



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 that 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 micro-level risks to those living near new investments, in particular, politically marginalised pastoral populations in remote regions.

About the author

Tom Lavers is a PhD candidate in International Development at the University of Bath. His PhD research examines the politics of social policy in Ethiopia, in particular focusing on the role of land tenure in the promotion of accumulation, equality and individual security as Ethiopia attempts to make the transition from a predominately rural, agrarian economy to an urban, industrial one. The research employs a case-based methodology, situating micro level case studies within analysis of the political economy of macro- and meso-level processes related to the commercialisation of agriculture and food security. His research interests include: social policy and development, social protection, food security, structural change, inequality and the "land grab".

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 Statistical 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)
EMPORA	Ethiopia Market Purchasing Organisation Activities (Empora)
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
ONRG	Oromiya National Regional Government
PRSP	Poverty Reduction Strategy Paper
PSNP	Productive Safety Net Programme
SNNPR	Southern Nations, Nationalities and Peoples Region
TNRG	Tigray National Regional Government
TPLF	Tigrayan People's Liberation Front
TNRG	Tigray National Regional Government

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.*

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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 'receiving' countries motivations 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 recently promoted land leases to foreign and domestic investors, so large-scale investors could possibly start competing with smallholders for land.

The paper draws on quantitative and qualitative data generated during fieldwork conducted between October 2009 and September 2010. Two main questions guided the research:

1. What and for whom are the opportunities and threats of foreign investment?
2. What are the implications of encouraging different types of investment?

The paper contributes to debates on foreign agricultural investment and suggests a framework for analysing investment (see *section 2*), linking micro- and macro-impacts of land deals, and differentiating between projects. We outline Ethiopia's longstanding agricultural strategy (*section 3.1*) and the institutions and laws that regulate investment (*section 3.2*) provide a preliminary analysis of investment in Ethiopia, highlighting the trade-off between macro-benefits from foreign exchange earnings (*section 4.1–2*) and micro-level risks borne by pastoralists and smallholders in the vicinity of the investments (*section 4.3–4*).

2. 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. Building on Crouch and Janvry (1980), I therefore set out to place foreign investment in the Ethiopian agricultural context, highlighting: 1) the important role of crops in accumulation processes and 2) the social context of their production (Mkandawire 1987). The analytical framework thereby links macro-strategic issues (the role of investment crops in the economy and their contribution to national food security and industrialisation) to changing micro-level land use, especially in terms of displacement, employment and technology transfer.

2.1 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) classify crops as:

- 'peasant' foods, produced for self-consumption by subsistence farmers
- 'wage' foods, bought by wage labourers
- industrial inputs
- export crops.

Given the particular characteristics of the energy sector, we have added bio-fuel crops as another category.

Cost and benefits for the 'receiving' country depend on the economic role that crops grown by investors play. For example, expanding peasant food supplies could not only to enhance national food security¹ but also contribute to agricultural commercialisation as smallholders are more willing to switch to cash crops if

¹ Addressing food insecurity requires not only an increased supply of certain foods, but also getting food to food insecure areas (through investment in infrastructure and integrating markets) and raising entitlements so that those in need can buy food. This paper only considers the impact of investment on food supply.

local food supplies are affordable and reliable (Leavy&Poulton 2007). Similarly, expanding wage food production can contribute to industrialisation since employees maintain the same living standard on lower wages, ensuring that industry is more internationally competitive (Kay 2009).

Realising such benefits depends on the type of investor and incentives for crop choice and marketing. Foreign and domestic investors are likely to have different access to markets and production technology, influencing their choice of crops. In both foreign and domestic sectors the interests of private companies and state-owned or state-affiliated ventures are also likely to diverge, with private companies usually focusing on maximum profit and seeking profitable markets wherever they may be. In contrast, state enterprises often make more complex calculations based on political interests in the 'home' country.

In this study, for the macro-analysis I drew on federal and regional investment databases which detail the types and sizes of foreign and domestic projects.

2.2 Micro-impacts of investment

The main micro-level impacts stem from changing land use, so I compare the previous use of investment land (Borras and Franco 2010) with the subsequent social context of production. Land transferred to investors is a combination of:

- 'Unused' land defined from the state's perspective (Borras and Franco 2010; Scott 1998), which may include land objectively unused for any human purpose and land used by people for purposes considered insufficiently productive or invisible to the state (e.g. pastoralism and shifting cultivation). Investors are given 'unused' with the expectation that production will extend to uncultivated lands or that settled agriculture will replace 'inefficient' practices.
- State farms communally-held land and individual holdings: investors receive such land if they are expected to 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 smallholders to change the way they earn a living, depending on the nature of subsequent production. Wage labourers and outgrowers² are similarly transformed into participants in the monetary economy and exposed to the inherent risks of the market (Scott 1976), but smallholders must earn their living as wage labourers, while outgrowers retain control of their land, albeit with a diminished 'bundle of rights' (Schlager&Ostrom 1992).

In the micro analysis, I use datasets detailing the location of investments to assess the major trends in land use, with three case studies illustrating the impacts of these changes.

3. Background on Ethiopian agricultural strategy and investment

3.1 Agricultural policy in Ethiopia

In this section, I identify the economic roles particular crops play (which will form part of subsequent analysis) and illustrate an emerging dualism: on the 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 about links between these sectors and the political implications of change.

² In outgrower schemes ('contract' farming) investors negotiate agreements with smallholders to grow a specific crop on their land and to sell exclusively to the investor (usually at a pre-agreed price) using technology and expertise supplied by investors.

Agricultural development-led industrialisation

The Ethiopian Ministry of Finance and Economic Development argues that because 85% of the population earns a living from agriculture, development requires rapid agricultural growth (MoFED 2003), so the government has long adhered to a strategy of 'agricultural development led industrialisation' (ADLI). It argues 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 links such as increased supply of wage foods and industrial inputs.

State ownership of land and distribution of usufruct rights to smallholders is key to ADLI. 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 a re-emergence of a landholding class. Land and agricultural policies and practices play important social and economic roles: labour-intensive agriculture should increase productivity, provide the necessary inputs for industrialisation and ensure all benefits of growth accrue to smallholders. The expected results of equitable growth, national food self-sufficiency and smallholder security (MoFED 2003) also overlap with key political interests.

By prioritising land equality, government effectively blocks powerful independent economic actors (that might be able to translate their economic power into political influence) from emerging. Government officials also argue that migration is the 'source of economic, political and social instabilities' (MoFED 2002: 56) because given the lack of industrial development, urban migration could result in high urban unemployment, increasing the potential for social and political unrest and ethnic conflict resulting from migration across ethnic boundaries (MoFED 2002: 56). Therefore, land tenure aims to limit migration and give government social and political control over a mainly rural population³.

The ADLI strategy focuses on the majority involved in settled agriculture; the only alternative government offers to a minority subsisting on pastoralism or shifting cultivation, is sedentarisation (MoFED 2003). As explained by State Minister for Agriculture and Rural Development Dr Aberra Deresa (cited in Butler 2010):

...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.

Therefore, smallholder production accounts for 95% of agricultural output (CSA 2009) but the sector has not produced the expected rapid growth. Although the CSA claims substantial recent increases in cereal production, such improvements are surprising given the low uptake of improved inputs (supposedly the main means to increase productivity⁴). For example, on cultivated farmland in 2009/10, only 4% used improved seeds, 12% used chemical fertiliser, 15% used natural fertiliser, and just 1% used irrigation. Even if CSA productivity data are accurate, agricultural growth has not yet met ADLI's objectives.

Table 1 shows that most crops are used for self-consumption and marketed surpluses are very low, highlighting limited forward-links to industry. The main smallholder staples — maize, sorghum, wheat, *teff*, *enset* and pulses — are classified as 'peasant' foods. The small surplus feeds the urban population, so there is no clear distinction between 'peasant' and 'wage' foods, although *teff* is more desirable for everyone but more accessible in the relatively wealthier urban areas. 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.

³ 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).

⁴ Dercon and Vargas Hill (2009: 11) 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'.

Table 1: Marketed proportion of major crops

	Production (q)	% self-consumption	% crop sold
Total 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)

Persistent food insecurity and reliance on food aid provide the most dramatic evidence of ADLI's failure: more than seven million Ethiopians are '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 face shocks requiring emergency assistance (MoARD 2009). Food aid (usually wheat) has been 11%-50% of domestic supply since 2000 (FAO 2010). Due to food aid, the government can retain ADLI despite limited economic success, even though a strategy based on aid dependency is unlikely to be sustainable in the long-term. Agricultural exports are also limited as few crops are exported in significant amounts (see *Table 2*). The data on coffee, oil seeds, soya and tea (considered 'export crops' for subsequent analysis) show past trends and indicate likely markets for investment crops but investment could change the export market.

Table 2: Exports as a% of total production (in tons)

	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

In the period covered by the data, virtually no cereals were exported, partly due to a 2006 directive banning most cereal exports (MoTI 2008). However, Dercon&Vargas-Hill (2009) argue regardless of the directive, in the last decade including the recent food crisis, high transportation costs to Djibouti mean that it would rarely have been profitable to export cereals. Complex factors limit ADLI like: limited production of agricultural inputs, insufficient context-specific agricultural research, lack of infrastructure and lack of credit markets (Dercon&Vargas-Hill 2009).

Agricultural commercialisation and the role of large-scale investment

As a compromise between political and economic priorities, the government's 2005 Poverty Reduction Strategy Paper (PRSP) identified the need to pursue greater agricultural commercialisation with a dual approach (MoFED 2005):

- I. maintain the politically-sensitive smallholder sector with redoubled efforts to increase productivity and specialise in 'niche', high-value export markets and

2. 'supporting the development of large-scale commercial agriculture where it is feasible' (MoFED 2005: 47), to create a new role for foreign and domestic investment.

Policymakers claim these sectors are entirely separate — investors are given 'unused' land that smallholders, lacking resources, could not develop, thereby expanding total production (Interview respondent A; also MoFED 2005). Investment is expected to play a number of positive roles: earn foreign exchange, create employment opportunities, facilitate technology transfer to smallholders and, according to respondents A, B, C, D, address national food security. Senior policymakers were seemingly convinced change was necessary (Amdissa 2006) because:

- a mounting body of evidence shows the limited success of the smallholder sector and highlights the unsustainability of past policies;
- government officials have come under increasing pressure from many donors, particularly the World Bank, in favour of agricultural commercialisation; and
- horticultural projects in neighbouring Kenya show the potential impact of agricultural investment.

The extent of foreign investors' or their governments' influence on this policy change 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, so although 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, secrecy surrounding investment in Ethiopia makes it extremely difficult to determine the extent of influence these actors have. However, Sheik Mohammed Al-Amoudi (a joint Ethiopian and Saudi citizen who owns the MIDROC business empire, which owns many agricultural investments in Ethiopia and has close links with the Ethiopian Government and Saudi Royal Family) clearly played a role in the changes and has also been key in fostering trade relations between Saudi business and Ethiopia (Wudineh⁵ 2009).

3.2 Regulating investment

This section provides an overview of investment laws, focussing on high-level government laws and policies and showing government efforts to manage and direct investment to its developmental objectives.

Institutional responsibility for investment

According to the Constitution, the ethnically delineated regions are responsible for land management (FDRE 1994: article 12, see also *Figure 1*). However in 2009, the growing importance of agricultural investment led the federal government to re-centralise control, 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. AISD aimed to speed up land allocation compared to regional processes which, especially in 'emergent' regions⁶, are considered slow, bureaucratic and prone to corruption (respondent A). However, in practice a clear division of roles is not evident, and so far AISD only manages investment in emergent regions, while established regions still administer all investment, with some disputing the constitutionality of AISD (respondents C, D, E, F). State capacity varies and in remote areas where capacity is weaker, customary land management often dominates in practice: no emergent region even has a regional land or investment proclamation.

⁵ **Note on references:** Ethiopian names comprise a given name and the father's given name, with no family name passed down from generation to generation, so conventional references which cite only the author's second name make no sense for Ethiopian names. Hence, Ethiopian authors are cited using their first name, while the bibliography contains both first and second names.

⁶ 'Emergent' regions: Afar, Benishangul Gumuz, Gambella, Somali; 'established' regions: Amhara, Oromiya, SNNPR, Tigray.

remote land in Tigray is leased for 40 *Birr*⁹ per hectare compared to 100 *Birr* for more accessible land (TNRG 2000EC), while in SNNPR, prices range from 30 to 117 *Birr* per hectare (SNNPR Investment Agency 2008).

The state-owned Development Bank of Ethiopia (DBE) also provides concessional lending of up to 70% of an investment, with the investor required to provide no capital and borrowing at lower interest rates than commercial banks. It does, however, promote production links 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).

The political economy of investment policy

Recent work on 'land grabbing' highlights 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 cannot access land through market transactions; instead the government manages and promotes investment, selecting investors and investments in line with 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, the centralised of investment policy raises important political questions about the compatibility of ethnic self-determination with a centrally-defined development strategy. Maintaining smallholders is a political priority, so the investment policy focuses on expanding production in sparsely populated areas. Federal government efforts to re-centralise control over investment policy contradicts the ethnic federal system, established to enable ethnic self-determination and manage group resources in the interests of the group (Turton 2006; Vaughan 2003). While established regions have so far resisted centralisation, weaker administrations have relinquished control. Going back to the original incorporation of the lowlands into the Ethiopian Empire in the 1800s, the relationship between the highland centre and lowland periphery is characterised by inequality, exploitation and resource extraction by collection of tributes and taxes, and slave and ivory trades (Dereje 2006; Donham 2002; Garretson 2002; Tadesse 2002). Like the present government, past regimes sought to settle pastoralists, changing their 'backward' practices to more 'civilised' sedentary farming (Amdissa 2006; Donham 2002). Though ethnic equality is now legally recognised, in practice, emergent regions are still politically marginalised and permitted less autonomy, partly due to the federal development strategy, which requires central control of local land resources and changes in livelihoods.

4. Impact 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.

4.1 Macro-impacts: The role of investment crops in the accumulation process

Table 3 presents foreign investments according to the likely role of investment crops in the Ethiopian economy. Most land under active projects (and many pre-implementation projects¹⁰) are for biofuel crops; the few projects cover a large areas, for example one project discussed later covers 200,000ha. Biofuel is not currently processed in Ethiopia, so all crops are 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 3% of land, indicating that projects are relatively small.

⁹ £ 1=±26 *Birr* in September 2010.

¹⁰ According to the EIA, investors in 'pre-implementation' projects have an investment licence but no land has been yet allocated; 'implementation' or 'operation' (here called 'active') projects have allocated land. Many licensed investors never start operations; in many cases investors receive far less land than requested (e.g. Anderson&Million 2008; Weissleder 2009). However, due to delays in database updates, several investors marked 'pre-implementation' have likely been allocated land, so the 'active' category is likely to be an underestimate.

Table 3: The economic roles of foreign investment crops¹¹

	Pre-implementation (ha)	%	Active (ha)	%	Active (no)	%
Export crops (total)	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

Many 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 some 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 replace imports, reducing foreign currency requirements.

'Wage foods' covers a large 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, but a few investors explicitly plan to produce meat for export and were accordingly classified. It is unclear if 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 contribute to industrialisation by producing industrial inputs, but there are only a few isolated examples of such investments, including: rice and sesame dryers to cater for expanded production (Hilina 2010); packaging factories spawned by flower production (Ayelech&Helmsing 2010).

Significantly, 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 they will have on food security. If government really aims to use foreign investment to address food security, as some respondents claimed, it has not yet succeeded.

4.2 Macro-impacts: Types of investors and the economic roles of their investments

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

Foreign versus domestic investors

Only data on Oromiya (see Table 4) contain information on land requested by both domestic and foreign investors¹². This shows that most investors are domestic, but foreign investors have applied for much more

¹¹ Crops are classified based on analysis in section 3 unless 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.

land and have considerably more capital per investor. More foreign investors produce export crops; floriculture and biofuel sectors are particularly foreign-dominated. In contrast, many domestic investors plan to establish small investments producing wage foods, in particular livestock, fruits and vegetables.

Table 4: The role of domestic and foreign investment crops in Oromiya (pre-implementation)

	Domestic (ha)	Domestic (no)	Foreign (ha)	Foreign (no)	Total (ha)
Export crops (total)	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*	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

*For unknown reasons, the large biofuel project in Oromiya that is the subject of case study A is not included in the Oromiya database.

Source: Oromiya Investment Commission

While the analysis assumes clear divisions between foreign and domestic capital, there are links between some foreign and domestic investors. For example, one foreign flower company sold 'turnkey' projects on hire-purchase to foreign and domestic investors (Ayelech&Helmsing 2010). This reduces up-front capital for domestic investors without experience to get a foothold in a technically-advanced sector. Lower entry barriers for domestic investor also result from foreign flower farms investing in transport infrastructure.

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, most 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 (see summary of investment types *Table 5*).

A respondent in the AISD said 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. Local supply and demand dominate Ethiopian cereal prices due to the transaction costs that make import or export unprofitable. Therefore, 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, 'with the high cost of transportation in Africa, it does not make sense for us to try to export beyond the region' (Rice 2010). Nevertheless, one German private investor plans to grow wheat for export to the European Union 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. Investors may anticipate a change in market dynamics: will infrastructural improvements and rising international food prices make it profitable to export cereals from Ethiopia?

¹² 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: Interventions by investor type

	Peasant food	Wage food	Industrial inputs	Export crops	Bio-fuel crops
Foreign private	Some CSR	Lots, especially cattle	Very few	Many especially flowers and oil seeds	A few large projects, all for export
Foreign state	None	None	None	Grains for domestic food security	No producers; Chinese state-linked buyers
Domestic private	Very few	Many small investments: cattle, fruit, vegetables	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	None	Sugar cane for ethanol

Such economic calculations do not necessarily apply to the 3,000ha farm in Oromiya granted to the Government of Djibouti to export wheat (Wudineh 2010b), an apparent exception to the export ban. The goal of this state investor is not profit maximisation, but national food security, and Ethiopia decided to allocate land free of charge, 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 with hopes to expand to 200,000ha (Wudineh 2010a). Al-Amoudi reportedly presented the first rice produced to King Abdullah (A. Rice 2009; Vidal 2010) and the venture is subject to incentives the Saudi government offers Saudi companies to produce food for Saudi Arabia abroad (Cotula *et al* 2009). The company has stated its intention to market 45% of its produce domestically (Capital Newspaper 2010). Though this may apply when food prices are relatively low¹³, as a state-affiliated investment, doubts remain as to 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 Ethiopia has expanded certain state investments, including the state-owned sugar plantations, as will be discussed further in the case studies.

Political economy implications of the macro-strategy

The export orientation of investment indicates a move from ADLI's focus on internal production links to 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 (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 devalued its exchange rate by 20% in September 2010 to improve export competitiveness and promote industrialisation (Hailu 2010).

Therefore, despite mid-level officials' stating that they expected investment to contribute to food security, the change in development strategy reflects a trade-based food security strategy. As Minister for Agriculture and Rural Development Dr Abera Deressa explained: 'If we get money we can buy food anywhere. Then we can solve the food problem' (Davison 2010). Apparently, anticipation of increased foreign exchange earnings is behind the government's claim in a new draft PRSP that Ethiopia will achieve national food security in five years (MoFED 2010). Yet relying on trade for food security in developing countries is risky, since even a temporary fall in export prices or rise in food prices can reduce food

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.

consumption below a necessary minimum (Chang 2009) — particularly relevant given current high and fluctuating food and fuel prices.

Different investors play different economic roles; if the Ethiopian government aims to promote investment solely to increase exports, promoting only foreign investors who are more export-oriented than domestic investors, may be sufficient. However, given its 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 processing industries or Ethiopian food security given their focus on their own domestic issues.

The market for peasant foods and industrial inputs has so far proved insufficiently attractive to private investors; however, these objectives could be met if the state expanded production or if private companies received price incentives to do so. Though the state is expanding some sugarcane production, the trend is for government to lease state farms to foreign private investors, reducing the state's grain production. Abandoning the national self-sufficiency goal will maintain reliance on foreign aid in the short to medium-term, while long-term food security becomes subject to a risky trade-based strategy.

4.3 The micro-impacts of investment

Most direct impacts from investments on people living in the vicinity stem from changes in land use. This section compares prior and subsequent social contexts of production on investment land, using case studies to illustrate the impacts on local communities. Much investment land is in sparsely populated, predominately pastoralist, areas, limiting smallholder displacement and creating some employment but posing risks to pastoralist livelihoods.

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. Therefore, insights into the types of land leased to investors can be obtained by comparing investment locations with population density.

Most regions of Afar, Benishangul, Gambella and Somali are sparsely populated. While these regions have only leased a small land area according to EIA data (see *Table 6*), in the case of Gambella at least, they omit some of the largest, high-profile investments. For example, an Indian investor, Karuturi, was allocated 300,000ha (X. Rice 2010) — the largest to date, and Saudi Star leased 10,000ha (Wudineh 2010a); including these and possibly other such leases would significantly change the figures.

Table 6: Location of foreign agricultural investments

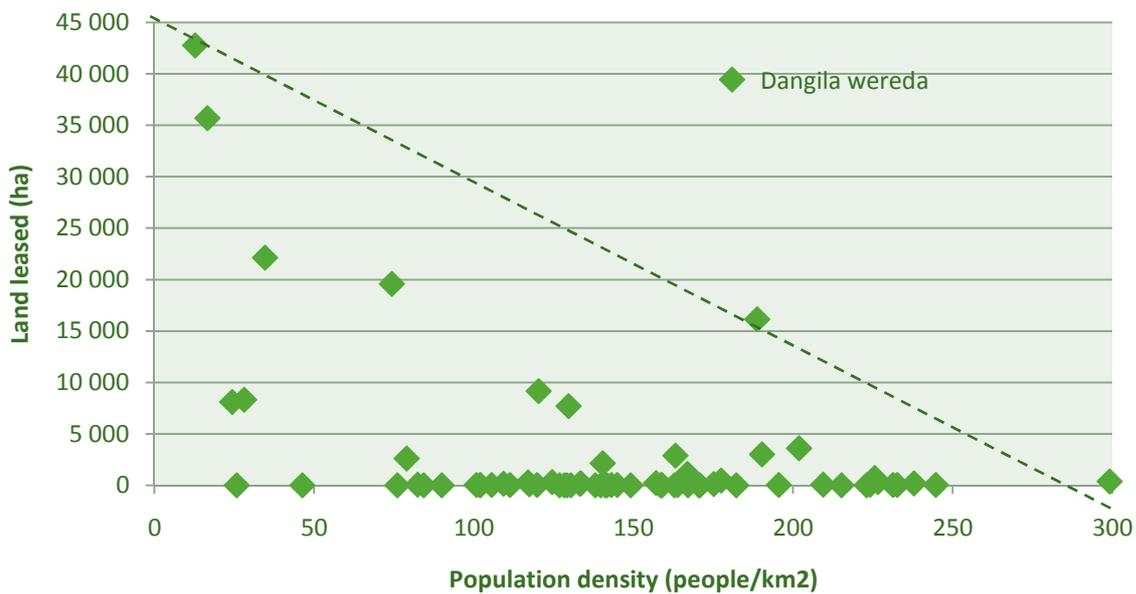
	Population density (people/ha)	Pre-Implementation (ha)	Active (ha)	Total (ha)
Addis Ababa	5536	7,537	171	7,709
Afar	21	26,265	10,000	36,265
Amhara	117	342,204	8,202	350,406
Benishangul Gumuz	15	47,700	0	47,700
Dire Dawa	237	10,439	0	10,439
Gambella	12	120,284	2,000	122,284
Multiregional	N/A	2,919,791	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

Oromiya has the most land in active projects, largely due to the biofuel project examined in *Case A* below. In Oromiya, like in Amhara, SNNPR and Tigray, population density varies enormously between heavily populated highlands and sparsely populated lowlands, so a sub-regional breakdown is needed to identify likely land use. *Figures 2 and 3* use sub-regional data to compare the location of foreign and domestic investments with population density, providing some support for government’s argument that most investment land is in areas not previously cultivated by smallholders. The graph for Amhara (*Figure 2*) 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 land¹⁴. 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 where large tracts 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 3*) are harder to interpret as the dataset makes no distinction between active and pre-implementation projects, so it is unclear if 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.

To promote investment, federal government instructed regions to create a ‘bank’ of suitable land. *Figure 4* shows these data for emergent regions, while *Figure 5* presents data for Amhara and SNNPR. The plots show a similar pattern to that of *Figure 2*, providing additional evidence that investment focuses on areas not cultivated by smallholders. Large amounts of land are ‘available’ in sparsely populated areas, with nearly 2million ha in Gambella and Benishangul-Gumuz, and 400,000ha in Afar. In established regions, land is again in sparsely populated areas of North Gondar and Awi zones in Amhara, and South Omo and Bench-Maji in SNNPR.

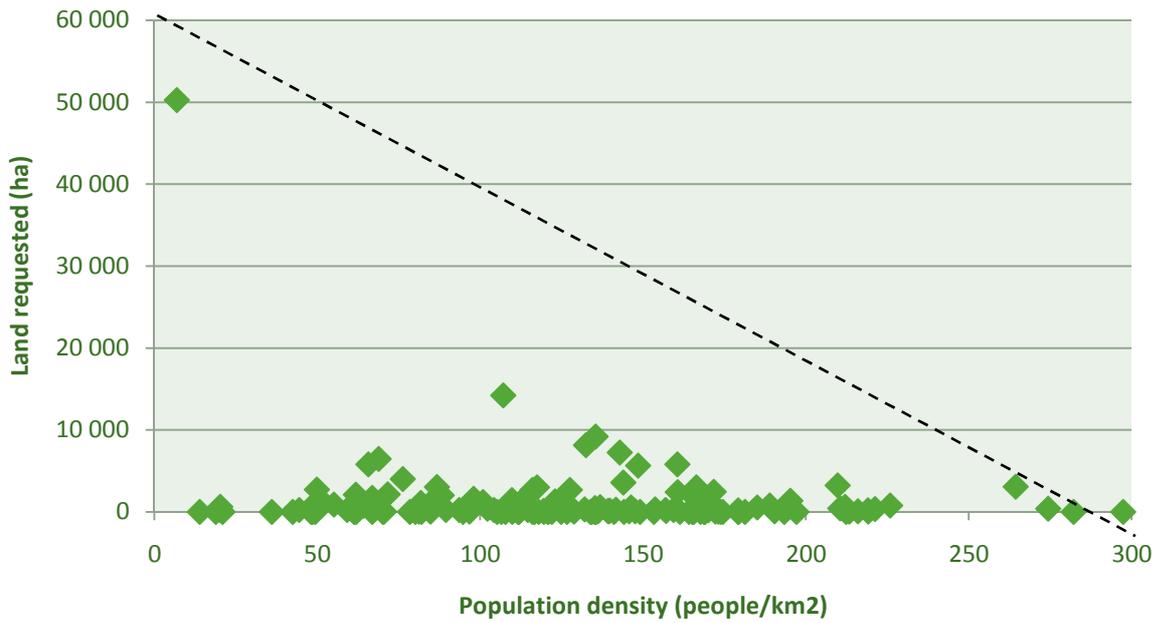
Figure 2: Land leased to foreign and domestic active projects in Amhara (by wereda)



Source: CSA and Amhara Investment Agency

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 because not all sparsely populated wereda contain large amounts of investment.

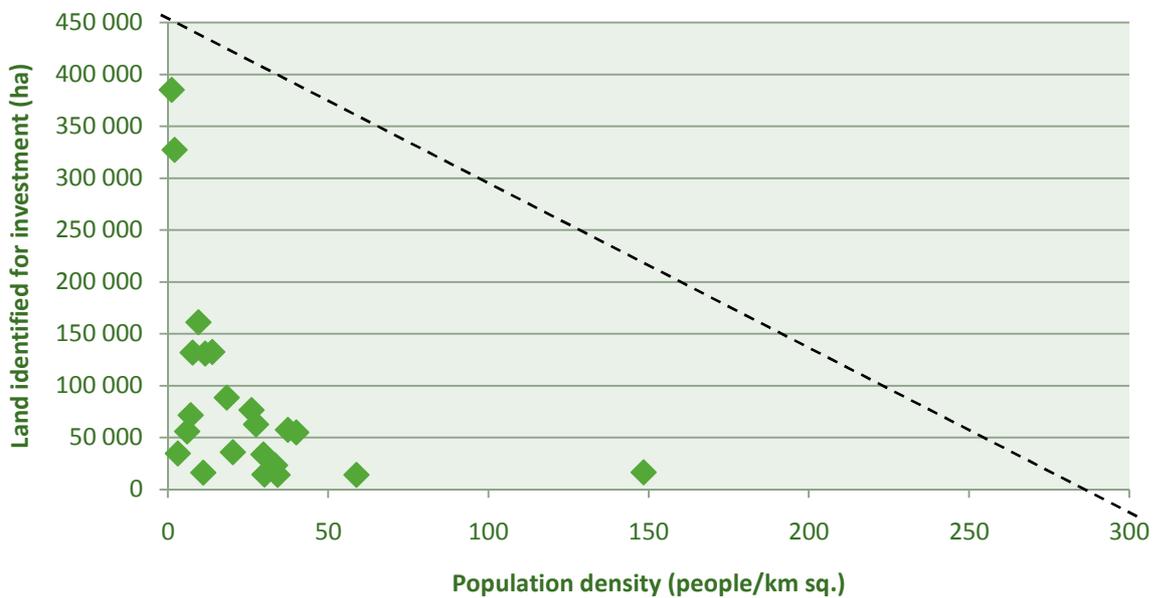
Figure 3: Land requested by foreign and domestic investors in Oromiya (by wereda)



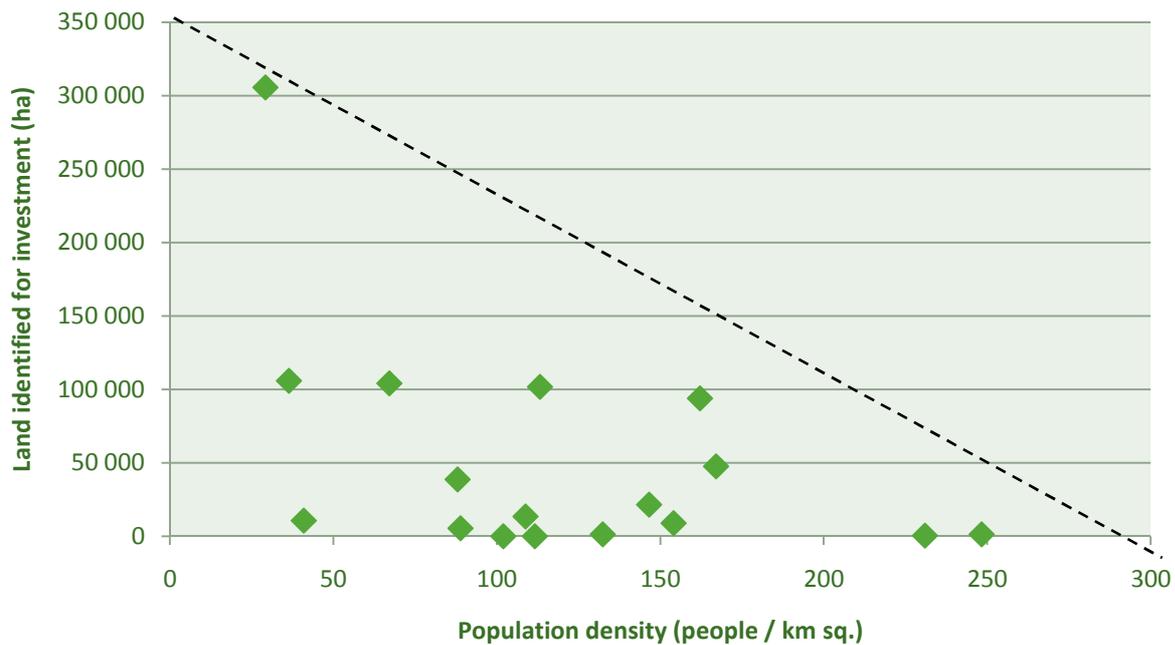
Source: CSA and Oromiya Investment Commission

Despite investors' demand for land in accessible areas, government has so far only agreed to lease small amounts of such land. At the same time, the government claims it has identified 3.7million ha of 'unused', sparsely populate land — mostly in emergent regions, however, the classification is open to challenge.

Figure 4: Land identified by AISD for foreign investment in emergent regions (by wereda)



Source: CSA and AISD / MoARD

Figure 5: 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

Identifying 'unused' land

In discussions with government officials, the terms 'unused', 'empty' and 'uncultivated' are often 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), about 75million ha are suitable for cultivation, while only 14million ha are currently cultivated, leaving about 60million ha 'free'¹⁵. Equating 'cultivation' with 'use' dismisses the importance of other land uses. So what criteria are applied to identify 'unused' land?

In the highlands, land registration has been ongoing in recent years (Berhanu&Fayera 2005; Deininger *et al* 2008). It has not been tried in Gambella, Benishangul-Gumuz or remote parts of SNNPR (respondents K) due to limited state capacity the logistical challenges faced of trying to register land used by pastoralists or shifting cultivators. It is therefore impossible to tell whether land is unused or just 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 caused conflict even before investors arrived (Dereje 2005). Reports now suggest that local people are unhappy that land they previously used has been leased to investors (Daniel&Mittal 2010; Vidal 2010). Furthermore while land allocated to investors in West Tigray may be sparsely populated, the same area was the destination for resettlement from the highlands (respondent L) and tensions already exist between 'indigenous' pastoralists and new arrivals, according to resettled farmers (respondents M). The future politics of investment depends on pastoral populations' ability to respond and mobilise.

¹⁵ These estimates do not refer to specific sources and their origin is unclear. *Derg* used similar figures to justify its forced resettlement programmes to 'unused' lowland areas and probably contributed to the construction of 'unused' land. The figures differ considerably recent World Bank figures in their report on foreign agricultural investment, which suggest that less than 5million hectares of currently uncultivated land are suitable for cultivation (World Bank 2010: 110).

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

Land in smallholder-dominated areas

Apart from these remote areas, significant tracts 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, investors leased several state farms, including 3,000ha in Bale, Oromiya leased by the Government of Djibouti and land in Hadiya and Kembata, SNNPR leased by flower farms (respondent D). A second category of 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 leased relatively small plots (usually 5–10 ha) of communal land to mostly domestic, but also some foreign, investors. Evidence in *Case C*, suggests these may be a large proportion of the small, domestic investors in Oromiya. Like land in pastoralist areas, most communal land is unregistered and government officials consider such land to be a government, not a community, resource¹⁶, ignoring the valuable role of communal land in local livelihoods. Therefore, investors pay no compensation for land, but make informal promises that they will contribute to communities by building schools or clinics, and providing employment.

The most controversial category is individual holdings and certainly, many investors have access to such land. In these cases, the government assumes 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' means. The question remains whether investment models exist to provide local people with secure opportunities for inclusion in this process?

4.4 Micro-impacts: The subsequent social context of production

This section uses three investment case studies in Oromiya — the region with the most land leased — to examine impacts of changing land use on local populations, particularly focusing on employment, displacement and technology transfer. The case studies constitute three examples drawn from the range of possible trajectories from prior land use to subsequent land use. *Table 7* identifies examples of these trajectories, where available, as well as the principle changes involved in systems of production.

I found no investments in which uncultivated, communal land or state farms were leased to investors using outgrowers— a change which could plausibly combine investment with smallholder expansion to address land shortages. Instead, investments on these lands use wage labourers — as in *Case A* (a foreign private investor growing biofuel crops and part of the project is on 'unused' land in West Hararghe and Arssi) and *Case C* where a number of small, domestic private investors grow wage food (vegetables) on communal land in a smallholder-dominated area in Arssi.

Individual holdings present the only examples of outgrower schemes as in *Cases A* and *B*. The latter is an expansion of an Ethiopian state-owned sugarcane plantation in East Shewa producing sugar for domestic consumption and bio-ethanol. Although it seems that few investors use outgrowers, with most preferring to manage their own land, the vast extent of the outgrower scheme in case A means much of the land under active projects does actually use outgrowers, rather than displacing smallholders.

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'.

Table 7: A typology of changing land use

	Investor plantation	Outgrower scheme
'Unused' land	Type 1: Creates employment, threatens pastoralist livelihoods, e.g. <i>Case A</i>	Type 5: Investment combined with re-settlement, threatens pastoralist livelihoods. – <i>No examples</i>
Communal land	Type 2: Loss of communal resources (for all), employment gain (for a few), e.g. <i>Case C</i>	Type 6: Loss of communal resources (for all), gain of land (for a few). – <i>No examples</i>
State farms	Type 3: State employees to private employees, e.g. <i>Govt of Djibouti, flower farms</i>	Type 7: Transformation of wage labourers into smallholders. – <i>No examples</i>
Individual holdings	Type 4: Transformation of smallholders into wage labourers, e.g. <i>flower farms</i>	Type 8: Subsistence smallholders inserted into monetary economy, e.g. <i>Cases A and B</i>

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: article 3(1)). Displaced smallholders with registered land do seem to receive the legally required compensation of ten times the average annual income over the previous five years (FDRE 2005: article 8(1)). However, it is questionable whether this is enough, as farmers are not allowed to buy replacement land. One of the main examples of smallholder displacement is the expanding flower industry, in particular in central Oromiya. In such cases, the government has tried to limit the impact on migration by requiring investors to employ local people.

Case A examines one of the largest investments in Ethiopia, established in 2006 by Israeli managers and financed by European investors. A total 140,000ha are cultivated to grow castor for biodiesel, cosmetics and paints (respondents J, N). High fuel prices, EU requirements for biofuel use and demand from rapidly growing economies like China are driving the demand for castor.

Case A: Foreign private investor producing castor

In 2007, the company leased 8,000ha in three wereda in East Hararghe. The land was classified as 'unused' and was identified by the investors using satellite images (respondent O). When they arrived at the site, investors found large areas already cultivated by smallholders and much of the remaining land used by pastoralists (respondent J). Government officials expected investors to negotiate with 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, investors farmed the land directly with wage labourers and machinery; on cultivated land outgrower schemes were negotiated with elders acting on behalf of local people (respondent P).

Having secured land and a commitment from the government for up to 200,000ha, the managers went to look for finance (respondent J). With the huge interest in renewable energy, they easily raised €17m in European investment funds, way beyond the €5m they originally hoped for (respondent I). Encouraged by the investment and optimistic about the potential of outgrower schemes, investors planned a vast expansion and convinced the government to support their plans because the type of investment and the production system fit its development strategy. The agricultural project provides industrial inputs and resulting fuel can be exported or substitute for imports. Production also avoided smallholder displacement and, in a food insecure area, offered the potential for graduation of PSNP recipients from assistance (respondent Q). With support from high-level government officials, the zone, wereda and kebele administrations helped investors expand the project (respondent O). Community meetings were held in each kebele, investors paid kebele and traditional leaders' incentives to convince

people to join the project (respondent P) and kebele committees and investors signed contracts on behalf of the farmers¹⁷.

The process was so effective that by 2008 the project had 72,000ha under production of about 84,000 (respondent J)–124,000 (respondent P) smallholders¹⁸ in 240 kebele in East and West Hararghe. Most of the kebele were classified as chronically food insecure and many 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 — intended to be a large 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 had to switch up to half their land from cereals to castor, retaining some land for food, and were supplied with fertiliser, with costs deducted from their payment when seeds were sold to the company (respondent P).

The company built a biodiesel processing factory with a 30m *Birr* loan from an Ethiopian bank, and hired 5,000 staff, including agronomists, accountants and supervisors (respondent P). Large sums of money were spent on equipment — pesticide sprayers, peeling machines, motorbikes and cars — and the company leased another 60,000ha of 'unused' land in West Hararghe for a plantation, though the outgrower scheme was initially prioritised (respondents S).

The project quickly ran into problems. Castor yields were massively over-estimated 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). So instead of 70 quintals/ha investors expected, average yield was only 3–4 quintals/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). 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. The pesticides also killed their bees — an important extra income (respondents R, I), so 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 abandoned outgrower schemes and plan to use mechanised farming on the 60,000ha of uncleared land in West Hararghe and another 100,000ha in Arssi and Bale promised by the regional government (respondent I). All the land is classified as 'unused' as it is not cultivated but 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 in size and the extent of its failure. It shows how investment is a government-owned process, and how officials were convinced to take huge risks with the welfare of smallholders because key aspects of the project resonated with the government's development strategy. Government

17 According to the contract, the chairman and deputy chairman should have been granted power of attorney by the kebele members, but this does not to have been the case according to respondent R.

18 Based on 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.

believed it could manage investors and direct them to specific purposes, but the case raises important questions about its ability to do so.

Government's has limited information on land use in some remote areas, which are targeted for investment. Land use classification 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, outgrower schemes entail inherent risks, which should be considered. In this case, smallholders were exposed to fluctuations in international and national prices for food and fuel.

Combining the different foci of ADLI is more complex than the government envisaged. The state Ethiopian Sugar Development Agency (ESDA) manages domestic sugar supply and four sugar factories; as part of its sugar development strategy, ESDA is expanding all these factories to increase production of sugar and bio-ethanol (ESDA *nd*). Recently demand for increased sugar production in Ethiopia resulted from:

- rising domestic demand
- a preferential EU trade agreement (Van Berkum *et al* 2005)
- 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.

In *Case B*, the Wonji-Shoa project tried to combine the anti-displacement focus of ADLI and commercialisation, also with fairly negative results. In *Case B*, the Wonji-Shoa sugar factory expansion, consisted of a 600ha plantation in East Shewa and 2,600ha with new factory in Arssi; a second phase will involve another nearby 6,000ha in East Shewa.

Case B: State-owned sugar production using outgrowers

Smallholders, each with 0.5–3ha of land, previously cultivated the land where the Wonji-Shoa expansion took place. With no irrigation infrastructure, farmers depended on inconsistent rainfall for cereal and pulse production for self-consumption. The East Shewa site was not food insecure, but Arssi remains food insecure and receives the PSNP. However, the area has huge economic potential because it is close to the Awash River and the paved road to Addis Ababa and Djibouti.

The proposed expansion generated debate between government agencies regarding the system of production. ESDA statements in 2006 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). The final agreement between federal and regional governments tried to combine state investment and commercial requirements of a secure sugarcane supply to justify investment in a new factory, while avoiding displacement (respondents V, W).

Smallholders formed cooperatives, and Wonji-Shoa paid members a monthly allowance of 229 Birr/ha over an initial four-year period without production¹⁹. Wage labourers farm the land, with cooperative members getting priority on job allocation. Cooperatives repay production costs — wages, inputs and technical assistance provided by Wonji-Shoa — and could liable for the substantial cost of building the irrigation system, though a final decision has not been made (respondents U). Meanwhile, the wereda administration and cooperatives office pressured the farmers' union — elected by the cooperatives to negotiate the sugarcane price — to accept low prices, set at three-year intervals (respondents X, Y).

Maintenance payments, set in 2006 but not adjusted for inflation, quickly became inadequate due to rapid food price increases (respondents Z, AA, AB). The first sugarcane harvest sold at the agreed price did not cover production costs, so cooperatives received nothing (respondents U). Despite members'

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

understandable discontent, they cannot extricate themselves from the scheme due to the cooperatives' indefinite agreement to supply sugar exclusively to Wonji-Shoa (respondents U). Land which members believe belongs to them is being registered to the cooperatives (respondent V). The only exit option for farmers is to leave the cooperative and lose 'their' land with no compensation.

The sugar factory and government officials claim cooperative members made a free choice to join the project (respondents U, V, W), but members say government forced them to join even though they opposed the arrangement (respondents X, AA). Whatever the case, farmers did not have enough information to make an informed decision, and cooperatives are still unsure what debt must be repaid, have no oversight of running costs paid to Wonji-Shoa, and cannot say what constitutes a fair price for the sugarcane. In theory, the cooperative represents farmers' interests, but the wereda cooperative office actually regulates these organisations (respondent AC), so they are widely seen as state organisations created to discipline outgrowers (respondents AD, AA).

Only landholders are cooperative members who receive priority access to day labour (respondents V, W), so impacts are differentiated along class, generational and gender lines. Local people only access unskilled, relatively poorly paid work, while outside 'skilled' workers operate machinery (respondents V, W); no training schemes were implemented to replace skilled workers with local staff.

Class differentiation, stemming from land rights, reinforces generational and gender divisions. As in most of Ethiopia, land shortage meant that older men have land and so became cooperative members while young people are landless and seek wage labour. Although gender assessors praised land registration in Ethiopia for issuing certificates to both husband and wife (Askale 2005), cooperatives were formed before land registration, so only landholders — usually men — could join. 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 involving lifting and would not be respected as team leaders, giving instructions to men (respondents AA).

The need for a secure sugar supply to justify investment in the factory, which would otherwise favour a directly-managed plantation, requires government to discipline cooperatives through coercion and monopoly conditions. *Case B* shows that outgrowing is risky, exposing outgrowers to the monetary economy through variable costs of living and inputs. Outgrowers have little bargaining power to negotiate with buyers as they lack market information and there are no alternative buyers.

Similarly, *Case C* showed local people's limited scope for negotiation, when the wereda land administration decided to lease communal grazing land to investors.

Case study C: Small investors on communal land

The site, situated on the Awash River in Arssi, experiences regular droughts and most local people have no resources to invest in motorised pumps to use the river for irrigation; they therefore rely on rainfall for livestock and to cultivate crops. The site is food insecure and many people receive the PSNP. Though land is not as scarce as other parts of the country, a land shortage affects especially young adults. Local government, NGOs and local people have established several irrigation systems to use river water, with partial success. A NGO established the largest scheme covering 60ha divided into 0.25ha plots nearly 30 years ago; the kebele now manages this scheme, but it has had repeated production breaks, sometimes for years at a time, due to flood damage to the motor and, currently, stolen machinery. The local community's limited resources make it difficult to pay for repairs.

Another scheme covering 30ha in 0.5ha plots is managed by a NGO-established cooperative (respondents AE). The NGO created a fund to pay running costs and maintenance, but this money has been exhausted, partly due to rising fuel prices (respondents AE). Members now need to replenish the fund. Although crops such as tomatoes and onions can be extremely profitable, they require significant input investment and are considered risky due to variable market prices (respondents AF). Given unreliable production on non-irrigated land, cooperative members prefer to grow maize on irrigated

land, providing a secure source of subsistence but no surplus, so they are concerned that they will be unable to contribute to the fund, placing future production at risk (respondents AF).

The wereda land administration leased communal grazing land adjacent to these schemes to four investors in the expectation that they have resources to farm high value cash crops (respondent AG). The largest scheme is 30ha and the others are about 10ha each. The investors — three Ethiopian and one Australian — 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). Investors employ day labourers, for example, one local investor hires 25 people on his 10 ha (respondent H). Although investors in Oromiya are required to hire all unskilled workers locally, they complain that local people are lazy and demand high wages, and have brought many workers from other areas (respondent H, AH). Those who do have jobs are mostly young and landless. Several workers complained that the wages have not risen in line with food prices (respondents AI), but day labour on investment land is still an important source of income for some.

The community received no monetary compensation for the land as communal land is considered a government — not a community — resource. Instead, investors promised to bring electricity and build infrastructure such as a raft across the river and a mill. So far, only one investor has kept his promise. According to ADLI, rather than leasing land to investors, the best solution would be to distribute communal land to local landless along similar lines to the NGO irrigation schemes. However, the group irrigation schemes have made limited contributions to commercialisation or reliable production and experience with existing schemes seems to have convinced the wereda that investors implementing ‘modern’ agriculture offer better prospects of increasing productivity.

5. Discussion: The political economy of changing land use

Cases A and B show that the Oromiya Government has gone to great lengths to avoid smallholder displacement. Only flower farms have displaced locals, but they are expected to require more wage labourers than those supported by smallholder agriculture, limiting the impact on migration. Since the smallholder sector is enormously politically important to government, it is highly unlikely that investment will be allowed to displace peasantry, as has been a concern of some ‘land grab’ articles (e.g. GRAIN 2008).

Instead, a dualism between smallholders (who have tiny landholdings and are prevented from buying or leasing land for expansion) and investors (who operate on a much larger scale and are increasingly seen as the engine of agricultural transformation). As Case A highlighted, these two sectors have encroached on pastoral land, and potentially land used for shifting cultivation. Despite the ethnic federal system, the federal government still makes key decisions about the livelihoods and land of these historically marginalised groups without consulting them. Production systems in these sparsely populated areas represent a choice of development strategy that diverges from ADLI principles, 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. 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 displacement of the existing smallholder sector, economic arguments in favour of expanding smallholder agriculture have lost their appeal.

Investors are encouraged because they have access to more resources than smallholders, so it is 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 technology transfer as investor usually provide improved inputs, and it is possible that technology and improved farming techniques may transfer from foreign to domestic investors. Ayelech&Helmsing (2010) consider this in their study of the flower industry in Ethiopia, concluding that while ‘endogenisation’ is at an incipient stage, there is potential for it to occur.

In Ethiopia, promoting 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. The case studies raise doubts about the government's ability to manage investment to combine the objectives of increasing production with equitable growth and security for smallholders. There may be an inherent trade-off between these goals.

6. Conclusion

The framework used in this study, distinguishing between types of investors and investments and their likely impacts on receiving countries, could (with suitable modifications) be used to assess the impact of agricultural investment in other developing countries. In Ethiopia, 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.

Smallholders are no longer seen as the sole engine of economic transformation, because Ethiopia's smallholder-focussed development strategy had limited economic and social success. However, because smallholders are politically important, they are still protected while the greater emphasis on foreign and direct investment is creating a dual agricultural system, in which a small enclave of large investors is kept legally distinct from the smallholder majority. Most investment is occurring in remote, sparsely populated areas, posing serious risks for pastoralist populations, and creating direct conflict between the centrally-defined ADLI and the federal system, founded on the principle of ethnic self-determination.

Investment impacts on tax revenues and national food security are likely to be minimal, and investment may even be detrimental to staple production domestic market as some (still small amounts) of land previously used for cereals are turned over to flower farms, biofuels or food production for export. The main objective now seems to be increased foreign exchange earnings resulting from export-focused investments, with a trade-oriented development strategy.

For many years, government strategy has focussed on controlling social and political processes as it undertakes economic transition. It has proven extremely effective in retaining political control over the peasant majority, but promoting foreign and domestic investment will effectively create a class of commercial farmers with economic power and resultant political influence. How will these new interests influence government policy in the future? Will the government really be able to manage these new economic actors, as it believes? It will be important to watch as these changes unfold.

Annex 1: Interview respondents

	Position / organisation	Place	Date conducted
A	1 manager, Agricultural Investment Support Directorate	Addis Ababa	28 Dec 2009
B	1 manager, Development Bank of Ethiopia	Addis Ababa	17 Feb 2010
C	1 manager, Oromiya Regional Investment Commission	Addis Ababa	3 Feb 2010
D	1 manager, SNNPR Investment Agency	Awassa	1 Mar 2010
E	1 manager, Amhara Investment Promotion Agency	Bahir Dar	16 Mar 2010
F	1 manager, Tigray Investment Agency	Mekele	1 Apr 2010
G	1 manager, Ethiopian Investment Agency	Addis Ababa	18 Feb 2010
H	Ethiopian domestic investor, <i>Case C</i>	East Shewa	19 Dec 2009
I	Current project head, <i>Case A</i>	Addis Ababa	7 Sep 2010
J	Former project manager, <i>Case A</i>	Addis Ababa	8 Sep 2010
K	3 managers, SNNPR Department of Natural Resources and Environmental Protection	Awassa	23 Feb 2010
L	Tigray Environmental Protection, Land Administration and Use Administration	Mekele	29 Mar 2010
M	3 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	1 manager, East Hararghe Investment Commission	Harar	21 Sep 2010
P	Current project manager, <i>Case A</i>	Hararghe	8–9 Sep 2010
Q	Former representative, Food Security Office, East Hararghe	Harar	21 Sep 2010
R	10 outgrowers, <i>Case A</i>	Hararghe	19–20 Sep 2010
S	2 project supervisors, <i>Case A</i>	Hararghe	19 Sep 2010
T	1 manager, Ethiopian Sugar Development Agency	Addis Ababa	29 Apr 2010
U	3 project managers, Wonji-Shoa Sugar Factory, <i>Case B</i>	Wenji	9&12 Mar 2010
V	Adama wereda land administration	Adama	8&12 Mar 2010
W	Adama wereda investment desk	Adama	8&12 Mar 2010
X	Management of sugar cooperative, <i>Case B</i>	Adama wereda	13 Mar 2010
Y	Government development agents, <i>Case B</i>	Adama wereda	13 Mar 2010
Z	Members of sugar cooperative, <i>Case B</i>	Dodota wereda	17 Dec 2009
AA	Members of sugar cooperative, <i>Case B</i>	Adama wereda	10 Mar 2010
AB	Members of sugar cooperative, <i>Case B</i>	Adama wereda	13 Mar 2010
AC	Adama wereda cooperatives office	Adama	12 Mar 2010
AD	Kebele chairman, <i>Case B</i>	Adama wereda	11 Mar 2010
AE	2 founding members of irrigation cooperative, <i>Case C</i>	Dodota wereda	18 Dec 2009
AF	6members of the NGO-established irrigation scheme, <i>Case C</i>	Dodota wereda	17–20 Dec 2009
AG	Dodota wereda land administration	Dera	17 Dec 2009
AH	Kebele chairman	Dodota wereda	18 Dec 2009
AI	2 female day labourers, <i>Case C</i>	Dodota wereda	20 Dec 2009

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LDPI Working Paper Series

A convergence of factors has been driving a revaluation of land by powerful economic and political actors. This is occurring across the world, but especially in the global South. As a result, we see unfolding worldwide a dramatic rise in the extent of cross-border, transnational corporation-driven and, in some cases, foreign government-driven, large-scale land deals. The phrase 'global land grab' has become a catch-all phrase to describe this explosion of (trans)national commercial land transactions revolving around the production and sale of food and biofuels, conservation and mining activities.

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The role of foreign investment in Ethiopia's smallholder-focused agricultural development strategy

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 that 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 micro-level risks to those living near new investments, in particular, politically marginalised pastoral populations in remote regions.

