The Role of Foreign Investment in Ethiopia's Smallholder-focused Agricultural Development Strategy

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Abstract

Recent foreign agricultural investment in Africa has generated a great deal of interest and criticism, with western media warning of a neo-colonial 'land grab'. This paper moves beyond this narrow assessment by examining the political and social dynamics of foreign agricultural investment in Ethiopia, a country which has figured prominently in recent debates. The paper links macro level analysis regarding the types of projects and their role in the Ethiopian economy to case studies of investments at the micro level which examine changing patterns of land use and implications for displacement, employment and technology transfer. The paper concludes that the expansion of foreign investment in Ethiopia is part of a government move towards an export-led development strategy. As such, macro benefits in terms of increased foreign exchange earnings come at the cost of increased risks at the micro level to people living in the vicinity of new investments, in particular, politically marginal pastoral populations in remote regions.

[1] Email: t.p.lavers@bath.ac.uk. This research was conducted as part of a PhD in International Development at the University of Bath. The PhD looks at the 'Politics of Social Policy in Ethiopia', examining attempts to balance accumulation, inequality and protection in Ethiopia's development strategy. The PhD is being conducted with a studentship from the UK's Economic and Social Research Council (ESRC) and this paper was written with financial support from the Land Deal Politics Initiative (LPDI) to write a case study on land deals in Ethiopia. The support of both organisations is gratefully acknowledged.

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Acronyms

ADLI – Agricultural Development Led Industrialisation
AISD – Agricultural Investment Support Directorate
ASS – Agricultural Sample Survey
BoEPLAU – Bureau of Environmental Protection, Land Administration and Use (Amhara)
CSA – Central Statistics Agency
CSR – Corporate Social Responsibility
DBE – Development Bank of Ethiopia
EC – Ethiopian Calendar (depending on the month, either seven or eight years behind the Gregorian calendar)
EIA – Ethiopian Investment Agency
EPLAUA – Environmental Protection, Land Administration and Use Agency (Tigray)
EPRDF – Ethiopian Peoples' Revolutionary Democratic Front
ESDA – Ethiopian Sugar Development Agency
FAO – (UN) Food and Agriculture Organization
FDRE – Federal Democratic Republic of Ethiopia
MoARD – Ministry of Agriculture and Rural Development
MoFED – Ministry of Finance and Economic Development
PRSP – Poverty Reduction Strategy Paper
PSNP – Productive Safety Net Programme
SNNPR – Southern Nations, Nationalities and Peoples Region
TPLF – Tigrayan People's Liberation Front

Glossary

Active projects – projects classified as either implementation or operation, meaning that investors have been leased land.
Birr – the Ethiopian currency.
Derg – the military-Marxist government that ruled Ethiopia between 1974 and 1991.
Kebele – the lowest main administrative unit, below the *wereda*.
Kilil – the ethno-linguistically delineated regions which form the largest administrative units below the federal level.
Pre-implementation projects – projects for which investors have been granted an investment licence but not yet leased land.
Wereda – an administrative unit between the zone and *kebele*.
Zone – an intermediate layer of administration between the *kilil* and *wereda.*

1. Introduction

Recent media reports have raised concerns of a 'neo-colonial land grab' that threatens smallholders and food security in developing countries (e.g. Baxter 2010; GRAIN 2008; Mackenzie 2008). In contrast, proponents of large-scale investment in agriculture claim that it can play important developmental roles, including: addressing the food crisis (Collier 2008); creating employment; and earning foreign exchange. Given the dearth of research on the motivations of 'receiving' countries and impacts of investment, all these claims are open to challenge.

This paper considers these issues in Ethiopia, where the government's longstanding development strategy aims to provide security for smallholders and encourage labour-intensive agriculture to increase productivity. Nonetheless, the government has recently promoted land leases to foreign and domestic investors leading to the possibility of large-scale investors competing for land with smallholders.

The paper draws on quantitative and qualitative data generated during fieldwork conducted between October 2009 and September 2010. The research is guided by two main questions: What are the opportunities and threats of foreign investment and for whom? What are the implications of encouraging different types of investment? The paper makes several important contributions to debates on foreign agricultural investment. First, it suggests a framework for the analysis of investment, linking micro and macro impacts of land deals, and differentiating between projects. The paper then provides a preliminary analysis of investment in Ethiopia, highlighting the trade-off between macro benefits deriving from foreign exchange earnings and micro level risks borne by pastoralists and smallholders in the vicinity of the investments.

The paper continues in section 2 by outlining the framework used to analyse foreign agricultural investment. Section 3 sets the context by describing Ethiopia's longstanding agricultural strategy before section 4 outlines the institutions and laws used to regulate investment. Sections 5 and 6 provide a preliminary assessment of investment trends in Ethiopia at the macro and micro levels, respectively. Section 7 concludes.

2. A framework for analysing agricultural investment

Although the 'land grab' debate has focused on headline-grabbing large-scale foreign investments, foreign investment in Ethiopia is part of a wider government push for commercialisation that includes small and large, foreign and domestic investors. In Ethiopia at least, an effective analysis of large-scale foreign investment must therefore take into account broader commercialisation processes.

To do this, I place foreign investment in the context of the Ethiopian agricultural sector. I build on Crouch and Janvry (1980) who highlight the importance of the role of crops in the process of accumulation and the social context of their production (Mkandawire 1987). In doing so, the analytical framework links macro-strategic issues—the role of investment crops in the economy and their contribution to objectives such as national food security and industrialisation—to changing land use at the micro level, in particular in terms of displacement, employment and technology transfer.

2.1. The macro impacts of investment

Deriving from cultural and economic factors, different crops play different economic roles from country to country. Crouch and de Janvry (1980) suggest a classification of: 'peasant' foods, produced for self-consumption by subsistence farmers; 'wage' foods, bought by wage labourers; industrial inputs; and export crops. The increasing importance of bio-fuel crops warrants an additional category given the particular characteristics of the energy sector.

The crops grown by investors and the economic roles they play greatly affect the benefits and costs to the 'receiving' country. For example, expanding peasant food supplies has the potential not only to enhance national food security[2] but also to contribute to agricultural commercialisation, since smallholders are more willing to switch to cash crops if local food supplies are affordable and reliable (Leavy et al. 2007). Equally, expanding wage food production can contribute to industrialisation since employees maintain the same living standard on lower wages, ensuring that industry is more competitive internationally (Kay 2009).

Realisation of such benefits depends on the types of investor and incentives regarding crop choice and marketing. First, foreign and domestic investors are likely to differ regarding their access to markets and production technology, and consequently their choice of crops. Second, within both foreign and domestic sectors there are private companies and state-owned or state-affiliated ventures. In many circumstances, the interests of these groups are likely to diverge. Other things equal, private companies focus on profit maximisation, seeking out profitable markets wherever they may be. In contrast, state-owned enterprises are subject to a more complex calculation involving political interests in their 'home' country.

The macro analysis draws on federal and regional investment databases which detail the types and sizes of foreign and domestic projects.

2.2. The micro impacts of investment

The main micro level impacts stem from changing land use. It is therefore necessary to compare the previous use of investment land (Borras et al. 2010) with the subsequent social context of production. Land transferred to investors comprises a combination of: land classified as 'unused'; state farms; communally-held land; and individual holdings.

'Unused' land is a category defined from the state's perspective (Borras et al. 2010; Scott 1998). This may include some land which is objectively unused for any human purpose, as well as land used by people for purposes which are considered insufficiently productive or are invisible to the state, such as pastoralism and shifting cultivation. 'Unused' land is given to investors in the expectation that production will be extended to uncultivated lands or 'inefficient' practices will be replaced by settled agriculture. In contrast, the allocation of other land such as communal grazing land, state farms and individual holdings assumes that investors will use the land more productively than previous users.

Investment on individual and communal land entails considerable risks for previous users. The loss of communal grazing land in smallholder areas may not cause displacement but will erode local livelihoods, particularly for the poorest (Platteau 2005). Investment on individual holdings requires at least a transformation in the way that smallholders earn a living,

[2] To address food insecurity, it would be necessary not only to increase the supply of certain types of foods but also to get this food to food insecure areas (through investment in infrastructure and integrating markets) as well as raising entitlements so that those in need could buy the food. This paper considers only the impact of investment on food supply.

depending on the nature of the subsequent production. Here a distinction is drawn between land directly managed by investors and farmed using wage labour, and outgrower schemes.[3] While displaced smallholders must earn their living as wage labourers, outgrowers retain control of their land, albeit with a diminished 'bundle of rights' (Schlager et al. 1992). Nonetheless, wage labourers and outgrowers are similar in that they are transformed into participants in the monetary economy and are exposed to the inherent risks of the market (Scott 1976).

The micro analysis uses datasets detailing the location of investments to assess the major trends in land use, with three case studies used to illustrate the impacts of these changes.

3. Agricultural policy in Ethiopia

This section outlines the agricultural policy context in Ethiopia, while also identifying the economic roles played by particular crops for use in subsequent analysis. In doing so, I illustrate an emerging dualism: on one side the smallholder sector, for so long central to the government's development strategy, and on the other, the expanding investment sector. This raises questions regarding the links between these sectors and the political implications of these changes.

3.1. Agricultural Development-Led Industrialisation

The Ethiopian Government argues that as 85 percent of the population earns a living from agriculture, development requires rapid agricultural growth (MoFED 2003). To achieve this, the government has long adhered to a strategy of 'Agricultural Development-Led Industrialisation' (ADLI). This asserts that as a labour-rich and capital-poor country, labour-intensive, non-mechanised agriculture should be implemented, alongside technologies such as irrigation, fertiliser and improved seeds, which improve yields but do not replace labour (MoFED 2003). Increased productivity will lead to national food security and stimulate industry through forward linkages such as increased supply of wage foods and industrial inputs.

Key to ADLI is state ownership of land and distribution of usufruct rights to smallholders. Land was nationalised by the *Derg* (1974-91), wiping out the landholding elite and all capitalist production, and redistributing user rights to smallholders. Though the current Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) government has relaxed restrictions on land rental and hired labour, it argues that land privatisation would lead to distress sales and the re-emergence of a landholding class. Thus, the land and agricultural policies are intended to play important social and economic roles. Labour-intensive agriculture is expected to increase productivity, providing the necessary inputs for industrialisation, while ensuring that the benefits of growth accrue to smallholders. The expected result is equitable growth, national food self-sufficiency and smallholder security (MoFED 2003).

These social and economic objectives also overlap with key political interests. By prioritising land equality, the government has prevented the emergence of powerful independent economic actors that might be able to translate their economic power into political influence. In addition, government officials consider migration to be the 'source of economic, political and social instabilities' (MoFED 2002, 56). This concern derives both from the lack of

[3] Outgrower schemes or contract farming involves investors negotiating agreements with smallholders to grow a specific crop on their land and to sell exclusively to the investor, usually at a pre-agreed price. The 'outgrowers' are often supplied with technology and expertise to aid their production.

industrial development, raising concerns that urban migration would result in high urban unemployment, increasing the potential for social and political unrest, as well as the danger of ethnic conflict resulting from migration across ethnic boundaries (MoFED 2002, 56). Consequently, land tenure aims to limit migration, enabling the social and political control of the government over a predominately rural population.[4]

The ADLI strategy focuses on the majority involved in settled agriculture. For a minority subsisting from pastoralism or shifting cultivation, mostly in lowland areas, the government sees no long-term alternative to sedentarisation (MoFED 2003). In the words of Dr Aberra Deresa, State Minister for Agriculture and Rural Development, 'at the end of the day we are not really appreciating pastoralists remaining as they are. We have to improve their livelihood by creating job opportunities. Pastoralism, as it is, is not sustainable. We want to change the environment' (Butler 2010).

The result is that smallholder production dominates, accounting for 95 percent of agricultural output (CSA 2009), however the sector has not produced the rapid growth expected. Although the CSA claims substantial recent increases in cereal productivity, such improvements are surprising given the low uptake of improved inputs, supposedly the main means of increasing productivity.[5] For example, in 2009/10, 4 percent of cultivated land was farmed using improved seeds, 12 percent using chemical and 15 percent natural fertiliser, and just 1 percent using irrigation.

Even if CSA data on productivity are accurate, agricultural growth has not yet met ADLI's objectives. Table 3.1 shows the very low marketed surpluses of most crops, with the vast majority used for self-consumption, highlighting the limited forward linkages to industry. The main staples for smallholders are maize, sorghum, wheat, *teff*, *enset* and pulses and these are classified as 'peasant' foods. The small surplus feeds the urban population, with the result that there is no clear distinction between 'peasant' and 'wage' foods, although the greater marketed proportion of *teff* reflects desirability and greater importance in urban diets. Meat is classified as a 'wage' food, reflecting its importance in urban diets and the fact that it is beyond the purchasing power of most peasants.

Table 3.1 – The marketed proportion of major crops

	Production (ql)	Percentage self-consumption	Percentage of crop sold
Cereals	155,342,280	65.9	16.4
- Teff	31,793,743	53.4	27.4
- Barley	17,504,436	62.9	13.4
- Wheat	30,756,436	58.5	19.5
- Maize	38,971,631	75.0	11.6
- Sorghum	29,712,655	72.9	12.1
- Finger millet	5,241,911	70.2	14.2
Pulses	18,980,473	61.8	20.6
Vegetables	5,573,568	79.7	17.4
Root crops	18,063,778	71.5	16.5

Source: (CSA 2010)

[4] The political economy of the government's development strategy is the subject of my ongoing doctoral research. The topic has also attracted some comment in Dessalegn (2009).
[5] Dercon and Vargas Hill question the plausibility of achieving what would be 'one of the fastest "green revolutions" recorded in history' without 'rapid change in technology or input use' (Dercon et al. 2009, 11).

The most dramatic evidence of ADLI's failure thus far is persistent food insecurity in many rural areas and reliance on food aid. More than seven million people are classified as 'chronically food insecure' and receive regular support from the cash- and food-for-work Productive Safety Net Programme (PSNP), while in any given year several million others facing shocks require emergency assistance (MoARD 2009). The majority of food aid is received in wheat, which constituted between 11 and 50 percent of domestic supply since 2000 (FAOstat). It is this foreign aid that has enabled the government to retain ADLI based on political imperatives, despite limited economic success. Nonetheless, a strategy founded on aid dependency is likely to be unsustainable in the long-term.

The range of agricultural exports from Ethiopia also remains limited. Table 3.2 shows the few crops of which significant proportions are exported. The major ones, such as coffee, oil seeds, soya and tea, are 'export crops'. These data show past trends and give an indication of likely markets for investment crops, however, it is entirely possible that investment will lead to changes in export patterns.

Table 3.2 – Exports as a percentage of total production (by weight)

	2000	2001	2002	2003	2004	2005	2006	2007
Coffee	52	35	53	61	195	167	78	49
Oil crops	15	8	30	29	34	56	40	32
Pulses	3	2	9	4	15	16	9	11
Sugar	25	17	28	14	5	14	0	9
Tea	25	0	0	50	100	60	20	20

Source: FAOStat

Over the period for which data is available, virtually no cereals have been exported. This is partly due to a 2006 directive banning most cereal exports (MoTI 2008). However, according to Dercon and Vargas Hill (2009), regardless of this directive, high transportation costs to Djibouti mean that there have only been a few occasions, including the recent food crisis, in the last decade when it would have been profitable to export cereals.

The reasons for ADLI's limitations are complex but include factors such as: the limited production of agricultural inputs, insufficient context specific agricultural research, a lack of infrastructure and a lack of credit markets (see Dercon et al. 2009).

3.2. Agricultural commercialisation and the role of large-scale investment

The Government's 2005 Poverty Reduction Strategy Paper (PRSP) identified the need for greater agricultural commercialisation by pursuing a dual approach (MoFED 2005), which represents a compromise between political and economic priorities. The first maintains the politically-sensitive smallholder sector, though redoubling efforts to increase productivity and specialisation in 'niche', high-value export markets. The second envisages a new role for foreign and domestic investment by 'supporting the development of large-scale commercial agriculture where it is feasible' (MoFED 2005, 47). Government policymakers claim that these sectors are entirely separate—investors are given 'unused' land that smallholders, lacking resources, could not develop, thereby expanding total production (Interview, respondent A (see annex), also MoFED 2005). In addition, investment is expected to play a number of positive roles: earning foreign exchange, creating employment opportunities, facilitating technology transfer to smallholders and, according to a few respondents, addressing national food security (respondents A, B, C, D).

It seems a number of factors combined to convince senior policymakers that new initiatives were required. First, a mounting body of evidence demonstrates the limited success of the

smallholder sector and highlights the unsustainability of past policies. At the same time government officials have come under increasing pressure from many donors, in particular the World Bank, in favour of agricultural commercialisation, while the potential impact of agricultural investment has been demonstrated by horticultural projects in neighbouring Kenya (Amdissa 2006).

The extent to which foreign investors or their governments influenced this change in policy is unclear. Although Chinese investors are key players in other developing countries (Cotula et al. 2009), thus far there are few Chinese agricultural investments in Ethiopia. Consequently, though the Chinese Government undoubtedly has some influence in Ethiopia, they are unlikely to be behind the change. The largest investors in Ethiopia to date are companies from India, Germany, Israel and Saudi Arabia, however, the secrecy regarding investment in Ethiopia makes it extremely difficult to determine to what extent these actors have been influential. One person who does seem to have played a role in the changes is Sheik Mohammed Al-Amoudi, a joint Ethiopian and Saudi citizen who owns the MIDROC business empire which owns numerous agricultural investments in Ethiopia and has close links with the Ethiopian Government and Saudi Royal Family. He has also been key in fostering trade relations between Saudi business and the Ethiopian Government (Wudineh Zenebe 2009).

4. Government regulation of investment

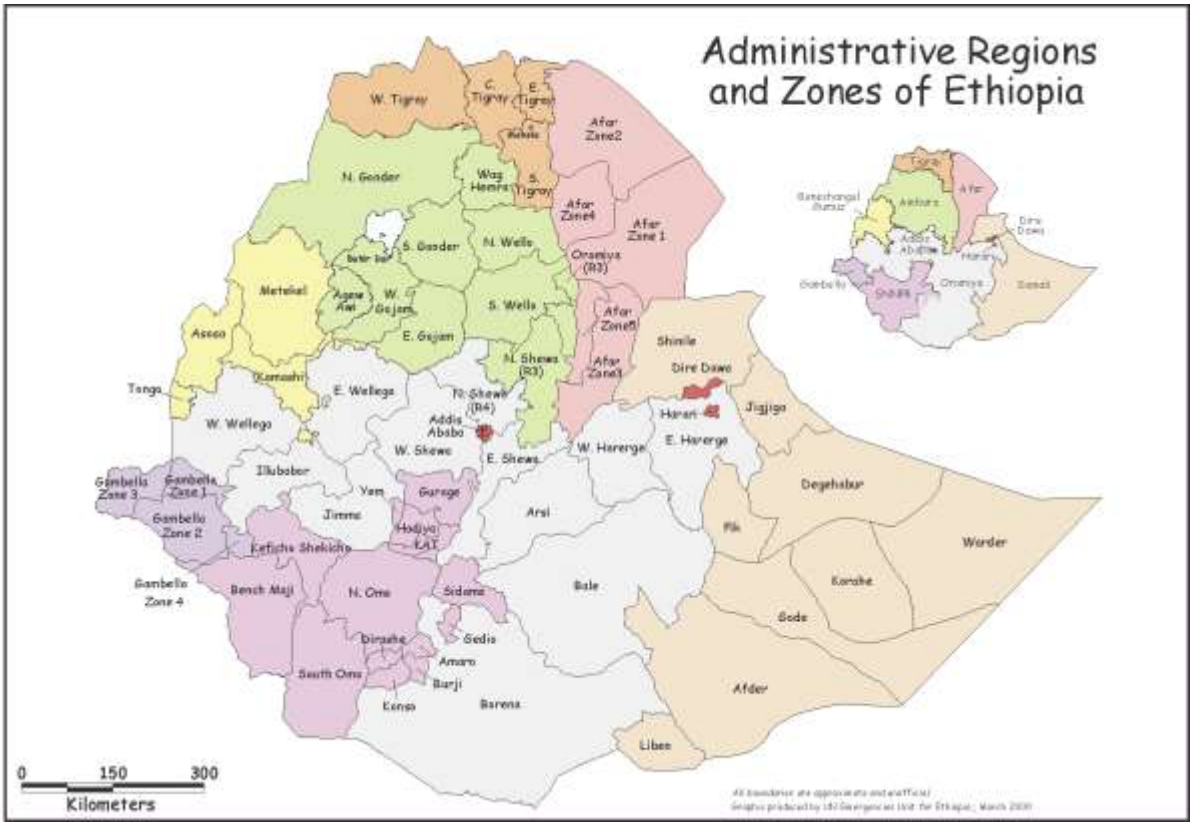
This section provides an overview of investment laws, demonstrating the government's attempts to manage investment processes and direct them to its developmental objectives. The focus in this section is on the policies and laws formulated at high levels of government, with the application and impact of these regulations considered in subsequent sections.

4.1. Institutional responsibility for investment

According to the Constitution, land management is the responsibility of ethnically-delineated regions (FDRE 1994, 12, see figure 4.1). However in 2009, the growing importance of agricultural investment led the federal government to re-centralise control over investment, creating the Agricultural Investment Support Directorate (AISD) in the Ministry of Agriculture and Rural Development (MoARD) to allocate land to all foreign and large (more than 5,000ha) domestic investors. The stated intention of this change is to speed up land allocation compared to regional processes which, especially in 'emergent' regions,[6] are considered slow, bureaucratic and prone to corruption (respondent A).

Figure 4.1 – Ethiopian administrative kilil (regions) and zones

[6] Afar, Benishangual Gumuz, Gambella and Somali are considered to be 'emergent' regions, relatively less developed and lacking state capacity, while Amhara, Oromiya, SNNPR and Tigray are 'established' regions.



A clear division of roles in theory is not, however, always evident in practice. Thus far, the AISD only manages investment in the emergent regions, while the established regions still administer all investment, with some disputing the constitutionality of the AISD (respondents C, D, E, F). In addition, state capacity varies considerably and in remote areas where capacity is weaker, customary land management often dominates in practice. Indeed, none of the emergent regions even has a regional land or investment proclamation.

4.2. The selection and promotion of preferred forms of investment

The policies and laws designed by policymakers in federal and regional governments contain a number of restrictions and incentives which reflect an attempt to realise the objectives of the agricultural development strategy—increasing exports and industrial processing, creating employment and focusing on low population areas to limit smallholder displacement.

The government retains the power to select investors and projects. First, all investors must apply for an investment licence, from the EIA for foreign investors or from regional agencies for domestic investors (respondent G). To obtain this licence, foreign investors must demonstrate that they have at least US$100,000 for a wholly foreign-owned investment or US$60,000 for a joint venture with a domestic partner (FDRE 2002, 11). Establishing this lower threshold is intended to encourage partnerships between foreign and domestic capital, spreading knowledge of modern production and project management.

Investors with licences can then submit project proposals to the relevant administration to apply for land, giving the government the ability to select only those in line with government priorities. Land is leased to investors for fixed periods, for example, 15-40 years in Tigray (TNRG 2000 (E.C.)) and 35-50 years in SNNPR (SNNPR Investment Agency 2008), but remains the property of the Ethiopian people and the state. Consequently, the government can confiscate land if investors fail to adhere to agreed plans (Oromiya Investment Commission n.d., 7, 10; Tigray EPLAUA n.d., 6).

The proclamations also contain measures to maximise local employment. Investors are only allowed to employ expatriates with skills unavailable in Ethiopia and, as part of the proposal, the investor must submit a plan for the replacement of foreigners with local staff, including necessary training programmes (FDRE 2002, 13(5), 36). Investment contracts in Oromiya (Oromiya Investment Commission n.d., 10) also require investors to hire all unskilled labour within the *kebele*.[7]

In addition, there are a number of policies to encourage particular forms of investment. For example, investors are eligible for income tax holidays of five years if exporting more than half their production or providing 75 percent to exporters. In contrast, those producing for the domestic market are given lower priority, paying no income tax for only two years. Investors in remote areas like Gambella, Benishangul and South Omo are eligible for an extra year tax-free (FDRE 2003, 4). In addition, areas not previously under cultivation are prioritised by exempting investors from land use fees for up to five years if they use improved seeds and irrigation (ONRG 2002, 2). After holidays expire, land fees are also set to encourage investment in target areas. For example, remote land in Tigray is leased for 40 *birr*[8] per hectare compared to 100 *birr* for more accessible land (TNRG 2000 (E.C.)), while in SNNPR, prices range from 30 to 117 *birr* per hectare (SNNPR Investment Agency 2008).

An additional incentive is that the state-owned Development Bank of Ethiopia (DBE) provides concessional lending of up to 70 percent of an investment. The DBE does not require the investor to provide any capital and lends at lower interest rates than commercial banks. It does, however, promote production linkages by requiring investors to invest in crop processing and only lends money for priority projects—those that produce export goods, grain for domestic markets and create employment (respondent B).

4.3. The political economy of investment policy

Recent work on the 'land grab' has highlighted factors driving demand for land in developing countries (Cotula et al. 2009; GRAIN 2008; Weissleder 2009; Zoomers 2010). In Ethiopia, increased investment is not merely the result of increased demand. Because of state ownership, investors would not be able to obtain land through market transactions. Rather investment is a policy which is managed and promoted by the government, selecting investors and investments in an attempt to achieve the objectives set out in the agricultural development strategy. As with any other government policy, criticism of or resistance to investment is considered a political challenge to the EPRDF.

However, this development strategy and the centralisation of investment policy raise important political questions regarding the compatibility of ethnic self-determination with a centrally-defined development strategy. The government's political priority is to maintain the smallholder sector and, consequently, the focus of investment policy is to expand production in sparsely-populated areas. To achieve this, the federal government is attempting to re-centralise control over investment policy, which contradicts the ethnic federal system, established to enable the self-determination of ethnic groups and the management of group resources in the interests of the group (Turton 2006; Vaughan 2003). While the established regions have thus far resisted centralisation, the weaker administrations have relinquished control.

These changes take place in the context of a long history of inequality going back to the original incorporation of these lowlands into the Ethiopian Empire in the nineteenth century.

[7] Below the federal government, the hierarchy of government administrations is as follows (from largest to smallest): region, zone, *wereda* and *kebele*.
[8] US$1 was approximately 16.5 *birr* in September 2010.

This relationship between highland centre and lowland periphery was characterised by inequality, exploitation and extraction of resources through collection of tribute and taxes, and the slave and ivory trades (Dereje 2006; Donham 2002; Garretson 2002; Tadesse 2002). Like the present government, past regimes sought to settle pastoralists, changing the 'backward' practices of pastoralists to the more 'civilised' sedentary farming of the highlanders (Amdissa 2006; Donham 2002). Though ethnic equality is now legally recognised, these emergent regions in practice remain politically marginalised and are permitted a lesser degree of autonomy, partly due to the federal development strategy which requires central control of local land resources and changes in livelihoods.

5. The macro impacts of investment

This section uses empirical data to examine the macro impacts of investment differentiated by types of crops and investors. The analysis shows a strong export focus, particularly among foreign investors, reflecting a change towards a more trade-based development strategy. Domestic investors meanwhile are more numerous, smaller and more focused on domestic markets.

5.1. The role of investment crops in the process of accumulation

Table 5.1 presents foreign investments according to the likely role of investment crops in the Ethiopian economy. Most land under active projects, and a substantial proportion of pre-implementation projects,[9] is for bio-fuel crops. These projects are few in number but cover a large area. A prime example is a project covering 200,000ha that is discussed in detail in section 6.2. Currently no bio-fuel is processed in Ethiopia, with all crops exported, mostly to China (respondents I, J), however, some investors plan to establish domestic processing in the future. Floriculture constitutes the greatest number of projects but only three percent of land, indicating that projects are relatively small.

A large number of active and pre-implementation investments are in sectors explicitly or likely to be for export. Foreign investments will therefore contribute to foreign exchange earnings by exporting produce and spending part of the money on operational costs such as wages and locally-sourced inputs (Sklair 1994). Clearly, this impact will be higher in labour-intensive projects such as floriculture. In the future, if processed and marketed domestically, bio-fuels and sugar could also replace imports, reducing foreign currency requirements.

The 'wage foods' category covers a substantial proportion of land under active projects as a result of livestock production. Meat is categorised as a 'wage food' because previous production has served the domestic market. Nonetheless, a few investors explicitly state that their investments will produce meat for export and were accordingly classified. It is unclear whether most livestock projects, which do not state their destination market, will continue to produce for domestic markets or if meat will become a major export.

In addition to wage food production, investment could potentially contribute to industrialisation through the production of industrial inputs. Nonetheless, few investment crops are industrial inputs, with only isolated examples of investments directly contributing to local processing. For example, rice and sesame dryers have been planned by investors to cater for expanded production (Hilina 2010); and, though most inputs used in flower production are imported, flower farms have spawned packaging factories (Ayelech & Helmsing 2010).

Importantly, few investments will contribute to peasant food availability. While a few foreign investors producing grains for export claim they will market part of their produce domestically as part of a Corporate Social Responsibility (CSR) strategy (Capital Newspaper 2010; Empora 2009), it remains to be seen whether these promises transpire and if so what impact

[9] According to the EIA, projects are classified as pre-implementation if the investor has been granted an investment licence by the relevant authority but not yet allocated land, and 'implementation' or 'operation' (which are considered here to be 'active') if the investor has been allocated land. Many investors who receive licences never start operations and reports indicate many cases where investors have been allocated far less land than they requested (see Anderson & Million 2008; Weissleder 2009). Equally, however, due to the delay in updating this database, it is quite likely that a number of the investors marked 'Pre-implementation' have already been allocated land and consequently the 'active' category is likely to be an underestimate.

they will have on food security. If one of the government's objectives really is to use foreign investment to address food security, as some respondents claimed, it has not yet succeeded.

Table 5.1 – The economic roles of foreign investment crops[10]

	Pre-implementation (ha)	%age	Active (ha)	%age	Active (no)	%age
Export crops	**1,577,161**	**32**	**24,054**	**8**	**137**	**50**
Coffee	29,680	1	3,601	1	6	2
Horti/floriculture	278,019	6	3,274	1	99	36
Oil crops	502,632	10	11,687	4	9	3
Wheat	502,535	10	0	0	0	0
Other	264,295	5	5,492	2	23	8
Bio-fuel crops	**745,410**	**15**	**205,101**	**67**	**6**	**2**
Industrial inputs	**504,294**	**10**	**3,658**	**1**	**10**	**4**
Peasant foods	**522,267**	**10**	**13,565**	**4**	**20**	**7**
Wage foods	**905,251**	**18**	**46,235**	**15**	**75**	**27**
Miscellaneous	**725,386**	**15**	**13,194**	**4**	**25**	**9**
Total	**4,979,769**	**100**	**305,808**	**100**	**273**	**100**

Source: EIA

5.2. Types of investors and the economic roles of their investments

This section differentiates between types of investor, in doing so demonstrating the importance of both foreign and domestic investment, as well as highlighting differences between public and private investors.

5.2.1. Foreign versus domestic investors

Only data on Oromiya, presented in table 5.2, contain information on land requested by both domestic and foreign investors.[11] This shows that domestic investors are by some way in the majority, however, foreign investors have applied for much more land and have considerably more capital per investor.

There are a number of differences between the types of crops produced by foreign and domestic investors. A greater proportion of foreign investors produce export crops, and the floriculture and bio-fuel sectors in particular are foreign-dominated. In contrast, a large proportion of domestic investors plan to establish small investments producing wage foods, in particular livestock, fruits and vegetables.

[10] Crops are classified based on analysis in section 4 unless it is specified in the dataset that the crop is for export or if it says that sugarcane is used for ethanol production (it is assumed to be for sugar, which requires industrial processing). Some investments list several crops, in which case the land size is evenly divided between each crop. At least some oil crops are likely to be used for bio-fuel production, however, the classification of oil crops as export crops is based on their high proportion of exports.

[11] The division between local and foreign investors is not always totally clear as many Ethiopian Diaspora have been encouraged to invest money accumulated abroad in their 'home' country. Consequently, there are many Ethiopian names among the list of 'foreign' investors some of whom could be classified as domestic investors subject to paperwork.

Table 5.2 – The role of domestic and foreign investment crops in Oromiya (pre-implementation)

	Domestic (ha)	Domestic (no)	Foreign (ha)	Foreign (no)	Total (ha)
Export crops	**25,234**	**341**	**144,382**	**399**	**169,616**
Coffee	20,965	188	33,486	16	54,450
Horti/floriculture	2,112	81	14,282	270	16,393
Oil crops	1,923	52	84,292	46	86,215
Other	235	20	12,322	67	12,558
Bio-fuel crops[12]	**50,000**	**4**	**382,275**	**15**	**432,275**
Industrial inputs	**90**	**6**	**108,594**	**18**	**108,684**
Peasant foods	**4,911**	**108**	**183,106**	**137**	**188,017**
Wage foods	**13,957**	**1,425**	**156,967**	**655**	**170,924**
Miscellaneous	**121,414**	**1,483**	**128,283**	**98**	**249,397**
Total	**215,606**	**3,367**	**1,103,607**	**1,322**	**1,319,214**

Source: Oromiya Investment Commission

While the analysis above assumes clear divisions between foreign and domestic capital, there are cases of links between foreign and domestic investors. For example, one foreign flower company has sold 'turnkey' projects on a hire-purchase basis to foreign and domestic investors (Ayelech & Helmsing 2010). This reduces the up-front capital required for domestic investors without experience to get a foothold in a technically-advanced sector. In addition, the investment of foreign flower farms in transport infrastructure has lowered entry barriers for domestic investors.

5.2.2. Public versus private investors

Investment data do not contain information on company ownership, preventing quantitative comparison between public and private investors. Based on available reports, the majority of investors are probably private companies (though perhaps supported by home governments), although there have been some high profile state-owned or affiliated investments in Ethiopia.

A respondent in the AISD stated that the Ethiopian Government makes no distinction between foreign private and state-owned investors (respondent A). Nonetheless, there are good reasons to believe that investors' priorities differ. Ethiopian cereal prices are dominated by local supply and demand due to the transaction costs that make import or export unprofitable. Consequently, a private company would be expected to follow price incentives and market cereals domestically. This conclusion is supported by prominent Indian investor, Ram Karuturi, who explains that he intends to produce for the domestic market, '[w]ith the high cost of transportation in Africa, it does not make sense for us to try to export beyond the region' (X. Rice 2010).

Nevertheless, one German, private investor plans to grow wheat for export to the EU on 500,000ha (Empora 2009). While it is unknown whether the land will be granted, the investor's plans not only anticipate a repeal of the directive banning cereal exports, but also contradict findings regarding their profitability. This raises the question whether investors anticipate a change in market dynamics—will infrastructural improvements and rising international food prices make it profitable to export cereals from Ethiopia?

[12] For unknown reasons, the large bio-fuel project in Oromiya that is the subject of case study A, is not included in the Oromiya database.

Such economic calculations do not necessarily apply to the 3,000ha farm in Oromiya granted to the Government of Djibouti to export wheat (Wudineh Zenebe 2010b), an apparent exception to the export ban. The goal of this state investor is not profit maximisation, but national food security, while for Ethiopia, the decision to allocate land free of charge, is presumably to ensure the support of the Government of Djibouti which provides Ethiopia's only reliable access to a port, essential for international trade.

Similar arguments may be applicable to Al-Amoudi's Saudi Star investment in Gambella, initially covering 10,000ha but which the company hopes to expand to 200,000ha (Wudineh Zenebe 2010a). Al-Amoudi reportedly presented the first rice produced to King Abdullah (A. Rice 2009; Vidal 2010) and the venture is subject to incentives offered by the Saudi Government for Saudi companies to produce food for Saudi Arabia abroad (Cotula et al. 2009). The company has stated its intention to market 45 percent of its produce domestically (Capital Newspaper 2010). Though this may apply when food prices are relatively low,[13] as a state-affiliated investment, doubts remain whether Saudi Star would still market its produce in Ethiopia when Saudi Arabia faces problems sourcing grain imports, a key driver of the 'land grab' (GRAIN 2008).

While the trend is to lease state farms to investors, the Ethiopian State has nonetheless expanded certain state investments. Examples include the state-owned sugar plantations, all of which are in the process of major expansion (see section 6.2).

5.3. The political economy implications of the macro strategy

The export orientation of investment indicates a move from ADLI's focus on internal production linkages towards a more trade-based development strategy. According to some senior government respondents, the main objective of investment is to address the current foreign exchange crisis (see Dorosh et al. 2009) and ultimately to finance imports of equipment to expand industry, since, 'Ethiopia cannot develop with just food' (respondent A). As part of this strategy, Ethiopia's exchange rate was devalued by 20 percent in September 2010 to improve export competitiveness and promote industrialisation (Hailu 2010).

Therefore despite statements by mid-level officials that they expected investment to contribute to food security, the change in development strategy also reflects a trade-based food security strategy. As Dr Abera Deressa, State Minister for Agriculture and Rural Development explained, 'If we get money we can buy food anywhere. Then we can solve the food problem' (Davison 2010). Apparently, it is the anticipation of increased foreign exchange earnings that is behind the government's claim in a new draft PRSP that national food security will be achieved within five years (MoFED 2010). Nonetheless, there are great risks to relying on trade for food security in developing countries where even a temporary fall in export prices or rise in food prices can reduce food consumption below a necessary minimum (Chang 2009). Clearly this is particularly relevant in the contemporary context of high and fluctuating food and fuel prices.

The analysis above, summarised in table 5.3, suggests important differences between the economic roles played by different investors. For the Ethiopian Government, if the objective of investment promotion is solely to increase exports, the promotion of all foreign investors, who are more export-oriented than domestic investors, may be sufficient. However, if exports are to be combined with other objectives such as industrialisation and food security, the government should pay more attention to the types of investors it encourages. For example, foreign state investors, though politically important, are unlikely to invest in

[13] Even if the rice is sold locally, the impact is uncertain as there is very little domestic market in Ethiopia for rice, which is not a traditional staple.

processing industry or Ethiopian food security given their focus on their own domestic issues.

Table 5.3 – Interventions by type of investor

	Peasant food	**Wage food**	**Industrial inputs**	**Export crops**	**Bio-fuel crops**
Foreign private	Some CSR	Lots, especially cattle	Very few	Lots, especially flowers and oil seeds	A few large projects, all currently for export ***(see case A, 6.2)***
Foreign state	None	None	None	Grains to address domestic food security	No producers. Chinese state-linked buyers
Domestic private	Very few	Many small investments - cattle, fruit, vegetables ***(see case C, 6.2)***	Very few	Some, especially coffee	A few large projects
Domestic state	Reducing - state farms leased despite food shortage	Reducing - state farms leased despite food shortage	Sugar plantations ***(see case B, 6.2)***	None	Sugar cane for ethanol ***(see case B, 6.2)***

The market for peasant foods and industrial inputs has thus far proved insufficiently attractive to private investors, however, these objectives could potentially be met if the Ethiopian State expanded production itself or if private companies were given price incentives to do so. Though some state sugarcane production is being expanded, the current trend is for the government to lease out state farms to foreign private investors, reducing the state's grain production. This apparent abandonment of the goal of national self-sufficiency can only maintain reliance on foreign aid in the short to medium-term, while long-term food security is subject to a risky trade-based strategy.

6. The micro impacts of investment

The most direct impacts on people living in the vicinity of investments stem from changes in land use. This section compares the prior and subsequent social context of production on investment land and employs case studies of investments to illustrate the impacts on local communities. The evidence shows that considerable amounts of investment land are located in sparsely populated, predominately pastoralist areas. This limits smallholder displacement, creates some employment but poses risks to pastoralist livelihoods.

6.1. The prior social context of production

Although government data do not contain information on the previous use of investment land, in Ethiopia variations in land use broadly overlap with population density. For example, rural areas with high population density are almost always in smallholder-dominated areas, while low population densities in lowlands signal pasture, areas used by shifting cultivators or forests. Consequently, important insights into the types of land leased to investors can be obtained by comparing investment locations with population density.

Table 6.1 – Location of foreign agricultural investments

	Population density (people/ha)	Pre-Implementation (ha)	Active (ha)	Total (ha)
Addis Ababa	5536	7,537	171	7,709
Afar	21	26,265	10,000	36,265
Amhara	117	342,204	8,202	350,406
Benishangul Gumuz	15	47,700	0	47,700
Dire Dawa	237	10,439	0	10,439
Gambella	12	120,284	2,000	122,284
Multiregional	N/A	2,919,791	45,017	2,964,808
Oromiya	105	1,134,539	214,003	1,348,542
SNNPR	152	319,154	26,114	345,268
Somali	N/A	6,052	0	6,052
Tigray	55	45,805	300	46,105
Total		**4,979,769**	**305,808**	**5,285,577**

Source: CSA and EIA

The majority of the regions of Afar, Benishangul, Gambella and Somali are sparsely populated. While the amount of land leased in these regions is small according to EIA data presented in table 6.1, in the case of Gambella at least, they omit some of the largest and highest profile investments. For example, an Indian investor, Karuturi, has been allocated a farm of 300,000ha (X. Rice 2010)—the largest to date—and Saudi Star has leased 10,000ha (Wudineh Zenebe 2010a). The inclusion of these and possibly other such leases would significantly change the figures.

The region with most land in active projects is Oromiya, largely due to the bio-fuel project examined in case A, below. Within Oromiya, like in Amhara, SNNPR and Tigray, population density varies enormously between heavily populated highlands and sparsely populated lowlands. Consequently, a sub-regional breakdown is required to identify likely land use.

Figures 6.1 and 6.2 use sub-regional data to compare the location of foreign and domestic investments with population density, providing some support for the government's argument that much investment land is in areas not previously cultivated by smallholders. The graph for Amhara (figure 6.1) shows very few data points above the diagonal from the top left to bottom right of the plot, indicating that smallholder areas with high population density contain much less investment land.[14] Among the main locations of investment are the sparsely populated *wereda* of Metema, Quara and Tach Armacho in North Gondar. Despite this overall pattern, the graph highlights one outlier—the heavily populated *wereda* of Dangila in Awi zone in which large amounts of investment land have been leased. Data on Tigray, present a similar picture, with most land leased in sparsely populated West Tigray.

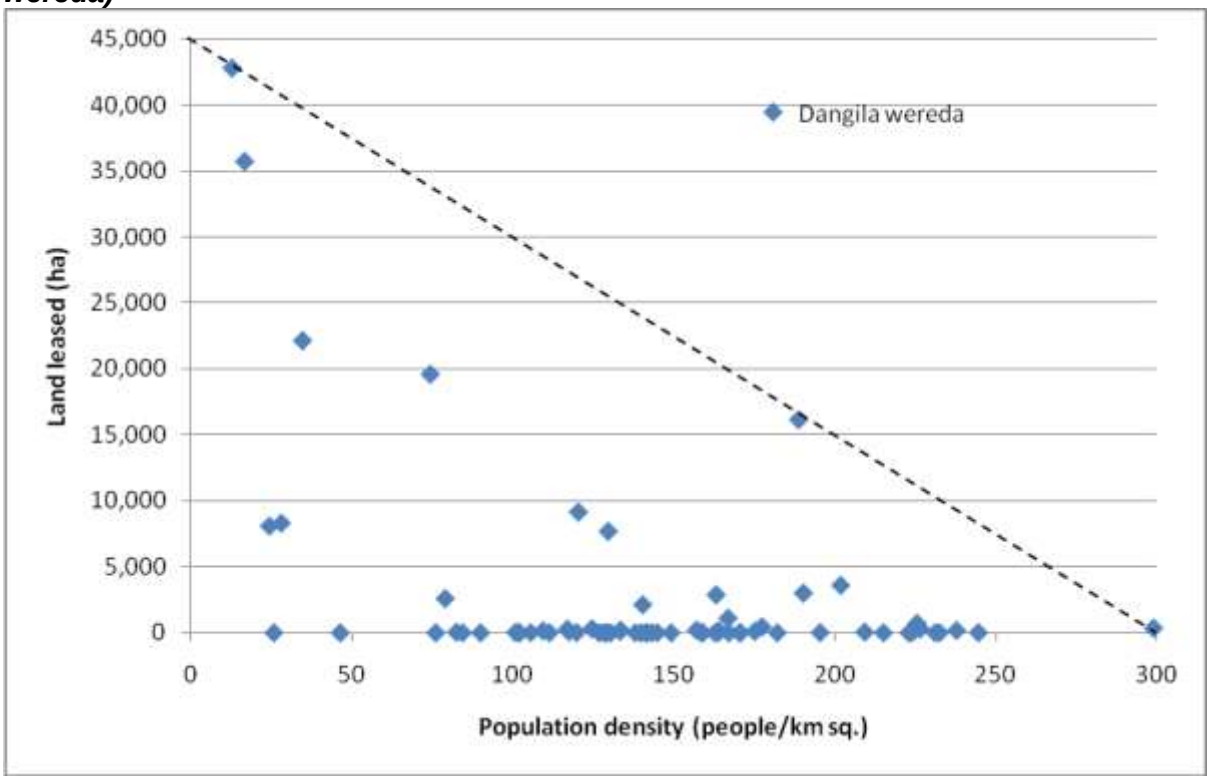
Data for Oromiya (figure 6.2) are harder to interpret as the dataset makes no distinction between active and pre-implementation projects. Consequently, it is unclear whether the land requested represents investors' wish to obtain land rather than its allocation. However, the graph is similar in that relatively little land has been leased in high population areas.

[14] As Ragin (2000) notes, the pattern shown in this graph can be interpreted as indicating that low population is a necessary but not sufficient condition for agricultural investment. Large amounts of land are leased to investors only in sparsely populated *wereda*, however, obviously other factors also contribute to the selection of investment land as not all sparsely populated wereda contain large amounts of investment.

To promote investment, the federal government has instructed regions to create a ‘bank’ of suitable land. Figure 6.3 presents these data for the emergent regions, while figure 6.4 presents data for Amhara and SNNPR. The plots show a similar pattern to that of figure 6.1, providing additional evidence of the focus on areas not cultivated by smallholders. Large amounts of land are ‘available’ in sparsely populated areas, with nearly 2m ha in Gambella and Benishangul-Gumuz, and 400,000ha in Afar. In established regions, land is again concentrated in sparsely populated areas of North Gondar and Awi zones in Amhara, and South Omo and Bench-Maji in SNNPR.

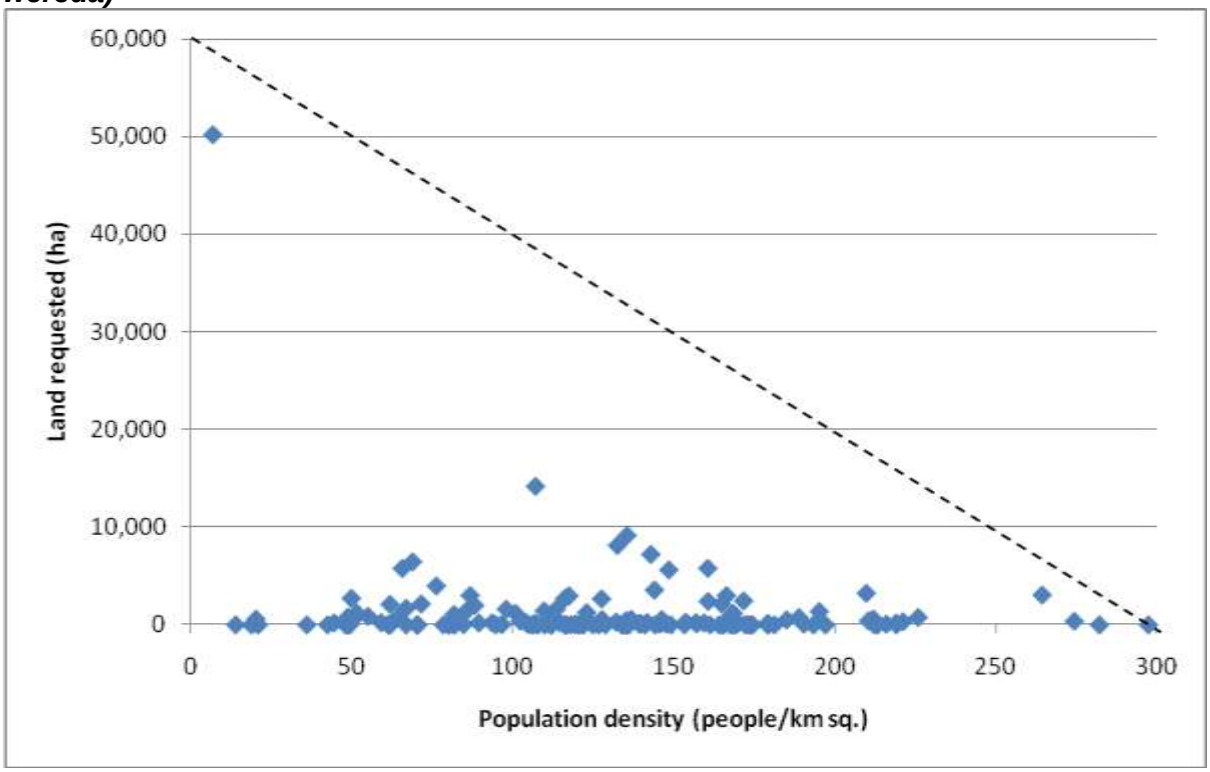
Despite investors’ demand for land in accessible areas, the government has so far only agreed to lease relatively small amounts of this land. At the same time, the government claims to have identified 3.7m ha of ‘unused’ land, mostly in emergent regions. This land is in sparsely populated areas, however, the classification of ‘unused’ is open to challenge.

Figure 6.1 – Land leased to foreign and domestic active projects in Amhara (by wereda)



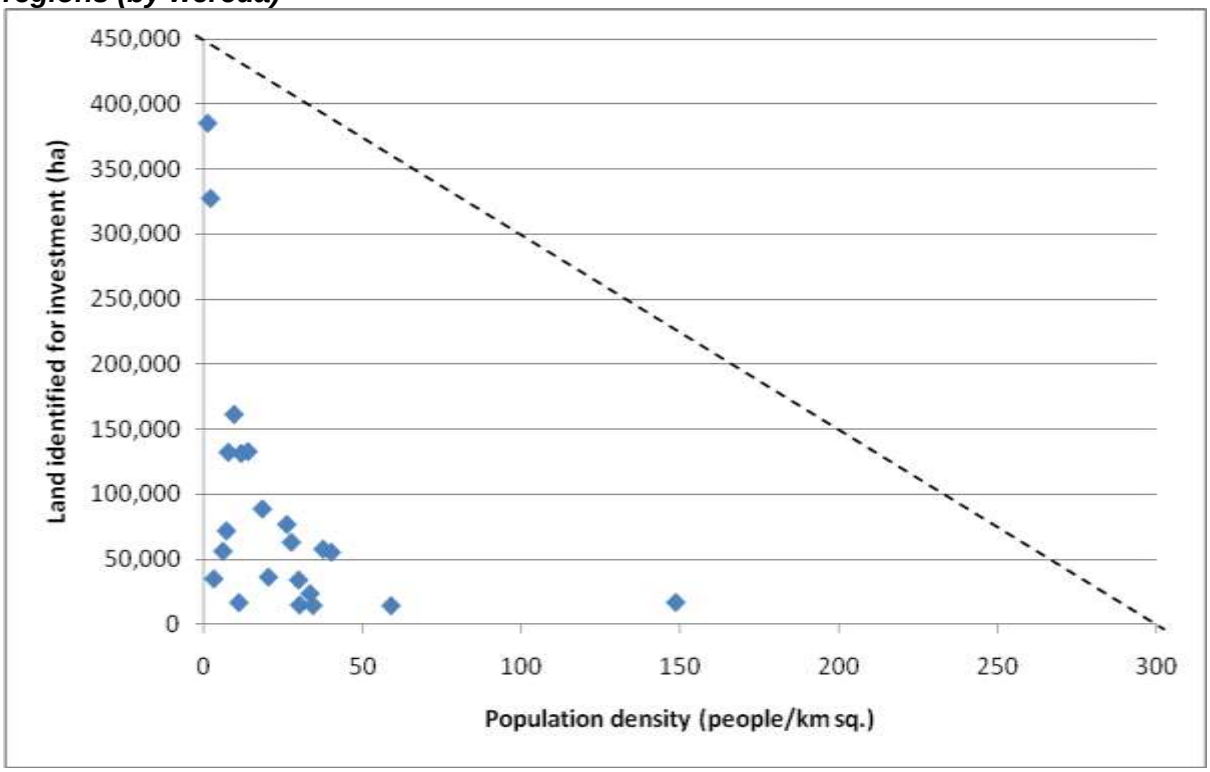
Source: CSA and Amhara Investment Agency (dashed line for illustration only)

Figure 6.2 – Land requested by foreign and domestic investors in Oromiya (by wereda)



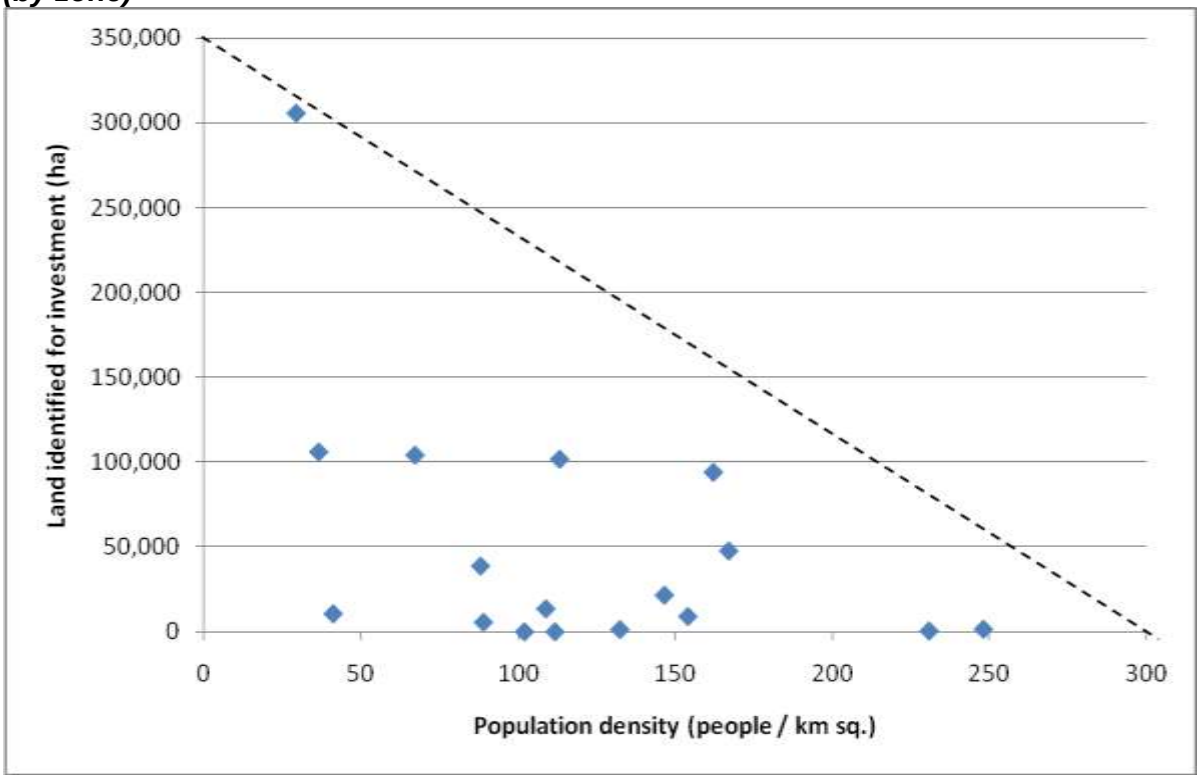
Source: CSA and Oromiya Investment Commission

Figure 6.3 – Land identified for foreign investment by the AISD in the emergent regions (by wereda)



Source: CSA and AISD / MoARD

Figure 6.4 – Land identified by Amhara and SNNPR for foreign and domestic investors (by zone)



Source: CSA, Amhara Bureau of Environmental Protection, Land Administration and Use (BoEPLAU) and SNNPR Investment Agency

6.1.1. The construction of 'unused' land

In discussions with government officials, the terms 'unused', 'empty' and 'uncultivated' are frequently used interchangeably (respondents A, C, D), betraying the construction of land utilisation from the ADLI perspective of settled agriculture, which views pastoralism as unsustainable (MoFED 2003). This construction is also reflected in land use statistics. According to past studies cited by the government to minimise the significance of investment (Vidal 2010), approximately 75m ha in Ethiopia are suitable for cultivation, while only 14m ha are currently cultivated, leaving about 60m ha 'free'. [15] Clearly, the identification of 'cultivation' with 'use' dismisses the importance of other land uses.

So what criteria have been applied to identify 'unused' land? Land registration has been ongoing in recent years in the highlands (Berhanu & Fayera 2005; Deininger et al. 2008), however it has not been attempted in Gambella, Benishangul-Gumuz or remote parts of SNNPR (respondents K). This is due to limited state capacity in these areas and the logistical challenges faced by a state attempting to register land used by pastoralists or shifting cultivators. As such, it is impossible to tell with certainty whether land is unused or merely unregistered.

There are numerous examples where the label 'unused' is contestable. Case A, below, illustrates one instance where an investor in Oromiya leased a plot of land used by pastoralists for grazing. Meanwhile, in Gambella, despite low population density, access to land was the subject of conflict even prior to the arrival of investors (Dereje 2005). Reports now suggest that local people are unhappy that land they previously used has been leased to investors (Daniel et al. 2010; Vidal 2010). In addition, land allocated to investors in West Tigray may be sparsely populated but the same area has been the destination for resettlement from the highlands (respondent L) and these areas have already been seen tensions between 'indigenous' pastoralists and new arrivals, according to resettled farmers (respondents M). How pastoral populations respond and whether they are able to mobilise against this encroachment is key to the future politics of investment.

Misclassifications of land therefore stem both from inadequate land surveys and conceptualisation of land use from the perspective of settled agriculture. Ultimately, the debate on legitimate 'use' rests on arguments between group rights to use their land in the way that they see fit and the government's interpretation of the 'national interest', turning unproductive land over to more productive users.

6.1.2. Land in smallholder-dominated areas

In addition to these remote areas, significant amounts of land have been leased in heavily populated areas that were or could be cultivated by smallholders. As such, the smallholder and investor sectors are not entirely separate, as claimed by government officials. Of the land in populated areas, there are three main types: state farms, communal grazing land and individual holdings.

In recent years, several state farms have been leased to investors. These include: 3,000ha in Bale, Oromiya leased to the Government of Djibouti (Wudineh Zenebe 2010b); and land in Hadiya and Kembata, SNNPR leased to flower farms (respondent D). A second category of

[15] I have so far been unable to trace the origin of these estimates, which do not refer to specific sources. Similar, figures were used by the *Derg* to justify its forced resettlement programmes to 'unused' lowland areas and probably contributed to the construction of 'unused' land. They also differ considerably from those provided by the World Bank in their recent report on foreign agricultural investment, which suggest that less than 5m hectares of currently uncultivated land are suitable for cultivation (World Bank 2010, 110).

land in highland areas is communal grazing land, small amounts of which remain despite population growth and land shortage. In recent years, local governments have been leasing relatively small plots (usually 5-10ha) of communal land to mostly domestic, but also some foreign, investors. Based on evidence in case study C, in section 6.2, these may constitute a substantial proportion of the small, domestic investors in Oromiya.

Like land in pastoralist areas, most communal land is unregistered and is considered by government officials to be a government, not a community, resource.[16] Consequently, investors pay no compensation for land, but make informal promises that they will contribute to communities by building schools or clinics, and providing employment. Nonetheless, the decision to allocate such land ignores the valuable role of communal land in local livelihoods.

The most controversial category is individual holdings and certainly a considerable number of investors have access to such land. In these cases, the government makes an assumption that labour-intensive agriculture has been insufficient to take full advantage of the land. Investors potentially offer the capacity to develop resources that are beyond smallholders. Nonetheless, the question, addressed below, remains whether there are investment models which can provide local people with secure opportunities for inclusion in this process.

6.2. The subsequent social context of production

This section uses three case studies of investments in Oromiya, the region with the most land leased, to examine the impacts of changing land use on local populations, particularly focusing on employment, displacement and technology transfer. These case studies constitute three examples drawn from the range of possible trajectories from prior land use to subsequent land use. Table 6.2 identifies examples of these trajectories, where available, as well as the principle changes involved in systems of production.

I have found no investments in which uncultivated (type 5 in table 6.2), communal land (type 6) or state farms (type 7) have been leased to investors using outgrowers, a change which, plausibly, could combine investment with smallholder expansion to address land shortages. Instead, investments on these lands use wage labourers. Two examples of such investments are analysed here. Case A is an example of a foreign private investor growing biofuel crops and part of the project is on 'unused' land in West Hararghe and Arssi (type 1). Case C examines a number of small, domestic private investors growing wage foods, in particular vegetables, on communal land in a smallholder-dominated area in Arssi (type 2).

The only examples of outgrower schemes have occurred on individual holdings (type 8). The majority of the land covered by the bio-fuel project discussed in case A uses outgrowers, as does the entirety of case B. The latter is an expansion of an Ethiopian state-owned sugarcane plantation in East Shewa which produces sugar for domestic consumption and bio-ethanol. Although it would appear that the proportion of investors using outgrowers is small, with most preferring to manage their own land, as a result of the vast extent of the outgrower scheme in case A, a large proportion of land under active projects does actually use outgrowers, rather than displacing smallholders.

Table 6.2 – A typology of changing land use

From To	Investor plantation	Outgrower scheme
'Unused' land	Type 1 – Creates employment, threatens	Type 5 – Combines investment with

[16] Respondent C went so far as to question the categorisation of any land as communal land: 'communal land means it belongs to the community, land in Ethiopia is government land'.

	pastoralist livelihoods – ***e.g. case A (Oromiya), Karuturi (Gambella), Saudi Star (Gambella)***	re/settlement, threatens pastoralist livelihoods – ***No examples***
Communal land	Type 2 – Loss of communal resources (for all), gain of employment (for a few) – ***e.g. case C (Oromiya)***	Type 6 – Loss of communal resources (for all), gain of land (for a few) – ***No examples***
State farms	Type 3 – State employees to private employees – ***e.g. Govt of Djibouti (Oromiya), flower farms (SNNPR)***	Type 7 – Transformation of wage labourers into smallholders – ***No examples***
Individual holdings	Type 4 – Transformation of smallholders into wage labourers – ***e.g. flower farms (Oromiya)***	Type 8 – Subsistence smallholders inserted into monetary economy – ***e.g. cases A and B (Oromiya)***

Nonetheless, *wereda* officials have the right to expropriate smallholders' land 'where it believes that it should be used for a better development project', giving local government enormous power and leaving smallholders with little possibility of appeal (FDRE 2005, 3(1)). On the whole, displaced smallholders whose land has been registered do seem to receive the legally required compensation of ten times the average annual income over the previous five years (FDRE 2005, 8(1)). However, it is questionable whether this is sufficient given that farmers are not allowed to buy replacement land. One of the main examples of smallholder displacement (type 4) is the expanding flower industry, in particular in central Oromiya. In such cases, the government has attempted to limit the impact on migration by requiring investors to employ local people.

6.2.1. Case study A: A foreign private investor producing castor

This case study examines one of the largest investments in Ethiopia. The project, established by Israeli managers with finance from European investors, covers approximately 140,000ha. The project was established in 2006 to grow castor for bio-diesel, cosmetics and paints (respondents J, N). Demand for castor has risen in recent years due to high fuel prices, EU requirements for bio-fuel use and demand from rapidly growing economies like China.

In 2007 the company leased 8,000ha in three *wereda* in East Hararghe. This land was classified as 'unused' and was identified by the investors using satellite images (respondent O). Nonetheless, when they arrived at the site, the investors found considerable areas were already cultivated by smallholders, while much of the remaining land was used by pastoralists (respondent J). Government officials expected the investors to negotiate with the local people in smallholder areas, but told the investors that as the pastoralists were not 'settled', the land belonged to the government and they could easily take their animals to graze 'elsewhere' (respondent J). Depending on the previous land use different production systems were implemented: on pastoral lands the investors farmed the land directly with wage labourers and machinery; and on cultivated land outgrower schemes were negotiated with elders acting on behalf of the local people (respondent P).

On the basis of this land, and a commitment from the government for up to 200,000ha, the managers went to look for finance (respondent J). At that time, before the financial crisis and with considerable interest in renewable energy, they found finance from European

investment funds easy to obtain, raising €17m, way beyond the €5m for which they were originally hoping (respondent I).

Encouraged by this investment and optimistic about the potential of outgrower schemes, the investors planned a vast expansion. They convinced the government to support their plans because both the type of investment and the production system fit its development strategy—it is an agricultural project that provides industrial inputs and the resulting fuel can either be exported or can substitute for imports. Additionally, the production avoided smallholder displacement and, in a food insecure area, offered the potential for graduation of PSNP recipients from assistance (respondent Q). Based on support for the project by high-level government officials, the zone, *wereda* and *kebele* administrations helped the investors to expand the project (respondent O). Community meetings were held in each *kebele*, *kebele* and traditional leaders were paid incentives by the investors to convince people to join the project (respondent P) and *kebele* committees signed contracts with the investors on behalf of the farmers.[17]

This process was so effective that by 2008 the project covered 72,000ha under the production of an estimated 84,000 (respondent J) -124,000 (respondent P) smallholders[18] in 240 *kebele* in East and West Hararghe. Most of these *kebele* are classified as chronically food insecure and a substantial proportion of farmers, whose average landholding is less than 0.5ha and who farm maize, sorghum and some cash crops like *chat* and coffee, qualify for assistance from the PSNP (respondent O).

The *kebele* signed three year contracts at a fixed price of 50 *birr* per quintal for the castor produced. This price was intended to constitute a substantial increase in smallholder incomes based on estimated price and yield for sorghum, and the seed supplier's estimates of castor yield (respondents O, P). Outgrowers were required to switch up to half their land from cereals to castor, retaining some land for food, and were supplied with fertiliser, the cost of which was deducted from their payment when seeds were sold to the company (respondent P).

The company built a bio-diesel processing factory with a 30m *birr* loan from an Ethiopian bank, and hired 5,000 staff, including agronomists, accountants and supervisors (respondent P). A large amount of money was spent on equipment—pesticide sprayers, peeling machines, motorbikes and cars—and the company leased an additional 60,000ha of 'unused' land in West Hararghe, to be farmed as a plantation, though the outgrower scheme was initially prioritised (respondents S).

The project quickly ran into problems. Castor yields were massively overestimated as the seeds had not been tested across the range of soil and rainfall conditions covered by the expansion (respondent P). In addition, when the company bought the seeds produced, sorghum prices in local markets had tripled and, given the fixed castor price, farmers were unhappy with their payment (respondents P, R). This news spread to neighbouring *kebele* and productivity deteriorated further as farmers neglected castor to focus on other crops (respondents P, R). Consequently, instead of the 70 quintals per ha that the investors had expected, average yield was only 3-4 quintals per ha and the factory took just three days to process all the seeds bought (respondent P). Facing failure, the managers fled the country in April 2009 and, according to the new manager, stole the remaining money (respondent I).

[17] According to the contract, the chairman and deputy chairman should have been granted power of attorney by the *kebele* members, though this does not appear to have been the case according to respondents R.

[18] This number is the total of (mostly male) landholders. A conservative estimate of family size would therefore suggest that at least 500,000 people were involved in the project.

They left massive debts and no money to pay wages or buy the remaining seeds from the outgrowers (respondents P, I, R).

The failure of the project created a major problem for government, which was heavily involved in establishing the project. Having switched from subsistence crops, with no income as a replacement, the farmers lost up to half their annual production. Additionally, the pesticides killed their bees, which had provided important extra income (respondents R, I). Consequently, some had to sell cattle to buy food and others increased reliance on the PSNP (respondents R).

The investment company, under new management, is now restarting castor production. They have abandoned outgrower schemes and plan to use mechanised farming on the 60,000ha of land in West Hararghe, which has never been cleared, with the possibility of another 100,000ha in Arssi and Bale promised by the regional government (respondent I). All this land is classified as 'unused' as it is not cultivated, however, it was clearly being used by pastoralists to graze camels and cattle when I visited. When asked about the pastoralists on the land, both the investor and government officials indicated that they would be moved elsewhere, with one official stating that their presence 'is no problem at all because we shall make our pastoralists settle' (respondents P, O). The only concession is that the farm is not allowed to extend as far as the river, as the water is used by pastoralists in the dry season (respondent P).

The project is exceptional both in its size and the extent of its failure. Nonetheless, the case does have important findings of general relevance. First, the case demonstrates how investment is a government-owned process. Key aspects of the project resonated with the government's development strategy, convincing officials to take huge risks with the welfare of smallholders. The promotion of investment is based on the premise that the government can manage investors and direct them to specific purposes, however, this case raises important questions regarding its capability to do so. Second, the government has only limited information on land use in some remote areas which are the target of investment. In particular, the classification of land use disregards pastoralists who are seen as merely passing through land, rather than 'using' it and therefore can easily move on to other 'unused' areas. Finally, while the government makes efforts to prevent smallholder displacement, the outgrower schemes entail inherent risks, which need to be taken into consideration. In this case, smallholders became exposed to fluctuations in international and national prices for food and fuel.

6.2.2. Case study B: State-owned sugar production using outgrowers

Recent years have seen demand for increased sugar production in Ethiopia resulting from: rising domestic demand; a preferential EU trade agreement (Van Berkum et al. 2005); and the need for bio-ethanol production to reduce oil imports. These factors came to a head in 2009/10, resulting in a severe sugar shortage and a ban on exports.

The state Ethiopian Sugar Development Agency (ESDA), manages domestic sugar supply and four sugar factories. As part of its sugar development strategy, all these factories are being expanded to increase production of sugar and bio-ethanol (ESDA, n.d.). The first phase of the Wonji-Shoa sugar factory expansion, the subject of this case study, involves a 600ha plantation in East Shewa, and 2,600ha and a new factory in Arssi. The second phase will involve another 6,000ha nearby in East Shewa.

The land for the first phase was previously held by smallholders with 0.5-3.0ha. With no irrigation infrastructure, farmers depended upon inconsistent rainfall for cereal and pulse production for self-consumption. The site in East Shewa was not classified as food insecure,

whereas the area in Arssi remains food insecure and receives the PSNP. Nonetheless, due to proximity to the Awash River and the paved road to Addis Ababa and Djibouti, the area has considerable economic potential.

The proposed expansion generated debate between government agencies regarding the system of production. Statements in 2006 by the ESDA suggest that a private plantation may have been considered (Ethical Sugar 2006), while Wonji-Shoa wanted to displace the smallholders and manage the plantation directly (respondents U, V, W). Nonetheless, the final agreement between federal and regional governments attempted to combine state investment, the commercial requirements of a secure sugarcane supply to justify investment in a new factory and the political imperative of avoiding displacement (respondents V, W).

The smallholders were formed into cooperatives and over a four-year period without production[19] Wonji-Shoa paid members a monthly allowance of 229 *birr* per ha. Wage labourers farm the land, with cooperative members given priority when jobs are allocated. The cooperatives repay the production costs—wages, inputs and technical assistance provided by Wonji-Shoa—and are potentially liable for the substantial cost of constructing the irrigation system, though a final decision has not been taken (respondents U). Meanwhile, the *wereda* farmers' union, elected by the cooperatives to negotiate the sugarcane price, has been pressurised into accepting low prices, set at three-year intervals, by the *wereda* administration and the cooperatives office (respondents X, Y).

The initial results have so far been negative. The maintenance payments, set in 2006, but not adjusted for inflation, quickly became insufficient given rapid food price increases (respondents Z, AA, AB). In addition, the first sugarcane harvest sold at the agreed price has not covered production costs and the cooperatives have been paid nothing (respondents U). Despite the understandable discontentment of the members, they are unable to extricate themselves from the scheme as the cooperatives are tied to an indefinite agreement to supply sugar exclusively to Wonji-Shoa (respondents U). Indeed, the land that cooperative members still believe belongs to them is actually being registered to the cooperatives, not individual farmers (respondent V). Consequently, the only exit option the farmers have would be to leave the cooperative, losing 'their' land without compensation.

The sugar factory and government officials claim that the cooperative members made a free choice to join the project (respondents U, V, W). Nonetheless, several cooperative members say they opposed the arrangement and were forced to join by the government (respondents X, AA). Whatever the case, it is clear that the farmers did not have sufficient information to make an informed decision. To this day the cooperatives are unsure of the debt to be repaid, have no oversight regarding the running costs paid to Wonji-Shoa and therefore what constitutes a fair price for the sugarcane. In theory the interests of farmers are represented by the cooperative, however, these organisations, which are regulated by the *wereda* cooperatives office (respondent AC), are widely seen as state organisations and a means of disciplining outgrowers (respondents AD, AA).

The impact of the plantation is differentiated along class, generational and gender lines. Only landholders are members of the cooperatives and receive priority access to day labour (respondents V, W). Nonetheless, all the work done by local people is unskilled and relatively poorly paid, with 'skilled' workers brought in to operate machinery (respondents V, W). There are no training schemes to replace skilled workers with local staff.

This class differentiation, stemming from land rights, reinforces generational and gender divisions. As in most of Ethiopia, land shortage has meant that most older men have land

[19] The land in question was left fallow for two years and the first crop took nearly two years before it was ready for harvest.

and consequently became cooperative members while young people are landless and seek wage labour. Although land registration in Ethiopia has received some praise by gender assessments for issuing certificates to both husband and wife (Askale 2005), the formation of the cooperatives pre-dated registration and consequently only the landholder—usually a man—was allowed to join. There are no attempts to rectify this situation with the result that the few female members are widows of former male members. Women also tend to be allocated low status and low pay jobs, especially weeding, because they are not thought able to do jobs which involve lifting and would not be respected as team leaders, giving instructions to men (respondents AA).

Like case study A, the Wonji-Shoa project constitutes an attempt to combine the anti-displacement focus of ADLI with commercialisation. Nonetheless, the need for a secure sugar supply to justify investment in the factory, which would otherwise favour a directly-managed plantation, requires the government to discipline the cooperatives through coercion and monopoly conditions in the sugar sector. The case again demonstrates the risks to outgrowers. Firstly, outgrowers are exposed to the risks of the monetary economy through variation in the cost of living and inputs. Secondly, the outgrowers have little bargaining power in negotiations with the buyers of their produce as they lack market information and there are no alternative buyers.

6.2.3. Case study C: Small investors on communal land

The site is situated on the Awash River in Arssi. The area experiences regular droughts, however, most local people lack the resources to invest in motorised pumps to use the river for irrigation and therefore rely on rainfall for cultivating crops and grazing livestock. The site is classified as food insecure and many people receive the PSNP. There is a shortage of land, especially among young adults, though land scarcity is not as acute as in other parts of the country.

A number of production systems have been established by local government, NGOs and local people to utilise river water for irrigation. These irrigation schemes have met with at best partial success primarily due to the limited capacity of local people to deal with shocks such as motor failures and price fluctuations. The largest scheme covers 60ha divided into 0.25ha plots. It was established by an NGO nearly 30 years ago and is now managed by the *kebele*, but has had repeated breaks in production, sometimes for years at a time, due to flood damage to the motor and, currently, stolen machinery. Each time limited resources in the local community have made it difficult to pay for repairs.

Another scheme covers 30ha in 0.5ha plots. It is managed by a cooperative established by an NGO (respondents AE). The NGO created a fund to pay for running costs and maintenance, however, this money has been exhausted, partly due to rising fuel prices (respondents AE). The members now need to replenish the fund. Although crops such as tomatoes and onions can be extremely profitable, they require significant investment in inputs and are considered risky due to variable market prices (respondents AF). Given the unreliable production on non-irrigated land, cooperative members therefore prefer to grow maize on the irrigated land, providing a secure source of subsistence but no surplus. Consequently, cooperative members are concerned that they will be unable to contribute to the fund, placing future production at risk (respondents AF).

The *wereda* land administration decided to lease communal grazing land adjacent to these schemes to investors in the expectation that they have the resources to farm high value cash crops (respondent AG). There are four investors in the village, three Ethiopian and one Australian. The largest has 30ha and the others approximately 10ha each. They all use irrigation to grow vegetables like tomatoes, onions and chillies which are taken to market in

Addis Ababa, though it is rumoured that the Australian intends to export his crop (respondent H). The investors employ day labourers, for example, one local investor hires 25 people on his investment of 10ha (respondent H). Although investors in Oromiya are required to hire all unskilled workers from the local community, investors complain that local people are lazy and demand high wages, and have brought many workers from other areas (respondent H, AH). Those that have got jobs are mostly young and landless. Several workers complained that the wages paid to labourers have not risen in line with food prices (respondents AI), nonetheless, day labour on investment land is an important source of income for a number of local people.

The community received no monetary compensation for the land as communal land is considered a government rather than a community resource. Instead, the investors promised to contribute to the community by building infrastructure such as a raft across the river, a mill and to bring electricity to the village. So far, however, only one investor has kept his promise.

According to ADLI, rather than leasing land to investors, the best solution would have been to distribute communal land to local landless along similar lines to the NGO irrigation scheme described above. However, the group irrigation schemes have made limited contributions to commercialisation or reliable production. The experience with the existing schemes appears to have convinced the *wereda* that investors implementing 'modern' agriculture offer better prospects of increasing productivity.

6.3. The political economy of changing land use

Cases A and B show that the Oromiya Government has gone to considerable lengths to avoid smallholder displacement, while the main examples of displacement that have occurred are flower farms which are expected to require more wage labourers than those supported by smallholder agriculture, limiting the impact on migration. Consequently, the enormous political importance of the smallholder sector to the government makes it highly unlikely that investment will be allowed to displace the peasantry, as has been a concern of some 'land grab' articles (e.g. GRAIN 2008).

Instead, the result is an emerging dualism between smallholders, who have tiny landholdings and are prevented from expanding through purchase or long-term lease, and investors, who operate on a much larger scale and are increasingly seen as the engine of agricultural transformation. As case A highlighted, prioritising these two sectors has resulted in encroachment on pastoral lands, and potentially those involved in shifting cultivation. These groups have long been politically marginalised and despite the ethnic federal system, key decisions about the livelihoods and land of these groups are being made without consultation by the federal government.

The production system in these sparsely populated areas represents a choice of development strategy that diverges from the principles of ADLI, with important consequences for equality and rural social protection. In principle, smallholder agriculture or investments using outgrowers could be established on state farms, communal land and potentially even land in lowland areas, as malaria, which inhibited the attempts of the *Derg* to establish smallholder agriculture in lowland areas, may be more easily controlled. Instead, ethnic federalism has been used to justify the end of inter-regional resettlement, while investors using 'modern' technology have been prioritised over smallholders. While political imperative prevents the displacement of the existing smallholder sector, economic arguments in favour of expanding the smallholder agriculture have lost their appeal.

The emerging dualism has important consequences for technology transfer to smallholders. One of the main reasons for encouraging investors is that they have resources that smallholders lack. It is therefore illogical to expect independent smallholders to use the same technology as large-scale investors. Despite the risks involved, outgrower schemes do offer greater potential for transfer technology as improved inputs are usually provided by investors. There also remains the possibility that technology and improved farming techniques may transfer from foreign to domestic investors. Ayelech and Helmsing (2010) consider this in their study of the flower industry in Ethiopia, concluding that while 'endogenisation' is currently at an incipient stage, there is some potential for it to occur.

Finally, the government's promotion of investment is premised on the idea that investment can be managed and channelled to particular areas and sectors, helping the government to overcome key resource constraints. These case studies have raised doubts whether the government is able to manage investment in order to combine its objectives of increasing production with equitable growth and security for smallholders, or whether there is an inherent trade-off between these goals.

7. Conclusions

This paper contributes a framework which distinguishes between types of investors and investments, and their likely impacts on receiving countries, which could, with suitable modifications, be used to assess the impact of agricultural investment in other developing countries. In the Ethiopian context, the framework highlights the conflict between the macro benefits of investment, largely accruing from foreign exchange earnings, and the risks of investment borne at the micro level by pastoralists and smallholders in the vicinity of new investments.

The limited economic and social success of Ethiopia's smallholder-focused development strategy has meant that smallholders are no longer seen as the sole engine of economic transformation. Nonetheless, the political importance of the sector has ensured its protection, while an expansion of foreign and domestic investment in agriculture is creating a dualist agricultural system, in which a small enclave of large investors is kept legally distinct from the smallholder majority. Most of this expansion is taking place in remote, sparsely populated areas, posing serious risks for pastoralist populations, bringing the centrally-defined agricultural development strategy into direct conflict with the federal system which is founded on the principle of ethnic self-determination.

The preceding analysis demonstrated that the impact of investment on tax revenues and national food security are likely to be minimal. Indeed, investment may even have a detrimental impact on the production of staples for the domestic market as limited amounts of land previously used for cereals are turned over to flower farms, bio-fuels or the production of food for export. Rather, increased foreign exchange earnings resulting from the promotion of export-focussed investments appears to be the main objective as part of a more trade-oriented development strategy.

For many years, the focus of the government's strategy has been the control of social and political processes in the process of economic transition and it has proven itself extremely effective in retaining political control over the peasant majority. However, the promotion of foreign and domestic investment will effectively create a class of commercial farmers with economic power and, consequently, political influence. It will be important to see in the coming years how these new interests influence government policy and whether the government will really be able to manage these new economic actors, as it believes.

Annex: Interview respondents

Respondent	Position / organisation	Place	Date conducted
A	A manager, Agricultural Investment Support Directorate	Addis Ababa	28 Dec 2009
B	A manager, Development Bank of Ethiopia	Addis Ababa	17 Feb 2010
C	A manager, Oromiya Regional Investment Commission	Addis Ababa	3 Feb 2010
D	A manager, SNNPR Investment Agency	Awassa	1 Mar 2010
E	A manager, Amhara Investment Promotion Agency	Bahir Dar	16 Mar 2010
F	A manager, Tigray Investment Agency	Mekele	1 Apr 2010
G	A manager, Ethiopian Investment Agency	Addis Ababa	18 Feb 2010
H	Ethiopian domestic investor, case C	East Shewa	19 Dec 2009
I	Current project head, case A	Addis Ababa	7 Sep 2010
J	Former project manager, case A	Addis Ababa	8 Sep 2010
K	Three managers in SNNPR Dept of Natural Resources and Environmental Protection	Awassa	23 Feb 2010
L	Tigray Environmental Protection, Land Administration and Use Adminstration	Mekele	29 Mar 2010
M	Three farmers resettled from East Tigray to West Tigray	East Tigray	Apr 2010
N	Castor seed buyer for Chinese Government	Addis Ababa	15 Sep 2010
O	A manager, East Hararghe Investment Commission	Harar	21 Sep 2010
P	Current project manager, case A	Hararghe	8 and 9 Sep 2010
Q	Former representative of the Food Security Office, East Hararghe	Harar	21 Sep 2010
R	Ten outgrowers, case study A	Hararghe	19 and 20 Sep 2010
S	Two project supervisors, case A	Hararghe	19 Sep 2010
T	A manager, Ethiopian Sugar Development Agency	Addis Ababa	29 Apr 2010
U	Three project managers, Wonji-Shoa Sugar Factory, case B	Wenji	9 and 12 Mar 2010
V	Adama wereda land administration	Adama	8 and 12 Mar 2010
W	Adama wereda investment desk	Adama	8 and 12 Mar 2010
X	Management of sugar cooperative, case B	Adama wereda	13 Mar 2010
Y	Government development agents, case B	Adama wereda	13 Mar 2010
Z	Members of sugar cooperative, case B	Dodota wereda	17 Dec 2009
AA	Members of sugar cooperative, case B	Adama wereda	10 Mar 2010

Respondent	Position / organisation	Place	Date conducted
AB	Members of sugar cooperative, case B	Adama wereda	13 Mar 2010
AC	Adama wereda cooperatives office	Adama	12 Mar 2010
AD	Kebele chairman, case B	Adama wereda	11 Mar 2010
AE	Two founding members of irrigation cooperative, case C	Dodota wereda	18 Dec 2009
AF	Six members of the NGO-established irrigation scheme	Dodota wereda	17, 18, 19, 20 Dec 2009
AG	Dodota wereda land administration	Dera	17 Dec 2009
AH	Kebele chairman	Dodota wereda	18 Dec 2009
AI	Two female day labourers	Dodota wereda	20 Dec 2009

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