold typology of governance was later developed to highlight five types of relationships between lead firms and suppliers – hierarchical, captive, relational, modular and market (Gereffi et al., 2005).

Subsequent research has argued against the uni-directional 'buyer-driven' focus within GVC/GCC discussions to highlight how governance could be administered by actors other than lead firms within chains and extra-chain actors, including governments, standard developers or civil society organisations. Thus, rather than governance being administered in a unipolar form, chains/networks are actually governed through bipolar or multipolar forms of governance (Ponte and Sturgeon, 2014). Gereffi and Lee (2016) similarly highlight different forms of value-chain governance, differentiated in relation to the actors involved: private governance (buyers), social governance (civil society organisations) and public governance (governments and multilateral organisations).

Though such forms of regulation acknowledge the state's role in governance, most GVC/GPN studies have been reluctant to make the state a core analytical focus. GPN work initially employed the concept of 'strategic coupling' to describe how regional economies integrated in international trade and production networks through specific actions and practices of key actors and institutions in ways that were mutually beneficial (Coe et al., 2004). Yeung (2016) applied this concept to East Asian countries, describing how firms eventually began to act largely independently of the state. However, such discussions limited the role of the state to that of a facilitator and thus underplayed the contributions of state intervention in latecomer development.

For most GVC/GPN scholarship, innovation is understood to be the sole responsibility of firms (Kaplinsky and Morris, 2016). Such arguments ignore the continued activist role of the state, even in advanced countries (Block, 2008; Mazzucato, 2015). Yet the tide may be turning within GVC and GPN scholarship, with new work emerging that develops typologies of the different roles played by states in supporting economic upgrading (Mayer and Phillips, 2017; Alford and Phillips, 2018; Horner, 2017). Horner (2017) extended discussions of the state's role within GPNs as beyond that of a facilitator. He based his typology on Evans' (1995) categorisation of four state roles (custodian, demiurge, midwife and husbandry). He highlights four state roles within GPNs – facilitator, regulator, producer and buyer. Within this work, he highlights the potential activist roles of the 'state as producer' (where state-owned firms are actively involved) and 'state as buyer', which go against the market-friendly interpretations of the state's role amid globalisation that dominates the GVCs and GPN literature.

Mayer and Phillips (2017) built on existing governance typologies (Gereffi et al., 2005) to highlight key governance functions of the state – facilitative, regulatory and distributive. Though they aimed to focus on politics, their discussions have largely focused on 'understanding the role of politics and states in the construction and maintenance of a GVC world' (Mayer and Phillips, 2017: 136). Alford and Phillips (2018) strengthened their typology further, using a specific example of political contestation in a sector in a developing country (in the South African fruit sector). They showed how political contestation through the Western Cape farmworkers' strike actions in 2012/2013 shaped dynamics of state governance in the context of GVC/GPNs.

The ways in which GVC/GPNs are governed shape the possibilities of economic upgrading. There are four categories of economic upgrading: process upgrading; product upgrading; functional upgrading; and chain upgrading (Humphrey and Schmitz, 2002). Yet economic upgrading usually results in the unequal spread of benefits across GVCs/GPNs (Gibbon and Ponte, 2005; Dussel Peters, 2008). There have been warnings that inclusion into GVC/GPNs results in 'immiserising growth' (Kaplinsky, 2000) and 'adverse incorporation' (Hickey and du Toit, 2007) of labour and firms into global production and distribution structures (Meagher, 2016). Though there are numerous examples of successful economic upgrading in various sectors in developing countries, it does not automatically result in social upgrading (Barrientos et al., 2011). Within the coffee sector, Neilson (2008) found that benefits from economic upgrading in the Indonesia coffee sector resulted in benefits being concentrated among a small number of actors within each node of the value chain.

Specialty coffee requires process upgrading, which is both about increasing the efficiency of the production process and meeting standards (Ponte and Ewert, 2009). Consequently, better resourced actors are more likely to invest in technological capabilities necessary to access such markets (Whitfield, 2017). A recent systematic review of the effectiveness of agricultural certification in developing countries confirms the inequities associated with economic upgrading. It found evidence that though certified products may be sold at higher prices, they do not translate into increasing household incomes or farmer assets, and wages for workers who are not in certified production are higher than those in certified production (Oya et al., 2018).

2.2 So what's missing? Politics and GVC/GPNs

The evolving literature on GVC/GPNs provides important insights on how such chains/networks are governed and the upgrading options that are available to developing countries. The literature on the state's role in GVC/GPNs makes important contributions to our understanding of public governance in an increasingly globalised world. Where domestic political economy is discussed within this literature, it is usually restricted to discussions of how it may affect governance (Alford and Phillips, 2018). There remain few discussions of domestic political economy and state–business relations, in particular.[2] Since most GVC/GPN scholarship focuses on individual sectors, it often neglects broader issues prevailing in domestic political economies, or the impact of changes in one sector on the macro-economy of the country.

The analysis presented in this paper highlights how the upgrading opportunities shaped by GVC/GPNs require the reservation of benefits for selected groups, which is inevitably a political process that is subject to contestation. Thus, the process of upgrading is often characterised by the inclusion of some (who receive benefits) at the cost of others (who fail to access GVC/GPNs or are simply excluded from them). This unequal spread of benefits requires that developing country governments manage the distribution of opportunities politically and ensure that the inequality that results from this process is made durable. The political settlements framework suggests that the choice of who benefits from processes of economic transformation is a product of the domestic political economy. For example, if the ruling coalition tends to centralise control of the economy and distrusts 'outsiders' (as was evident in the RPF's reign in the early 2000s), opportunities will be concentrated among loyal firms. If government has less strength in relation to existing business groups, it may need to distribute opportunities more evenly to ensure excluded groups will not fund its rivals. Thus, the political settlements framework helps to highlight why certain groups benefited from integration into value chains, how unequal outcomes were made durable and how domestic politics affects economic outcomes.

The political settlements framework, initially conceptualised by Mushtaq Khan (1995, 2010, 2017) has become an increasing popular tool for examining how politics influences economic and social outcomes in developing countries. The political

[2] Some exceptions are Thomsen (2007) and Whitfield et al. (2015).

settlements literature emerged as a response to the dominance of New Institutional Economics (NIE) in the 1990s. NIE focused on the importance of formal institutions (such as secure property rights). Contrastingly, Mushtaq Khan's (1995, 2010) work on political settlements emphasised that the distribution of power in developing countries was not aligned with their formal institutions. In developing countries, powerful groups operated through informal institutions – particularly, patron–client relations – to protect their position and income sources. Within political settlements scholarship, ruling coalitions are understood to use the distribution of rents to contribute to ensuring political stability by redistributing benefits to powerful groups who could otherwise contest the institutional structure. In contrast to NIE theorists, who view such informal institutions negatively and as a hindrance to development, Khan (1996) argues that the distribution of rents is both necessary for economic transformation and can even be productive, specifically with reference to industrial policy. Khan's elaboration of the political settlements framework puts the focus firmly on power and away from just formal institutions. The focus on how context-specific power relations are maintained through different combinations of formal and informal institutions is a distinctive contribution of the political settlements approach.

Over time, different variants of the political settlements framework have developed (Khan, 2010; Putzel and Di John, 2012) and the framework has been used to study varied sectors across different countries.[3] This paper retains Khan's (2018: 5) broad definition of political settlements as 'a description of the distribution of power across organisations that are relevant for analysing a specific institutional or policy problem'. The commonality to all political settlements scholarship is its analysis of how the prevailing distribution of power across groups in developing countries motivates different outcomes – in relation to management of conflict, and economic or social outcomes. For example, Khan and Blankenburg (2009) describe how, in Northeast Asian countries, productive rent management strategies were adopted in line with the evolving political configurations in each country, whereas rent management strategies were primarily employed for unproductive rent-seeking in Latin America. Moreover, the framework emphasises the importance of adopting a historical political economy approach, given the obvious but often-forgotten truism that power is rooted in history. The next section illustrates the evolution of coffee politics in Rwanda, before highlighting how existing GVC/GPN literature can provide insights into the evolution of post-1994 Rwanda's coffee sector.

3 Vulnerable inclusion and majority exclusion from economic upgrading in Rwanda's coffee sector

3.1 The political economy of coffee in pre-1994 Rwanda

The strategic position of coffee in national politics is common in many developing countries, with over 90 percent of coffee produced in Asia, Africa and Latin America (Ponte, 2002). Colonial administrations and their linked companies reaped high profits from the labour of indigenous coffee growers. The coercion that forced the

[3] See Behuria et al. (2017) for a review of the literature on political settlements.

organisation of coffee production in these countries resulted in a reorganisation of social relations within rural sectors. These efforts contributed to path dependency effects in many newly independent countries. Paige (1998) documents how some coffee elites in three Central American countries – Nicaragua, Costa Rica and El Salvador – took leadership of popular revolutions to adopt neoliberalism and protect their interests. Similar stories of how social relations around coffee impacted national politics abound in African countries, including Angola, Kenya and Tanzania (Sender and Smith, 1986; Throup, 1987; Cramer and Richards, 2011).

In Rwanda, coffee occupies a similar place – at least, in its post-independence history. Unlike Brazil, Ethiopia or Vietnam – countries that comprise a large share of global coffee production – Rwanda has never produced more than 1 percent of global coffee production. Thus, even in its traditionally most important export sector, Rwanda remains a 'price-taker' in relation to the global economy. For close to a century, Rwanda has depended heavily on the coffee sector for a majority of its export revenues. Coffee and other primary commodities (tea and minerals) have traditionally comprised over 90 percent of Rwanda's exports. Around 99 percent of the coffee produced in Rwanda is Arabica coffee.

The first two independent Rwandan governments, led by Gregoire Kayibanda (1962-1973) and Juvenal Habyarimana (1973-1994), used coffee and other primary commodity sectors as avenues through which rents were distributed to their allies. Consequently, rents obtained from the sector became a source of political contestation. Major fluctuations in global coffee prices preceded periods of political instability between 1962 and 1994 (Prunier, 1995).

Initially, Kayibanda used the coffee sector as a platform to grow his national political profile. Prior to independence, he acted as TRAFIPRO's (a large coffee cooperative) president. TRAFIPRO later became the state-run marketing board for agricultural products and operated as 'the economic arm of the regime' (Verwimp, 2003: 163). Kayibanda channelled rents to his Southern-central allies and encroached on the interests of other Hutu elites, which led to opposition (Pottier, 1993). Prior to a fall in global coffee prices in the early 1970s, Rwanda's economy weakened and Northern Hutu elites took advantage of popular grievances to mount a successful coup in 1973.

Habyarimana was installed as president and immediately abolished TRAFIPRO, replacing it with a monopsony coffee export agency – Rwandex. For most of Habyarimana's reign, Rwandex exported around 80 percent of domestically produced coffee. Both regimes developed peasant-centred ideologies, where coffee occupied a prominent role in nationalist rhetoric, with Habyarimana calling on farmers to grow coffee for the good of the nation (Verwimp, 2013). In Habyarimana's speeches, he linked the external threat of 'Tutsis invaders' to the interests of pastoralists, which he cast as contradictory to the interests of Hutu farmers (Verwimp, 2000). The *akazu* – a group of Hutu elites close to President Habyarimana and his wife, which controlled most economic activities and influenced policy-making

– also had deep interests in the coffee sector. Some *akazu* members, like Felicien Kabuga (one of the most prominent businessmen during Habyarimana's reign), owned coffee plantations; Seraphin Rwabukumba (Habyarimana's brother-in-law) headed the central bank's foreign currency division, allowing him to divert coffee profits for the *akazu* (Des Forges, 1999; Kamola, 2007).

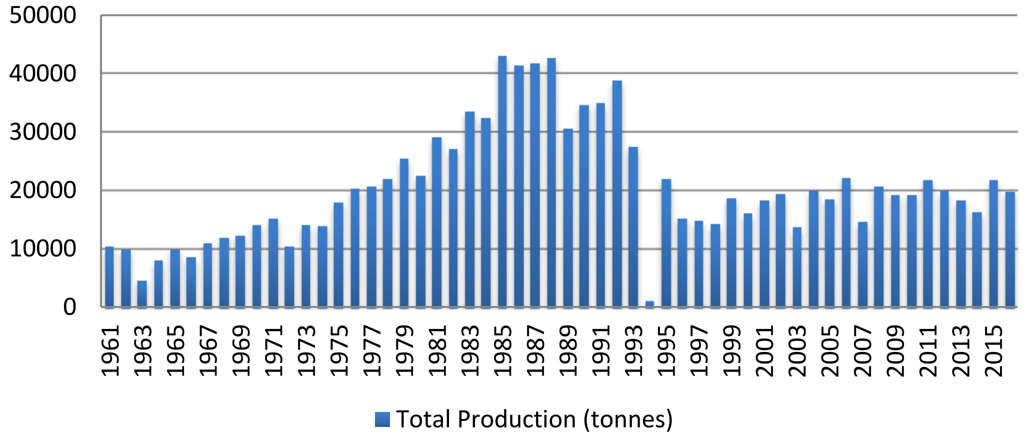
Coercion became an increasingly prominent feature of policy-making in the coffee sector, first after 1977 and then in 1985. The 1978 law on coffee cultivation made the neglect of coffee trees punishable by law, and placed a monitor in every commune. Intercropping was outlawed and fertiliser use was restricted to coffee and tea production. When coffee prices fell again in 1985, the area of land under coffee cultivation increased and though total coffee production remained high, yield dropped significantly after 1986, signalling resistance to forced coffee cultivation (Verwimp, 2013; Behuria, 2015b). Regionally, there were also sharp divergences in government policy. In the Northwest (where the *akazu* support base resided), coffee yields were highest and less land was allocated to coffee, while in the South, yields were low, lands allocated to coffee were above the national average and repression was highest.

During both the Kayibanda and Habyarimana regimes, Rwandan coffee exports entered a relatively stable global coffee market. From 1963 to 1989, most coffee-producing and consuming countries agreed on export quotas and target price zones to stabilise coffee prices and incomes, as part of the International Coffee Agreement (ICA). The ICA ended in 1989 for a number of reasons, including a lack of global consensus for its continuation, opposition in the US Congress, and incoherence of the Brazilian government's policy (Gilbert, 1996). A steep fall in coffee prices followed. This had a particularly deleterious effect on Rwanda's coffee sector. Despite the reduction in coffee prices, farmers were compelled to grow more coffee and punishments were handed out if trees were neglected, indicating an increase in coercion in the early 1990s that paralleled the beginnings of the civil war (Verwimp, 2013). The coffee sector was central to determining the distribution of power within Rwanda's political settlement, and fluctuations in international coffee prices eventually contributed to Habyarimana's increasingly extremist strategy in the 1990s.

3.2 Multipolar governance and trajectories of upgrading Rwanda's coffee

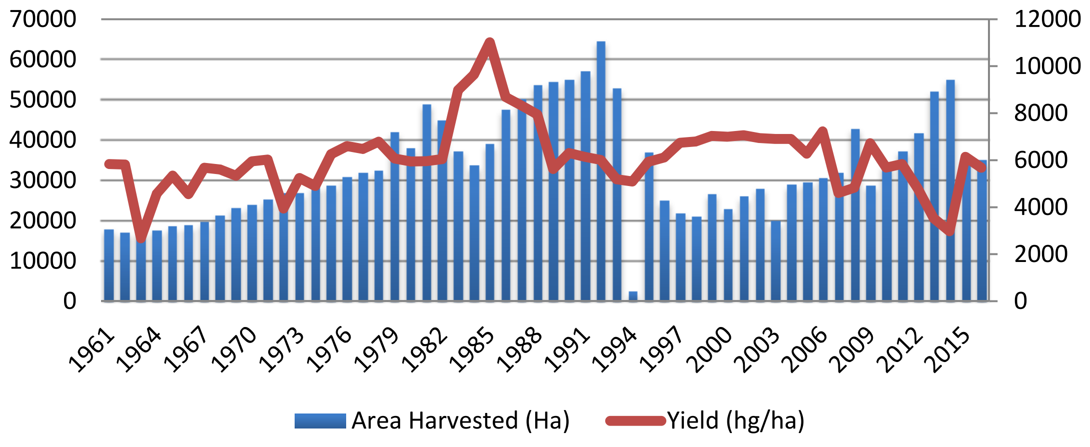
While the pre-1994 political settlement in Rwanda was largely organised through social relations around the coffee sector – both ideologically and economically – the post-1994 political settlement has aimed to reduce its political and economic reliance on the coffee sector. When the RPF assumed power in 1994, Rwanda's domestic coffee sector was dealing with an altered global coffee sector. The RPF government liberalised coffee exports in 1995. The government had previously retained a Coffee Stablilisation Fund and fixed the producers' price for coffee. After 1994, the government withdrew from commercial activities. By 1998, producer prices had been liberalised. The government replaced the price-fixing mechanism with a progressive export tax system (taxing the exporters' profit margin at a fixed ad valorem rate of 16 percent) (IMF, 2000). The liberalisation policy meant that farmers were exposed to fluctuations in world market prices. These changes have contributed to reducing Rwanda's coffee production in comparison to the 1980s (Figure 1). Though there has been some improvement since the mid-2000s, production has remained relatively stagnant since then – at around 17,000 metric tons annually (Clay et al., 2016). The area of land under coffee cultivation and average yield is also much lower (Figure 2).

Figure 1: Total coffee production in Rwanda: 1961-2016



Source: FAOSTAT.

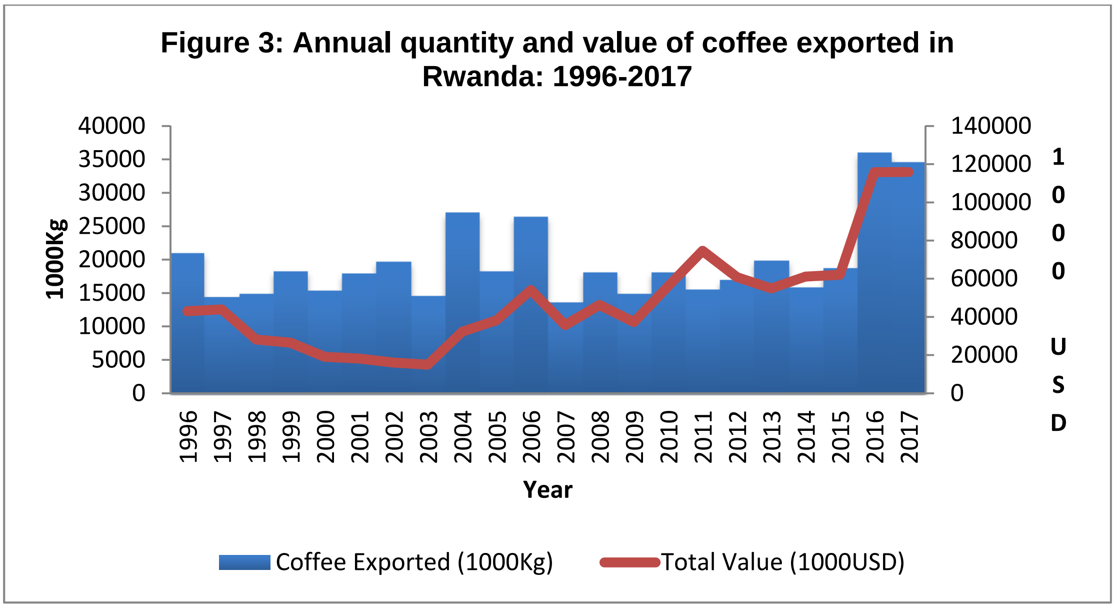
Figure 2: Area harvested and yield for coffee production in Rwanda: 1961-2016



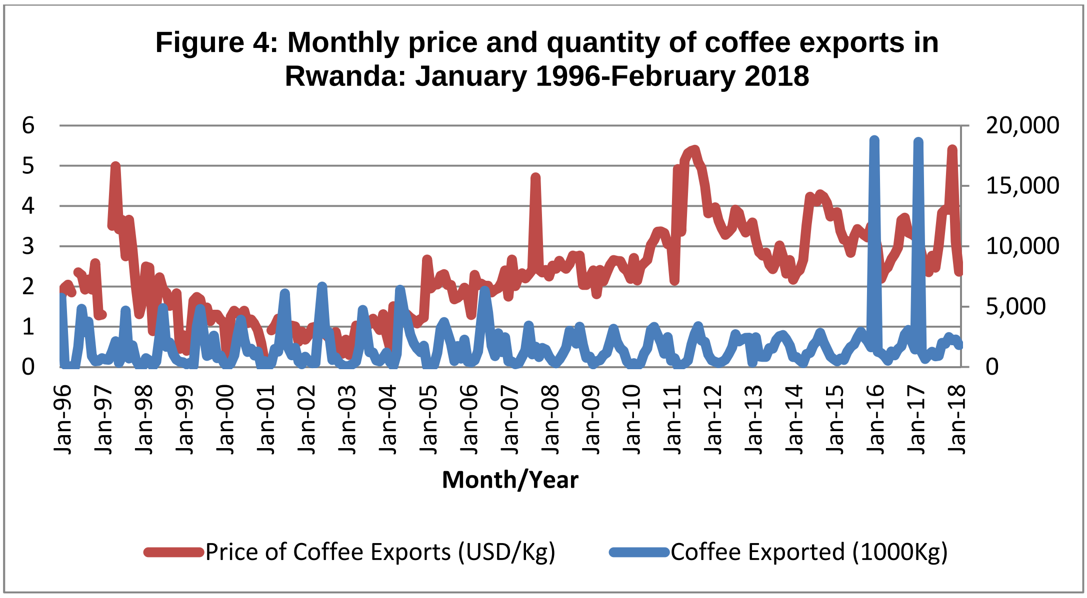
Source: FAOSTAT.

The RPF's policies have been starkly different from those of previous governments, which prioritised increasing the volume of coffee production and area under cultivation as part of their development strategy. Where pre-1994 governments aimed to maximise revenue and control of coffee producers through increased production of low-quality coffee, the RPF government has aimed to maximise value of coffee exported, with the goal of entering specialty coffee markets – growing at 15 percent annually in the 2000s (Ponte, 2002) – when the first national coffee strategy was published in 2002.

Figures 3-4 indicate that the value of coffee exported has increased since 1994. Yet such progress masks the fact that changes in the value of Rwandan coffee exports have been closely related to changes in New York-C prices (Guariso and Verpoorten, 2018). It is also difficult to argue that such benefits have been realised by coffee farmers especially since farmer compensation has remained stagnant in comparison with other East African countries (Clay et al., 2016). The Rwandan government's pursuit of economic upgrading has led to a much more contested form of governance of the coffee GVC/GPN, which is explored next.



Source: MINECOFIN.



Source: MINECOFIN.

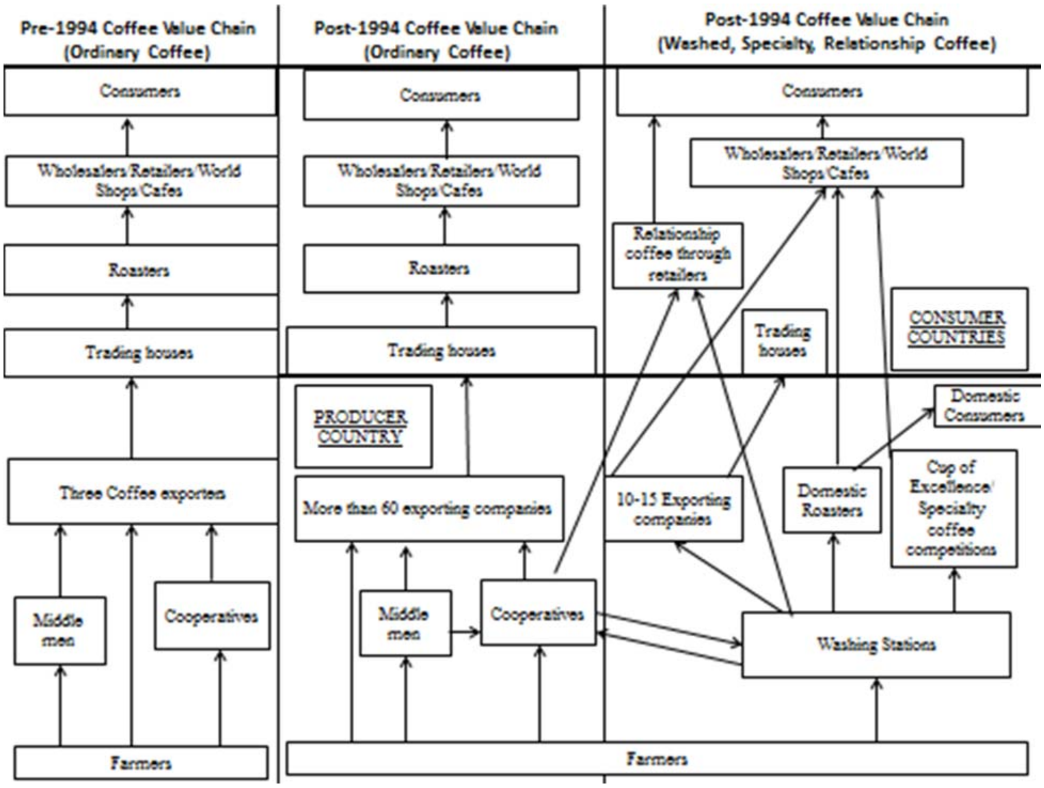
Ordinary coffee is traded on the New York Board of Trade 'C' market for use in canned pre-ground coffees and for blending, while specialty coffees are negotiated by import and export operators with producer organisations, at higher and more stable prices (Elder et al., 2012). Specialty coffee – 'a term that means different things to different people' – covers 'all coffees that are not traditional industrial blends', either because of their high quality, limited availability, blended flavouring, packaging or consumption experience (Ponte, 2002: 1110-1111). In 1982, a handful of small-scale coffee roasting companies established the Specialty Coffee Association of America, and their initiatives to promote the consumption of specialty coffee, led to the Northern American specialty market reaching an estimated retail value of $7.8 billion by 2001 (Bacon, 2005). Largely invisible in the 1970s, by 2001, the specialty gourmet market segment represented 17 percent of US coffee imports by volume and 40 percent of retail market by value (Giovannucci, 2001).

To enter specialty markets, the Rwandan government enlisted support from USAID, IFAD and the European Union to invest in planting new trees, improving cultivation practices (including using fertiliser and mulching, weeding and pruning trees). Given that in the 1990s, farmers had uprooted their coffee trees, these new investments were significant in reviving the sector. Government officials publicly admit that they coerced farmers into applying fertiliser and sending coffee cherries to washing stations.[4] Building coffee washing stations (CWS) and ensuring more coffee was washed and processed was also a priority in the first National Coffee Strategy, published in 2002. Success has been clearly visible in expanding the CWS presence across the country. In 2000, there were only two barely functioning CWS in Rwanda. By 2017, there were 301 CWS.

The rapid expansion of washing stations has contributed to the development of differentiated value chains (ordinary, washed, specialty and relationship coffee) (Figure 5). In the traditional value chain for ordinary coffee, farmers pick the coffee cherries during annual harvesting periods. Cherries are then de-pulped manually and the coffee parchment dried. Farmers then sell coffee parchment to local traders (or middlemen) and sometimes, also to exporters directly. Traditionally, middlemen had sold the coffee either to the marketing board or to exporting agencies (e.g. Rwandex). The second value chain is the washed coffee chain. To process and wash their coffee, farmers sell cherries to washing stations. Cherries are then pulped and fermented to remove the mucilage and thereafter beans are washed, dried and sorted. Coffee parchment is then sent to dry mills (owned by exporting companies) to remove parchment, producing export-ready green coffee. Not all washed coffee is of sufficient quality to be sold as specialty coffee. Rwanda has one of the highest numbers of FairTrade certified coffee producer organisations in Africa (Elder et al., 2012). To be sold as specialty coffee, it is necessary to meet certain standards (FairTrade, Rainforest Alliance, Utz Kapeh, etc.) and find access to buyers, roasters or retailers. Relationship coffee refers to arrangements whereby roasters/retailers

[4] Interviews, NAEB, February and March 2012.

Figure 5: The evolving coffee value chain in Rwanda



engage in direct trading relationships with coffee producers, bypassing traditional certification and mobilising quality tropes (Vicol et al., 2018).

Domestically, liberalisation of the sector has led to the entry of numerous firms, with a few firms consolidating market share. As of 2017, there were over 60 coffee-exporting companies (including cooperatives) operating in the country. However, six companies export nearly 70 percent of Rwandan coffee. Globally, too, the global value chain has become concentrated among a few retailer, roaster and international traders, though there are a multitude of arrangements between producers in developing countries and smaller buyers in consumer countries. Such changes emanated from the ICA’s collapse, moving from a system where producing and consuming countries shared control over the international coffee trade, to an increasingly ‘buyer-driven’, ‘trader-driven’ or ‘roaster-driven’ value-chain (Ponte, 2002; Daviron and Ponte, 2005). This occurred alongside the dismantling of national coffee boards and the liberalisation of coffee marketing systems, as part of structural adjustment policies. Booming Brazilian coffee production and Vietnam’s entry as a leading coffee producer contributed to a global oversupply and a shift in the bargaining power of agents across the coffee chain. This meant that increasing shares of the value of coffee production were being captured in consuming countries (Fitter and Kaplinsky, 2001; Ponte, 2002; Talbot, 2002). In 2012, among international traders, the two largest – Neuman Kaffee Group and Ecom – handled 28 percent and the largest eight traders comprised more than two-thirds of global green coffee exports (Troster and Staritz, 2015). Volcafe, Neuman Kaffee Group and Ecom control nearly 50 percent of the world’s coffee imports. Among roasters, Nestle and Jacob

Douwe Egberts enjoyed more than 40 percent of the global market in 2013 (Troster and Staritz, 2015). Since nearly 75 percent of all coffee consumed in major importing countries is bought in retail stores, retailers retain significant control over the commodity chain.[5] However, despite this concentration, several smaller roasters have begun to emerge and new markets (East Asian and Russia) have increased their shares of global coffee consumption, signalling new opportunities associated with such 'interstices' in the value chain (Ponte, 2002).

Rather than characterising the governance of the coffee GVC/GPN as buyer-driven (Ponte, 2002) or driven by limited governance (Fitter and Kaplinsky, 2001), this paper argues that the coffee value chain should be perceived as driven by multipolar governance (Ponte and Sturgeon, 2014). Additionally, differentiated value chains (ordinary, washed, specialty or relationship) should not be seen as distinct, given that shifts in production of one kind of coffee have effects on the production of other kinds of coffee in a specific country. Roasters, retailers and civil society organisations govern the terms of entry into specialty markets in the coffee sector. Yet the government governs domestic production through incentivising (or coercing) farmers and cooperatives to change their production techniques (e.g. selling coffee to washing stations and improving production), thereby influencing the macro-level strategy of prioritising export of specialty coffee. Crucially, the government also negotiates how roasters and retailers enter domestic value chains and access farmers and production.[6] Neither the government nor roasters/retailers have uncontested power in determining how the GVC/GPN of coffee is governed. Instead, the nature of governance should be seen as adaptive and temporary. This is particularly true in the Rwandan case, where the government directs public governance through adopting a variety of different strategies, while roasters/retailers only establish relationships with local cooperatives through contracts for specific periods of time. Thus, specialty coffee GVC/GPNs are of the 'captive' type, where 'small suppliers are transactionally dependent on much larger buyers' (Gereffi et al., 2005: 84).

The Rwandan government's aggressive strategy of navigating the coffee GVC/GPN to access specialty coffee markets within a liberalised domestic and global coffee environment signals the continued relevance of the role of the state in economic upgrading within GVC/GPNs. The next sections highlight how the government sought access to specialty markets and how it impacted the sector as a whole.

4 Accessing specialty coffee markets: Insights from the state and GVC/GPNs literature

The Rwandan government's top priority is for more domestically produced coffee to be roasted within the country and then exported (with some consumed internally). However, achieving such goals requires improving production quality, acquiring

[5] Interview, coffee exporter, May 2013.
[6] Thomsen (2007) shows that such forms of public governance are also evident in Vietnam's apparels sector.

technological capabilities in-country and finding external buyers. The government's ambition has meant the simultaneous pursuit of several strategies to gradually increase the share of specialty coffee exported. This has meant that the government has tended to direct investments, though its pathways for upgrading continue to be shaped by roasters and retailers abroad. Thus, 'multipolar governance' is evident in the sector, with the government playing public governance and state governance roles (Gereffi and Lee, 2016; Mayer and Phillips, 2017). However, the state also plays a more direct role, through investing in upgrading itself, thus playing an aggressive 'producer' role (Horner, 2017).

Prioritising increases in washed coffee production was the first step. Success has been rapid in this regard, with government investments ensuring a steady increase in the share of washed coffee in the country, reaching 52 percent of total coffee production in 2016/2017 (NAEB, 2017). In the early 2000s, the government took a lead in investing in the construction of washing stations, ensuring that it would be a 'demonstration effect' for other investors. The military, the Rwanda Social Security Board and cooperatives contributed the first investments in washing stations. Local elites – including Faustin Mbundu, Vincent Ngarambe and Chrysologue Kubwimana (who also owned exporting companies) – also invested in the first washing stations.

Initially, several options were considered, including roasting within country and toll roasting (a contract for roasting Rwandan coffee by an existing coffee-roasting business in the country of consumption). Consultancy reports highlighted that between 2001 and 2003, very few countries had successfully found a market for roasted coffee internationally.[7] Consultants did not recommend roasting in-country, since it entailed higher transportation, processing and packaging costs, and capital and depreciation costs, as compared to toll roasting. Toll roasting would ensure the finished product matched market tastes, avoided airfreight costs and was delivered more rapidly to the market. Contacts were sought in Europe, North America, China and Japan in the mid-2000s to explore such avenues, and consultants recommended partnering with lead firms (or roasters), relying on the 'philanthropist' motives of roasters, since they considered incentivising local exporters and cooperatives to engage in roasting not to be feasible.[8]

The majority of roasters and retailers have preferred to buy Rwandan coffee after it has been bought by international traders and roasted abroad. Thus, toll-roasting arrangements have been the dominant form of economic upgrading in Rwanda. Though the government engaged lead firms (roasters/retails) itself, USAID also contributed to marketing Rwanda's specialty coffee around the United States, and convinced roasters like Specialty Coffee Association of America and the Coffee Quality Institute to get involved in Rwanda (Chemonics, 2006). President Kagame leveraged his personal relationship with Starbucks President Howard Schulz and others in the sector, like Peet's coffee and Arkansas-based Westrock coffee. USAID

[7] Interview, NAEB, February 2012.
[8] Interview, consultant, May 2012.

projects also pushed such goals. The *Abahuzamugambi* cooperative, which was founded in 1999 and supported by USAID, found a market for specialty coffees through UK-based Union Coffee Roasters and US-based Community Coffee. Their coffee is bought at premiums and exported as single-source/traceable coffee, selling at retailers including Whole Foods, Intelligentsia Coffee and Third Rail Coffee in New York (Easterly and Reshef, 2010). Starbucks-supported Rwashoscco and Buf Coffee – both exporting companies that are owned by cooperatives – made similar breakthroughs in US markets. There were several examples of foreign retailers partnering directly with Rwandan cooperatives. For example, in 2018, US-based Peet's Coffee released a limited edition 2018 annual blend of Rwandan coffee produced by a female-only cooperative of coffee farmers, with the promise that 5 percent of proceeds would provide clean water to Rwandan coffee families.

The government's role in the sector was not limited to being a 'producer', 'regulator' or 'facilitator'. Government investments were also vital to improving the image of Rwandan coffee at large, rather than helping a specific investor. Government delegations attended events held by the Specialty Coffee Association of America and Japan, the East African Fine Coffees Association, and, since 2008, have also held an annual national barista competition. Rwanda was also the first African country to hold Cup of Excellence (CoE) events, with producers aiming to enter such events having to meet very strict standards. CoE events have been held annually in Rwanda since 2008 and Rwandan coffee has won prizes at international CoE events regularly in recent years. Participation in global events has been instrumental in marketing the high-quality image of Rwandan coffee.[9]The government has also engaged directly with international buyers, including the Rogers family, who bought 58 containers after visiting Rwanda in 2009. Rogers Family Company plans include a partnership with RPF-allied businessman Alfred Nkubiri's ENAS, a coffee-exporting company, to build washing stations.

The role of lead firms (retailers/roasters) has also been vital to providing opportunities for upgrading. Relationship coffee has also taken hold in Rwanda through American NGO, Sustainable Harvest, which partners with cooperatives of female coffee farmers to sell their high-value coffee in the United States. However, like most toll-roasting arrangements, even partnerships like Sustainable Harvest only have arrangements with selected cooperatives and thus, those included remain 'captive' within high-value segments, while the vast majority of coffee producers remain excluded.

Despite warnings from foreign donors and consultants, the Rwandan government has invested in roasting coffee domestically. Most coffee that is roasted domestically is sold in local coffee shops, hotels and supermarkets, or in the East African market. In 2009, there were six main coffee roasters and, by 2018, this number had increased to 18. Some roasters are individual Rwandan capitalists (although their investments are small) and some foreign investors, targeting'interstices' (Ponte,

[9] Interviews, NAEB, October 2011 and February 2012.

2002) within the coffee value-chain, selling its coffee in Middle Eastern and Ugandan supermarkets. By 2012, 116.8 tons of coffee was sold as roasted coffee.[10]

The government's role as a 'producer' is most evident through the trend of investing directly in partnership with foreign investors for strategic investments, rather than relying on 'picking' individual capitalists as winners and thereby increasing their reliance on them (Behuria, 2016b; Behuria, 2018). As a major strategic investment within the coffee sector, the government – through NAEB and BRD – has worked with partners, the Clinton Hunter Development Initiative (CHDI) and the Hunter Foundation, to create a coffee company – the Rwandan Farmers Coffee Company (RFCC) – and invested in a 3 million USD coffee processing factory in Kigali. RFCC sources coffee directly from government-selected cooperatives. In 2015, RFCC began operations and started producing under the brand 'Gorilla's coffee', selling to local, African, Asian and European markets. In 2015, RFCC exported 7 tons of roasted coffee to the UK and in 2017 4.5 tons were sold to other markets, including Germany and South Korea. In 2018, 10 tons of coffee – worth $77000, with the same amount of ordinary coffee valued at $42000 – were shipped to the USA, as part of a Beyond Fair-Trade agreement between RFCC and US-based Global Food, whereby 5,452 coffee farmers from six cooperatives would share the benefits (Nkurunziza, 2018). In 2018, RFCC aims to export a total of 40 tons of coffee.

Rwanda's most ambitious value-addition attempt in the 2000s was party-owned Bourbon Coffee. Bourbon Coffee was established in 2006 by Arthur Karuletwa – a Rwandan who moved to America in 1995, and worked for Proctor & Gamble, and then for the Rwandan government, including as a consultant at OCIR-Café. Bourbon initially aimed to be the 'Starbucks of Rwanda'. Bourbon has three stores in Kigali and initially had one each in Washington DC, New York, Boston and London. Since then, its American operations have expanded, but the London coffee shop has shut down. It aimed at providing a market for high-quality coffee produced by Rwandan farmers and was developed in close collaboration with the state. The shops themselves are geared to providing a Western-style coffee experience, importing their condiments and pushing a Starbucks-style ambience.

The investment in Bourbon was more a 'brand-building exercise' and it is unlikely to have made profits.[11] Bourbon's success was an example to others, with 17 new coffee shops established across Rwanda by other companies. Other prominent coffee shops include Mauritian-Rwandan-owned Brioche and Kaizen's Neo. Profits from Bourbon's local stores were invested in the expansion of coffee shops globally. However, company officials argue that their major success has been marketing Rwandan coffee abroad and promoting a coffee culture at home – with 0.02 percent consumed domestically in 2007 compared to 1.3 percent in 2017 (Gambino, 2018).

Rwanda's drive to access specialty coffee markets highlights the importance of the

[10] Consultancy reports.
[11] Interview, NAEB, January 2012.

state's role as regulator and producer in driving economic upgrading. The evolution of the sector highlights partnerships with firms/roasters (following a large share of GVC/GPN literature) and investing itself. Though promising, even today, a very small portion of Rwandan coffee is roasted domestically. Even the toll-roasting arrangements are with specific cooperatives (that are often chosen or recommended by the government), highlighting the precarious nature of inclusion within GVC/GPNs.[12] The next section further details how prioritising specialty coffee has led to the unequal spread of benefits across the sector.

5 Rural costs of prioritising specialty coffee

Entering specialty coffee value segments has meant that only better-funded cooperatives or farmers with enough expertise, land size and funds were able to avail themselves of benefits. As a result, the government has played a role in supporting and regulating the connections between roasters/retailers and domestic producers. Nearly half of Rwanda's coffee does not reach washing stations, despite the government's attempt at coercing farmers and providing incentives and the distribution of benefits through washing stations. Washing stations themselves have become a regulatory location for governments since seedlings, fertiliser and other inputs are often distributed on receipt of coffee cherries from farmers. The requirements of certification standards have also forced the reorganisation of production. This means specialty coffee require partnerships with identifiable cooperatives who can invest in meeting standards and, thus, it is likely that poorer farmers will be excluded (Ponte and Ewert, 2009). As already mentioned, the GVC/GPN literature has often highlighted how the benefits of upgrading attempts in developing countries have not been evenly spread across the sector – also, specifically for the coffee sector (Neilson, 2014).

Specialty coffee has centred on assumptions that efficient and egalitarian family-operated small farms, or membership in cooperatives, provide an escape from poverty for the poorest rural Africans (Sender and Johnston, 2004). Such perceptions rely on consumers believing that their consumption habits are benefiting vulnerable 'smallholders' (Cramer et al. 2015). A focus on 'smallholders' or 'small farmers', without disaggregating the categories, renders wageworkers and the landless population invisible. Small farmers and cooperatives are not homogeneous groups and comprise a diverse group of individuals of varying age, sex, land holding, skill sets and political contacts (Cramer and Pontara, 1998). Smallholders should be understood as both capital and labour within particular relationships and categorising all of them as vulnerable actors becomes problematic (Bernstein, 2010).

Some government officials stressed that washed coffee production had benefited 'small farmers' through the empowerment of cooperatives.[13] 'Cooperatives are used

[12] Interview, NAEB, May 2013.
[13] 'These policies are about the farmers. If farmers are producing fully washed coffee, it will make them less vulnerable to changes in prices' (interview, NAEB official, May 2013).

to make sure farmers get money to overcome poverty.'[14] Such benefits were argued to have been common among many coffee cooperatives (Boudreaux, 2011). Yet other scholars (Ansoms, 2009; Huggins, 2009) were concerned about the 'top-down' way in which cooperatives were established and the coercion that accompanied cooperative membership. There have not been 'mutual gains' for all actors working across the value-chain, and assumptions regarding 'cooperatives' and 'small farmers' ignore the fact that cooperative members are most likely to be larger farmers (Clay et al., 2016). Most coffee farmers were not even organised in cooperatives – only 8.2 percent in 2006 and (out of 355,771 coffee farmers) only 14 percent were cooperative members in 2015 (OCIR-Café, 2009; NAEB, 2016).[15]

Some cooperatives, which were supported by donors, were successful. For example, the Maraba cooperative sold washed coffee for $3.26/kg in 2004 and this went up to $4.08/kg in 2007 (Boudreaux and Ahluwalia, 2009). Cooperatives have heavy membership fees, which limit the possibility of vulnerable workers becoming members. COOPAC's annual membership fee is 10,000 RwF and Abahuzamuambi's annual fee is 5000 RwF (Mujawamariya et al., 2013). Bureaucrats acknowledge that 'most cooperatives are captured by the elite. Even when they have money. They don't invest back into coffee.'[16] Huggins (2014, 2017) illustrates how agrarian elites have used such cooperatives to empower themselves and, thus, such cooperatives are often contributing to rural differentiation. The president of one eminent Rwandan cooperative had more than 30 times the amount of land than any other farmer.[17] One study on Huye province showed that membership of cooperatives decreased because of the requirements that came with coffee certification, cooperative membership requirements – including maintenance fees and minimum numbers of trees – lack of awareness of benefits of the cooperatives, and long distances to be covered when delivering coffee (Mugabekazi, 2014). The most vulnerable members of the cooperatives did not renew their membership, while 65 percent of the 'small farmers' who were members employed wage labour (ibid).

The target to break into specialty markets was justified by the promise that it would bring gains for small farmers.[18] Coercion was justified on these grounds, while also claiming that selling to washing stations represented an opportunity to farmers. As one senior military official said:

> 'Change does not come so easily. We had to use a stick and tell them [the farmers] to do things. Our farmers just used to get beans, put them in a sock and take them. We wanted to do something to change it. We built washing

[14] Interview, NAEB, May 2012.
[15] This is despite government legislation that requires coffee farmers to join legally registered cooperatives.
[16] Interview, NAEB, March 2012.
[17] Internal NAEB documents.
[18] Interview, NAEB, November 2011.

stations, organised cooperatives. Now, everyone is convinced. This is the effect of long-term planning.'[19]

Farmers have two options: they can choose to process their cherry on the farm as parchment; or sell coffee cherries directly to a CWS. Farmers may opt to process at home because of established relationships with middlemen (to whom they may also owe money), because of the distance to a CWS and because spending time away from home may not be possible (especially in the case of female-headed households, with implications for childcare). Processing at home also provides farmers with the opportunity to sell parchment, which is a more stable product than coffee cherries. Government pressure, generally higher prices and incentives (such as premiums) may entice farmers to sell coffee cherries to CWSs. The government also imposed barriers on the production of unwashed coffee production, outlawing its sale during certain months. However, it has been difficult to enforce bans on selling unwashed coffee, given the strength of middlemen and the difficulties with obtaining full benefits from selling cherries to CWSs.[20]

Studies have recently found that 'nearly all of the value-added attached to higher quality coffee has accrued to those in the post-harvest stages of the value chain – composed maintly of washing stations, dry mills and export companies' (Clay et al., 2016: 5). Others have argued in line with the government's claim, highlighting a difference of $1.40/kg between the export price of washed coffee and that of ordinary coffee, with benefits accruing to farmers, labourers at the CWS, the CWS owner and the financier (Macchiavello and Morjaria, 2017). Coffee farmers who sold their cherries to CWSs had relatively high consumption expenditures, suggesting that promoting washed coffee production has benefited coffee growers and even contributed to improving food security.[21] In 2015, government officials claimed that the minimum price for unprocessed coffee was 170Rwf/kg, compared to some farmers receiving more than 250Rwf/kg for washed coffee (Nkurunziza 2015). Yet one study (Clay et al., 2016) estimated that the true cost of coffee production in Rwanda, including household and wage labour, inputs and equipment, totals 177 RwF/kg – more than double the Rwandan government's official figure, which is based on a farmer with 2,500 trees (as opposed to the prevailing median of 400 trees) – meaning that the average farmer is barely making a profit unless premiums are being received.

The reasons underlying Rwanda's coffee paradox – where Rwandan coffee has developed an international reputation for its high quality, while the majority of coffee produced continues to be of very low quality – are influenced by the ways in which the government has prioritised economic upgrading within the sector. Even incorporation into specialty segments is 'captive' and temporary in nature, whereas the majority of farmers continue to produce low-quality coffee and receive low prices.

[19] Interview, MINADEF, January 2015.
[20] Interviews, exporting company representatives and consultant, January 2012, April 2012; May 2013.
[21] Internal NAEB documents.

Washing station owners buy very low quality coffee (often with defects) and a large share of washed coffee does not make the specialty grade.[22] Specialty coffee production requires investment at the farm level (including buying inputs and improving production techniques) and careful attention to the selection of coffee cherries. Though the government invests in training coffee farmers, through extension services like Farmer Field Schools (MINECOFIN, 2013), such programmes only reach small groups. Reading the GVC/GPN literature, the exclusion that has accompanied economic upgrading in Rwanda's coffee sector may appear familiar, but the question of who has benefited from such change can be explained by a reading of the country's political settlement, which is discussed in the next section.

6 Rwanda's political settlement and the coffee sector

The political settlements framework has been widely used to analyse Rwanda's economic recovery since the genocide. As per Khan's (2010) framework, the ruling coalition in Rwanda enjoys greater relative power, both in terms of the 'vertical distribution of power' (the relative power of higher over lower levels within the ruling coalition) and the 'horizontal distribution of power' (the relative power of the ruling coalition, compared to excluded factions). The assumptions of Khan's (2010) framework would imply that greater relative power in the 'vertical distribution of power' would lead to the ruling coalition enjoying stronger implementation capabilities, while greater relative power in the 'horizontal distribution of power' would mean that the ruling coalition would 'feel secure and act with a longer time horizon' (Khan, 2010: 65). Scholarship (Booth and Golooba-Mutebi, 2012; Kelsall, 2013) that has been influential in both in academic and policy circles applied the political settlements framework to Rwanda to highlight the long-horizon orientation of the country's development strategy and the effectiveness of the implementation of that strategy. Particularly focusing on the centralisation of rents and power within the RPF, this scholarship argued that the use of party- and military-owned enterprises has led to productive economic outcomes.

This characterisation of Rwandan political economy may be accurate at the macro-level. Scholarship (Booth and Golooba-Mutebi, 2014; Chemouni, 2018) has continued to highlight the effectiveness of Rwandan policymaking. Critics (Reyntjens, 2013; Thomson, 2013) also agree that the RPF has increasingly centralised power, but with negative implications, especially in relation to human rights and prospects for democracy. Economic and political power within Rwanda is centralised within the ruling coalition, a group comprising majority Tutsi leadership, who led the RPF to victory after the 1994 genocide (and some new entrants into the ruling coalition). Similar to East Asian developmental states, the ruling coalition in Rwanda remains relatively cohesive, and scholarship (Kohli, 2004; Waldner, 1999) would argue that such unity would lend itself to the promotion of industrialisation. However, in Rwanda, intra-elite tensions and difficult relations with many prominent members of the local business community have instead contributed to fewer prominent individual capitalist

[22] Interviews, NAEB, CWS owners and exporters, May 2012 and May 2013.

partners emerging within the sector, and a growing reliance on party-owned, military-owned or closely-affiliated firms.

Though the RPF's ruling coalition has enjoyed relative stability and coherence, there has been political contestation between different factions in Rwanda. In the 1990s, a civil war broke out in Rwanda between a racially divisive Hutu government, led by then President Juvenal Habyarimana, and the invading RPF, which was initially led by Tutsi refugees from Uganda and later became broad-based. However, this broad-based coalition began to fracture soon after the RPF took power in 1994. Several senior Hutu figures, including Seth Sendashonga and Theoneste Lizinde, left the country and lived in exile. The same was true for senior Rwandan Patriotic Army (RPA) military officers and political cadres. Four senior Tutsi RPF figures left the country in the 2000s, and in 2009 they formed the Rwanda National Congress, an opposition party in exile. Several senior RPF officials have continued to run foul of the government in recent years (Behuria, 2016a). The government has also jailed Hutu opposition figures, prominent musicians and journalists.

Changes in the broader domestic political economy mirror changes in the political economy of Rwanda's business sector. Academic scholarship has tended to focus on the use of Rwanda's party- and military-owned enterprises (Booth and Golooba-Mutebi, 2012; Behuria, 2015a, 2016b). There are several different types of RPF-linked investment groups in Rwanda. Crystal Ventures Ltd. is the party-owned conglomerate that operates in various sectors, including construction, coffee, private security, agro-processing and real estate. There are also military-owned investment groups (Horizon Group, Agro-Processing Trust Corporation), government-funded investment groups managed by the Ministry of Defence (Ngali Holdings) and investment groups that are products of collective investments by local investors closely tied to the RPF (Rwanda Investment Group).

Although, in the 1990s and early 2000s, there were prominent individual investors that owned leading businesses in certain sectors, relatively few are prominent leading investors today. Tribert Rujugiro is one example of a local investor who was involved in investment groups, government departments and his own businesses, but eventually fell out with the government and is now accused of funding opposition groups abroad (Behuria, 2018). Another high profile businessman – Assinapol Rwigara – died in a car accident in Kigali in 2016. Since then, his daughter – Diane Rwigara – and other family members have publicly voiced the claim that RPF officials assassinated Rwigara. Diane Rwigara later attempted to run for president against Paul Kagame in the 2017 elections and is now currently in jail on embezzlement charges. There are still some examples of emerging local investors in the Rwandan private sector (Golooba-Mutebi and Booth, 2018). Some local elites operate in value-addition segments in the coffee sector, but RPF-linked investment groups are often the primary partners for large strategic investments (both because of the political friction within local state–business relationships and because few loyal investors are willing to invest in large strategic investments) (Behuria, 2018).

The evolution of the politics around Rwanda's state–business relations – trending from a position where loyal individual investors co-existed alongside party and military-owned enterprises, to one where party- and military-owned enterprises had become increasingly prominent and some individual investors had lost prominence – has mirrored the Rwandan government's choices of capitalist partners in upgrading attempts in the coffee sector.

In its initial attempts to construct CWSs, investments were initially made by the military and government institutions, alongside some local elites like Faustin Mbundu. A reliance on such actors meant a gap in technological capacity and limited consideration of the requirements of the domestic coffee sector. Many of the problems regarding the location and low utilisation rate of CWSs remain (with many not being utilised at all). The legacy of these investments has meant that most CWSs are currently characterised by under-utilisation. Nearly 75 percent of CWSs still used traditional wet mill machines with uneconomical oversized capacity (Guariso and Verpoorten, 2018). There is considerable variation, with some CWSs operating at above 100 percent capacity and others no longer in operation or operating at very low capacity.[23] However, on average, the utilisation rate remains far below capacity at most stations.[24]

Many individual elites also made the first investments in coffee-exporting companies and it was only later that a military-owned investment company followed. Businessmen who were closely aligned to the RPF (Faustin Mbundu, Tribert Rujugiro and Hatari Sekoko) immediately established coffee-exporting companies after 1994.[25] However, none of these companies was able to compete with foreign companies that entered the market at the same time. The most significant entrant was Switzerland-based Rwacof – owned by international trader, Sucafina. Unlike foreign-owned exporting companies, most local exporting companies (at least, officially) claimed to export only washed coffee and claimed to work in line with the goal of selling all their coffee in specialty markets.[26]

Though many of the same businesspeople also upgraded their economic activities to exporting packaged coffee in small quantities, the government chose to invest, either itself or through its party vehicle, in its more ambitious upgrading attempts – the establishment of Bourbon coffee shops domestically and abroad, as well as the RFCC, which roasted coffee domestically. The preference to invest its own resources, rather than support local elites in their business ventures, is a characteristic of Rwanda's state–business relations that highlights the vulnerability of relationships with private actors.

While the political settlements framework is useful in outlining how the distribution of power within the state and business actors may influence who receives benefits, it is

[23] Internal NAEB documents.
[24] Internal NAEB data.
[25] Sekoko entered the sector much later than the others.
[26] Interviews, local coffee exporters, October 2011-May 2012.

also useful to highlight how the inequities of such strategies are maintained. Among elite groups – who do not receive similar opportunities – the consensus on ideology, and ideological goals, is important in legitimising the country's coffee strategy. Academic literature on Rwanda highlights that a clear ideological goal of self-reliance has driven policy-making (Behuria, 2016b; Reyntjens, 2016). This is also true of economic upgrading within primary commodities, where the export of unprocessed coffee and tea has left the country vulnerable to global commodity price fluctuations in several instances since independence. Within the coffee sector, self-reliance is inextricably bound with the goal of economic upgrading, given that fluctuations in global commodity prices have marked several instances of political turmoil in Rwanda's independent history (including the 1994 genocide) and such examples are etched in the memories of senior RPF officials (Chossudovsky, 1996).[27]

Among non-elite groups – particularly those involved in production (farmers and workers) – the management of violence and political contestation has also influenced the strategy. The GVC/GPN literature has been cognisant of this (Levy, 2008; Alford and Phillips, 2018). Although the RPF government has been consistent in its prioritisation of altering the domestic coffee value-chain in line with accessing specialty coffee markets, it has been unable to win the broad support of the population. The vulnerability of the RPF's political settlement has meant that, despite the suspicion and distrust with which the ruling coalition may view those living in rural areas, redistributing the benefits of growth towards them is necessary for ensuring long-term stability. Yet the strategy that has been adopted has been implemented top-down, with a commitment to macroeconomic needs and an attitude of 'the government knows best.'[28] Without the co-optation of most rural actors, the government has been forced to rely on coercive methods. Several examples of resistance have been detailed (Huggins, 2009; Ansoms, 2013; Van Damme et al., 2013). The military's involvement – at the firm level and in coordinating production – is evidence of how the state has organised coffee production, with support from violence specialists, in the language of Tilly (2003). Just within the last two years, the reserve military force has overseen the planting of over 3.7 million coffee trees on 1,515 hectares in four districts (Kirehe, Rulindo, Gakenke and Nyamagabe).

Although the government's goals of economic upgrading in the coffee sector were initially set with the public aim of redistributing benefits, any gains have been spread unevenly and will be limited to a small number of actors. Rwanda's integration into GVC/GPNs has occurred with the government playing a role in regulating the distribution of rents, although multipolar governance of upgrading efforts remains contested. Yet, within Rwanda's domestic political economy, the inequities associated with economic upgrading have only increased the distance between those who benefit from access to specialty coffee markets and those who are excluded.

[27] Interview, RPF Senator, May 2013, and interviews, MINECOFIN and MINICOM, May 2012.
[28] Interview, foreign consultant, May 2013.

7 Conclusion

Two parallel tracks of academic literatures have emerged in relation to studying economic transformation in developing countries. The global track – GVC/GPNs frameworks – have tended to highlight the increasing power of lead firms in organising global production while marginalising the question of how domestic politics matters. The domestic track – encompassing the DS approach, industrial policy literature and the political settlements approach – has focused on the role of state intervention (and underlying domestic politics), but done little to highlight how global economic changes have shaped pathways for productive strategies. Recent literature has begun to fill that gap and this paper contributes to such attempts by highlighting how insights from the GVC/GPNs literature and the political settlements framework explain the unequal outcomes associated with Rwanda's coffee paradox.

In particular, the GVC/GPNs literature has highlighted how multipolar forms of governance have evolved in Rwanda, with the state acting as a regulator and producer in economic upgrading strategies. In partnership with lead firms (roasters/retailers), and also by investing on its own, Rwandan coffee has developed a global reputation for its quality. Yet even the producers that gain access to specialty coffee markets remain captive to international buyers. In its attempt to govern domestic production, the Rwandan government has been unable to ensure an equitable spread of benefits across the sector. The majority of coffee farmers continue to be excluded from specialty markets (either because they resist selling their coffee to washing stations, or because production is not of sufficient quality or their production cannot gain access to high-value segments). Better-financed cooperatives are also more capable of meeting the standards required for specialty coffee certification standards.

Though the GVC/GPNs literature provides important insights, it does not tell us much about how domestic political economy influences who benefits from economic upgrading. The vulnerability of Rwanda's political settlement has influenced a gradual trend of centralising economic resources among its own government, party-owned or military-owned enterprises, and the reduced influence of domestic capitalists. The political settlements literature also suggests that ideology has been key to legitimising the macro-level strategy of economic upgrading among elite groups, while the use of coercion has ensured that resistance from non-elite groups has not affected the viability of this strategy. Though the government was motivated to reduce its reliance on low-quality coffee production through the upgrading and diversifying of its exports to ensure macroeconomic (and political) stability, it has achieved this while failing to co-opt the majority of coffee farmers into its coffee strategy. Thus, the paper tallies with a large share of the literature on Rwanda's agriculture sector, which highlights how there has been little change in the mutual distrust that characterises the relationship of the RPF government with rural society (Ansoms, 2009). If anything, insertion within high-quality segments of GVC/GPNs has only exacerbated the inequities between the ruling coalition and coffee producers.

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