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# **Employment Creation in Agriculture and Agro-industries in the Context of Political Economy and Settlements Analysis**

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## Abbreviations

ADLI	Agriculture-Led Industrialization Development Strategy
AfDB	African Development bank
AMLF	Africa Media Leaders Forum
CAADP	Comprehensive Africa Agriculture Development Program
CSA	Central Statistical Agency
EEA	Ethiopian Economics Association
EIA	Ethiopian Investment Authority
EIAR	Ethiopian Institute of Agricultural Research
EPLUA	Environmental Protection and Land Use Administration
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
EPLF	Eritrean People's Liberation
ESDP	Education Sector Development Program
ESRDF	Ethiopian Rehabilitation and Development Fund
EWDF	Ethiopian Women Development Fund
FAO	Food and Agriculture Organization
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
HSDP	Health Sector Development Program
IHDP	Integrated Housing Development Program
MoA	Ministry of Agriculture
MoFED	Ministry of Finance and Economic Development
MoLSA	Ministry of Labour and Social Affairs
Mol	Ministry of Industry
NDRP	National Democratic Revolution Program
NIDS	National Industrial Development Strategy
NPW	National Policy for Women
NPC	National Planning Commission
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PMAC	Provisional Military Administration Council,
PSNP	Productive Safety Net Program
ReSAKSS	Regional Strategic Analysis and Knowledge Support System
SDPRP	Sustainable Development and Poverty Reduction Program
SDG	Sustainable Development Goals
SME	Small and Micro Enterprises
TGE	Transitional Government of Ethiopia
TIDI	Textile Industry Development Institute
TVET	Technical, Vocational and Training
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
WFP	World Food Program
WDIP	Women's Development Initiatives Project

## **Executive Summary**

Economic growth can only be designated as inclusive if it creates productive employment opportunities that enable target groups to lead levels of livelihood above the poverty threshold. Cognisant of this, successive Ethiopian governments have over the years identified employment creation as one of the developmental objectives. Following the 1991 regime change, the overall Ethiopian economy revived and sustained high annual growth rates. In particular, the agriculture sector registered commendable growth that led to the improvement in the per capita income.

This study has used a political economy/settlements approach to analyse the dynamics in productive employment creation across specific value chains within the commercial agriculture and agro industries sectors. The major findings indicate that the implementation of policies and interventions aimed at promoting these sectors are not sufficiently integrated to result in backward and forward linkages that lead to expanded employment creation opportunities. While immense opportunities abound for expanding the labour-intensive agro-based-manufacturing, particularly food processing and textile production, the country's economy is still dependent on rain-fed agriculture as the major source of employment. Consequently, the low quality of employment generated so far and the corresponding level of wages render the country's current economic growth implausible. Further, the current gender-related policies are yet to secure women their rightful position in terms of accessing productive employment.

In order to meet these challenges, the recent scheme for an activist developmental state pursued by Ethiopian government needs to design appropriate incentive packages for employees and investors in order to expand the manufacturing sector, which is the major generator of quality employment. Additionally, mechanisms for integrating agro-processing and commercial agriculture should be developed to ensure backward and forward linkages between the two as a way of increasing employment opportunities. To improve productivity the rights of workers should be promoted and employment opportunities for women expanded.

**Key words:** Political Economy; Agriculture; Employment-creation; Ethiopia

## **1. Introduction**

Economic growth across most of Africa has picked up over the last two decades partly due to the global surge in primary commodity prices. Studies (Booth et al., 2015; UNCTAD, 2013) indicate that a major feature of growth in contemporary Africa is marked by little structural transformation. While high growth rates are recorded in the service and construction sectors, the agricultural and industrial sectors did not register the expected level of productivity and, as such, did not generate considerable employment opportunities. As a consequence, 'jobless growth' became a notable phenomenon that led to increased inequality and exclusion, which is the underlying problem that remains unaddressed. The obvious threat is that joblessness poses long-term risks to social and political stability. One of the countries that registered highest economic growth rates in Africa during the last decade is Ethiopia. While there have been doubts to this claim, several credible sources attest to the fact.

As in most of Africa, the quality of recent growth in Ethiopia is underpinned by structural inadequacies at three levels. First, the productivity of Ethiopian agriculture remains strikingly low despite the considerable political support that the sector received in terms of high budgetary allocation particularly following the introduction of the Agriculture-Led Industrialization Development Strategy (ADLI). Second, whatever structural transformation that occurred to date appears to have made a significant shift from agriculture to services despite the need to embark on industrialisation as stipulated in the Growth and Transformation Plan I (MOFED, 2010). Third, economic growth recorded so far did not lead to increase in productive employment commensurate with growing demand shaped by demographic changes and new developments in the economy at large. Hence UNDP's Human Development Report's (UNDP, 2015) doubting of the inclusive nature of Ethiopia's economic growth. Agriculture, which is the mainstay of the Ethiopian economy, is viewed as central in addressing this conundrum given that it avails opportunities for employment and income generation to a larger section of society more than any other sector. Moreover, Agriculture is also recognised as being responsible for the production of the bulk of exportable commodities and is therefore the major contributor to foreign exchange earnings. Thus, the agricultural sector will remain the key driver of the country's political and socio-economic policy formulation in the foreseeable future.

With prospects for further expansion in the agricultural sector, there are indications that employment is on the rise, almost doubling in size between 2006 and 2013 (Admasie, 2015). However, for this to ensure qualitative improvements in the livelihoods of the growing working population it has to be scaled-up and sustained over the medium and long-term. Agricultural development also directly relates to the problems that underpin current growth trajectories in Ethiopia. Firstly, a more rapid increase in agricultural productivity could lead to virtuous synergistic outcomes that include lending support to those who are already employed and serve as a means for increased availability of food items thereby driving down the cost of living and labour. It is envisaged that this move entails decrease in food prices, alleviates the pressure on employers by addressing the demand for wage rise in the manufacturing sector, and avails larger quantities of inputs for agro-industries at lower prices. Secondly, increase in agricultural productivity enables agro-industrial growth with strong backward linkages that in turn stimulate increased demand for agricultural and other primary products. In this regard, development of agriculture and agro-industries has the potential to unlock a process of transformation by creating favourable conditions for inclusive and sustainable social and economic development.

This study examines the dynamics in the agricultural and agro-processing sectors in Ethiopia with a view to unravelling their potentials and roles in generating and sustaining inclusive productive employment. The findings are also analysed in the context of political economy and political settlements.

## **1.1 Study Objectives**

The study objectives were to generate new data and evidence on the opportunities and constraints in employment creation in commercial agriculture and agro-processing schemes in Ethiopia and to explore the gender dimensions in employment creation. Accordingly, state policies and issues surrounding contestations on distribution of rents aimed at creating wage employment in commercial agriculture and agro-processing were the focus of inquiry. It was also important to provide better understanding of the problems surrounding jobless and non-inclusive growth in Ethiopia– the basic assumption being that growth process can be inclusive only if it is characterised by equity in the distribution of income, rise in the level of wages, and entrenchment of favourable conditions that allow the working population to have a voice regarding the orientation of the growth process (Ranieri and Ramos, 2013; Khan, 2012). Conversely, non-inclusive growth poses threats and risks to the viability of the growth process and the stability of the socio-political order.

## **1.2 Research Questions**

Based on the study objectives, the major research questions addressed are:

- Which factors explain the weak structural transformation observed in the Ethiopian economy despite the double-digit growth registered during the last decade?
- How effective was agriculture and agro-processing growth in contributing to the generation of employment and embracing the gender dimension?
- What policy reforms are necessary for ensuring the creation of productive employment opportunities especially in the commercial agriculture and agro-processing sectors?
- How does the political-settlements approach in Ethiopia influence policy formulation and developmental outcomes?

## **1.3 Methodology**

The case studies covered two commercial farms engaged in wheat and cotton production, namely Herero Seed Enterprise and Badhamo Cotton Farm, and two agro-processing enterprises, Kality Food Processing Complex and the Ayka Addis Textile Group located in the outskirts of Addis Ababa and Oromiya respectively. The selection was based on regional diversity as well as their linkages along the value chains. Both quantitative and qualitative data was gathered from different complementary sources including literature review, focus group discussions and interviews with selected informants. In all cases, attempts were made to ensure that the gender dimension in employment as an aspect of inclusive growth was captured.

In addition to individuals engaged in the farms and enterprises, local administrators and experts of government agencies like the Ministry of Industry, the Ethiopian Institute of Agricultural Research (EIAR), the Oromiya Chamber of Commerce and Sectoral Association, and the Ethiopian Textile Development Institute were interviewed in order to get a better understanding of the policy drivers and oversight functions by the government. The Cotton Producers' and Ginners' Association, whose functions are to lobby government, provide training to its members and undertake verification of product quality, was also involved.

## **2. Political and Policy Context**

### **2.1 Political Context**

Ethiopia is an ancient polity located in the Horn of Africa with a land size of over one million square kilometres. Ethiopia borders Eritrea to the north, Djibouti and Somalia to the east, Kenya to the south, Sudan to the northwest and South Sudan to the southwest. It is one of the largest countries in Africa with a total population of over 90 million and a long history of independent statehood. Ethiopia's significant contributions to the decolonisation of several African countries was given due recognition in the post-colonial era when it was selected as the seat of the Organization of African Unity (later renamed the African Union) and the United Nations Economic Commission for Africa.

Despite its prominence, the Ethiopian society has endured several challenges expressed in governance deficits, socio-economic hardships, environmental degradation, mounting population pressure, and erosion of established coping and adaptive livelihood strategies. Lack of the requisite political will and state capacity in addressing legitimate aspirations of society through an orderly and smooth interplay of competing interests led to differences among and between groups that espoused divergent views and demands. This triggered perceived and actual trends of exclusion that eventually culminated in the 1974 revolutionary overthrow of the age-old monarchy.

The military administration that replaced the monarchy undertook radical political and socio-economic reforms by adopting socialism as its ideological orientation. Though limited in terms of durability and scope, the reforms introduced by the military regime served as a means of calming societal discontent and ushered in the basis for efforts aimed at transforming the workings of the political economy and state-society relations. The reforms included the termination of imperial rule, abolishment of landlord-tenant relations, entrenchment of secularisation of the state by dissociating the structures and mode of operation of government from religion and ethnicity and creating new units of local and grassroots self-government.

The Land Reform Act (PMAC, 1975) rendered all land public property under the custody of the state, which also led to nationalisation of private commercial farms that were turned into either state farms or agricultural producers' cooperatives. In the aftermath of the land reforms, the peasantry's level of consumption increased to such a high degree that the supply of foodstuffs to the urban centres at affordable prices was threatened (Clapham, 1990:115, 130; Pausewang 1983:158-159). Nevertheless, the new agrarian relations shared similar characteristics with the previous state of affairs in terms of entrenching barriers to production<sup>1</sup> signified by surplus extraction through the introduction of new taxes and monetary and labour requisitioning by the state. Although appropriation of rural communities' resources was terminated following the Land Reform Act, a repeat of the same was made by the military regime to secure its survival and to stem the tide of insurgent activities. This impeded the peasantry from enjoying the positive ramifications resulting from the land reforms. Another factor that hampered smallholder gains from the reforms could be attributed to the frequent fragmentation of plots rendering the holdings economically non-viability, and resulting in widespread poverty, decline in food availability and other forms of vulnerability<sup>2</sup>. It is also worthy to note that population settlement in Ethiopia is concentrated in and around the central highlands subject to progressive decrease in the size of household plots, rainfall variability and erratic climatic conditions that aggravate recurrence of drought episodes<sup>3</sup>. The pressure exerted on smallholders thus resulted in a steady outflow of labour from the rural areas to the state farms with privileged access (Kassahun and Poulton, 2014:205) to credit facilities, extension services and improved agricultural inputs.

The ideologically-driven policies and practices of the military regime also affected the operation of other sectors including large manufacturing enterprises, financial institutions, and other nationalised establishments dubbed as the commanding heights of the economy<sup>4</sup>. However, performance and viability of state-owned enterprises in both agriculture and manufacturing continued to deteriorate as a result of mismanagement and neglect, and policy shortfalls (Eshetu, 2004: 239-243). Although attempts to attract new investments by offering incentives and guarantees against further nationalisation were promised (Keller, 1991:247; Mulatu, 1990:210), the general economic climate, shaped by the prevalent policy regime,

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<sup>1</sup>Dessalegn Rahmato (cited in Addis 1984:42) pointed out that the land reform had removed the institutional obstacles to rural production. Addis himself also stated that a benign effect of this is that the land reform thus 'created a potentially considerable domestic market'.

<sup>2</sup>The average farm size in highland Ethiopia is now estimated to be less than one hectare thus rendering agricultural production extremely inefficient and uneconomical.

<sup>3</sup>Several studies have documented that the performance of the Ethiopian economy in general and that of the agricultural sector in particular were always dependent on rainfall and climatic conditions.

<sup>4</sup>These included private banks and insurance companies, among others.

undermined the enthusiasm of foreign and domestic investors and their engagement in economic activities.

As the authoritarian disposition of the military regime began to unfold, a series of contradictions and antagonisms that underpinned state-society relations gradually developed into a general civil war from the late 1970s to the early 1990s, which in turn resulted in the destruction of the multinational opposition, massive loss of life and property, and destabilisation of the basic fabrics of societal life, ultimately contributing to the emergence of formidable ethno-national insurgent movements. In May 1991, the military regime was forcibly overthrown through the combined and consolidated efforts of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) and the Eritrean People's Liberation (EPLF).

Under EPRDF, the right of ethnic groups to self-determination as the cornerstone of its programmatic drives (Young, 1997) was established, on the basis of which a Charter that served as an interim constitution (TGE, 1991) was enacted. The Charter heralded several reform measures that included the recasting of state-society relations and political economy along liberal lines through the broadening of the public space. Federalism, as a form of government, was adopted and ethnicity made the epicentre of administrative and political arrangements anchored in decentralised governance at national and sub-national levels (TGE, 1992; FDRE, 1995). Additionally, legal opportunities were provided for popular participation in socio-economic and political processes by ensuring that the rights of citizens to engage and be represented in decision-making processes are granted. The inauguration of multiparty politics as an important milestone in the country's political history shaped the prevailing state of affairs pertaining to political life in post-1991 Ethiopia. As a consequence, several political parties were formed as either nation-wide or ethnic-based regional organisations. Thereafter, competitive multiparty elections formed the basis for assuming leadership positions in elected bodies at federal and state levels. However, EPRDF persistently dominates the often controversial elections and forms the federal government. Critiques contend that the ruling Front has unsparingly used its advantage of incumbency to perpetuate itself in power.

On the economic front, most of the initial reforms were directed towards boosting the performance of the agricultural sector. The EPRDF-led regime reinforced this process by adopting policies anchored in free market principles with the potential of extricating smallholder producers from the bondages of ideologically-driven economic policy directions. The agricultural extension scheme and the creation of unconstrained marketing outlets led to a virtuous cycle of productivity and increased rural demand for inputs (Lefort, 2012). Although the placing of smallholder production at the centre of Ethiopia's post-1991 development strategy enhanced the position of the peasantry within the policy arena, their autonomy and performance was curtailed due to EPRDF's quest to control them through patronage and clientelism (Kassahun and Poulton, 2014). Under EPRDF, peasant associations were reduced to the status of appendages of the ruling party structures. A plethora of agencies such as local and grassroots administrations, party committees, and 'development teams' were created to deal with land allocation, provision of public amenities and extension services (Kassahun and Poulton, 2014). The resultant positive outcomes ensured support for the regime by the peasantry, which forms the bulk of the electorate.

New power reconfigurations in the socio-economic and political spheres of life evolved in the aftermath of the 1991 regime change. A constellation of ethno-national regional parties including other political groups based in the less-developed peripheries dubbed as 'emerging' regions<sup>5</sup> and those that control the four major regions<sup>6</sup> were affiliated to EPRDF. This led to new power relations that shaped the prevailing political economy and settlements under the guise of rectifying the age-old skewed relations between actors located in the highland agricultural core and the pastoralist periphery in the lowlands (Markakis, 2011). However, applying the principle of democratic centralism, where devolution of power and functions are

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<sup>5</sup>This refers to the ruling ethno-regional parties in Afar, Benishangul-Gumuz, Gambella, Harari, and Somali that are allied to EPRDF.

<sup>6</sup>These include the Amhara, Oromia, Southern Nationalities and Peoples', and Tigray Regional States.

short-circuited by top-down approaches, EPRDF's omnipotence in policy making at every level of administration continued to be entrenchment (Abbink, 2011).

## **2.2 National Development Strategies and Policies**

Understanding that manufacturing supports and facilitates backward linkages by absorbing agricultural outputs for further value addition, supplying modern inputs for transforming agriculture, absorbing surplus rural labour, and meeting the requirements of the rural population for consumables and durable goods, the Ethiopian government has over the years introduced several development strategies and policies to encourage a two-way interplay between agriculture and industry as follows:

### **2.2.1 The Agricultural Development Led Industrialization Strategy (ADLI)**

In the mid-1990s, the government formulated a broad-based development strategy known as the Agricultural Development Led Industrialization Strategy (ADLI) as the major instrument for ensuring that the overall development of the country focused on the poor in general and the rural poor in particular. Based on ADLI, Ethiopia's rural development policies and strategies were formulated to bring about rapid and sustained economic growth that benefits the majority of the people. This was envisaged to be realised through transformation of the agricultural sector from subsistence to commercial with emphasis on diversification and production of high value crops and livestock. To this end, a number of programmes on rural development and food security were initiated centring on development of physical and social infrastructure in education, human and animal health, road network, telecommunication and financial services.

### **2.2.2 The National Industrial Development Strategy**

The National Industrial Development Strategy (NIDS) was formulated in 2002/03 (FDRE, 2003) with the aim of bringing about structural change in the economy through industrial development, enhancement of the productivity of existing light industries (agro-food processing), diversification of activities by launching new industries (heavy metal, chemicals), and building of high-tech industries (packing, biotechnology, electronics, information, and communications). NIDS prioritises agro-processing and micro and small enterprises engaged in food processing, textile, meat, hides and skins.

### **2.2.3 Employment Policies and Strategies**

Towards the goal of employment generation, the Ethiopian government introduced a national employment policy and designed and implemented different labour market-related strategies and programmes. Ethiopia's employment policy is governed by the country's Labour Law and different international conventions ratified by the government (MoLSA, 2009). It rests on three pillars namely social welfare, economic growth, and political stability. In order to achieve the policy objectives, Government developed several programmes to promote urban employment. These included the Micro and Small Enterprises (SMEs) Development Strategy, and (the Integrated Housing Development Programme (IHDP).

### **2.2.4 Sustainable Development and Poverty Reduction Programme (SDPRP)**

The government launched the first comprehensive programme on poverty reduction, the Sustainable Development and Poverty Reduction Strategy Paper (SDPRP), in 2001. SDPRP considered nurturing smallholder peasant agriculture as a means to eliminating food-aid dependency, reducing poverty, boosting faster economic growth through improved research and extension packages, expanding irrigation (mostly through the food security programme), expediting farmer training services, using agricultural technologies, and pursuing decentralisation and community empowerment activities (MoFED, 2002)<sup>7</sup>. Although the

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<sup>7</sup>Despite the claim that SDPRP was designed on the basis of outcomes of consultation with the target groups on their socio-economic problems and priorities, the contribution of the poor amounted to no more than endorsing the policy once it has been developed (Amdissa, 2006).

performance of SDPRP in achieving the stated goals was mixed during the SDPRP programme cycle (2000-2005), the economy grew at an average annual rate of 6.4 percent with about 3.65 percent increment in per capita income.

### **2.2.5 Plan for Accelerated and Sustained Development to End Poverty (PASDEP)**

This was the second generation of Ethiopia's poverty reduction programme, which was implemented between 2005/6 and 2009/10. It is to be noted that the earlier interventions primarily focused on the rural sector and gave little attention to the demand side or urban development, which created serious challenges<sup>8</sup>. The preparation of PASDEP was, therefore, a response to these challenges and aimed at enhancing people-centred development by expanding education and health services, embarking on food security, capacity building, and decentralisation (MoFED, 2006). PASDEP focussed on accelerating transformation from subsistence to commercialisation of smallholder agriculture and promotion of small and micro enterprises that are primarily agro-based. Specific objectives included increasing the share of marketable production, and effecting continued support to pro-poor basic agriculture within the framework of the national food security programme. The plan endeavoured to redress the imbalance in private investment activities in urban areas by investing in infrastructural development. It promoted specialisation in and diversification of agricultural production in the different agro-ecological zones, and commercialisation of agriculture through boosting the efficacy of agricultural marketing systems<sup>9</sup>. According to MoFED (2010), PASDEP achieved an average annual GDP growth of 11 percent between 2005/06 and 2009/10. While more than 8 percent annual growth rate in per capita income is said to have been recorded, the period in question was characterised by high levels of inflation and irregularity of rainfall in some parts of the country (MoFED, 2010).

### **2.2.6 The Growth and Transformation Plan I**

The country's vision, the achievements of PASDEP and the lessons drawn from its implementation were the basis for formulation of the third five-year poverty reduction programme (2010/11–2014/15) known as Growth and Transformation Plan I (GTP I). The launch of GTP I marked a turning point in Ethiopia's growth and transformation drive. GTP I promised rapid agricultural growth and planned to shift agriculture to a high-growth path in order to meet food security needs, curb inflationary pressures on agricultural products, and broaden the export base of the economy. It also pledged to promote the commercialisation of smallholder farming by making it the major source of agricultural growth and emphasised the need to support private investments in large-scale commercial farms. GTP I differed from previous development programmes in that it gave emphasis to industrialisation (MoFED, 2010) while still maintaining agriculture as a major source of economic growth. With seemingly ambitious targets, the realisation of stated objectives were aimed at reducing wellbeing disparities among Ethiopians that had been caused by geographic, climate and cultural factors. The GTP I stipulated that SMEs will create three million jobs by the end of the plan period (MoFED, 2010). It is also envisaged that jobs created through IHDP to reduce urban unemployment will grow from 176 thousand in 2009/10 to 182 thousand in 2014/15 (MoFED, 2010).

The assessment of the actual performance of GTP I showed that in most cases, the targets set were nearly met. The average annual of GDP growth rate during the first four years of the GTP I cycle was 10 percent, which was only 1.2 percentage points lower than envisaged. The average annual growth rate of the value-added in the agricultural sector for

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<sup>8</sup> As a result of less attention given to urban development, the incumbent government lost most seats in many urban areas during the 2005 elections.

<sup>9</sup> Ethiopia has about 140 agro-ecological zones and there is a very complex ecological diversity within administrative regions, zones or districts. This diversity in climatic conditions would have an immense bearing in terms of formulating and implementing specific strategies to farm systems and land management (Dessalegn, 2008).

the period 2010/11-2013/14 was only 6.6 percent compared to the 8.6 percent target set for the period. Value-added in the industrial sector grew at an annual average rate of 20.5 percent against the GTP target of 19.1 percent whereas value-added in the service sector grew by 11.9 percent, which is higher than the GTP target by 1.4 percentage points.

### 2.2.7 The Growth and Transformation Plan II

Drawing on GTP I's lessons, a new Growth and Transformation Plan (GTP II) covering the period between 2015/16 and 2019/20 was launched in June 2015 (NPC, 2015). GTP II is built on sectoral policies, strategies, and programmes, and the post-2015 Sustainable Development Goals (SDGs). It has also taken into account global and regional economic conditions with direct and/or indirect bearing on the economy. The overarching objective of GTP II is to realise Ethiopia's vision of becoming a lower middle income country by 2025. Thus, GTP II aims to achieve an annual average real GDP growth rate of 11 percent within stable macroeconomic environment while at the same time pursuing aggressive measures towards rapid industrialisation and structural transformation.

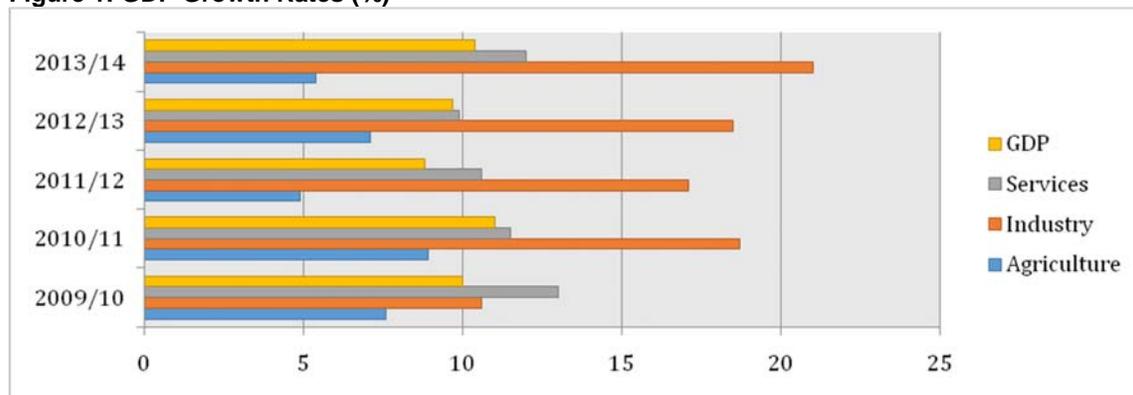
In summary, the various development strategies initiated over the years emphasised employment creation as the major means of accelerating growth and development in Ethiopia.

## 3. Macroeconomic Developments and Employment Creation in Commercial Farms and Agro-Processing Industries

### 3.1 Macroeconomic Developments

After 2005, Ethiopia's economy was one of the fastest growing in the world<sup>10</sup> at an annual average growth rate of 10.9 percent to stand at 10.4 percent in 2013 and a gross domestic product (GDP) of US \$ 46.87 billion the same year (UNIDO, 2014). Buoyed by a growing economy, per capita income has doubled from US \$ 270 in 2006/7 to US \$ 550 in 2012/13. The percentage of people living below the national poverty line has also dropped from 38.9 percent in 2004 to 29.6 percent in 2011 (WB, 2014). Economic growth is largely driven by government-led development policies in agriculture, industry, and mining and tourism. This notwithstanding, Ethiopia remains a predominantly rural country with only around 18 percent of the population living in urban areas (AMLF, 2015).

Figure 1: GDP Growth Rates (%)



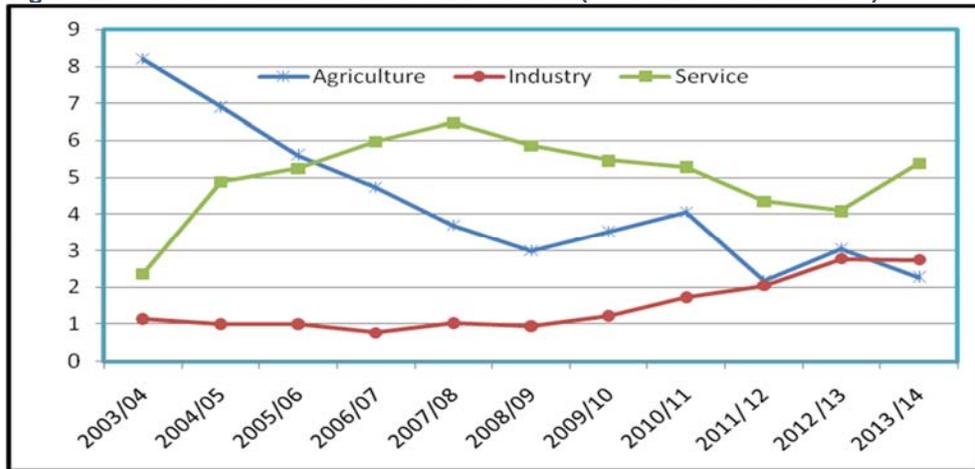
Source: Own computation using MoFED data

<sup>10</sup>Compared to other African countries, Ethiopia has registered the fastest growing economy for the past ten years, averaging a growth rate of 10.9 percent (AfDB, 2014).

The agricultural sector was the dominant economic activity of the Ethiopian economy until around 2010 when it was overtaken by the service sector (see Figure 2). The share of value added in agriculture, which was about 45.3 percent in 2010/11 declined to 42.7 percent in 2012/13 and 39.9 percent in 2013/14. The service sector, however, did not manage to generate employment on a level commensurate with its expansion in terms of value added hence the perpetuation of the ‘jobless growth’ cliché.

The contribution of the industrial sector to the overall growth process was always marginal until the big push by Government during the GTP I period, which significantly boosted the sector’s contribution to the GDP. Nevertheless, acceleration of industrial growth was not propelled by growth in manufacturing but, rather, primarily by expansion in the construction sector.

**Figure 2: Sectoral Contributions to GDP Growth (% of GDP Growth Rates)**



Source: Computed from MoFED data

### 3.2 The Relative Importance of Agriculture to the Economy

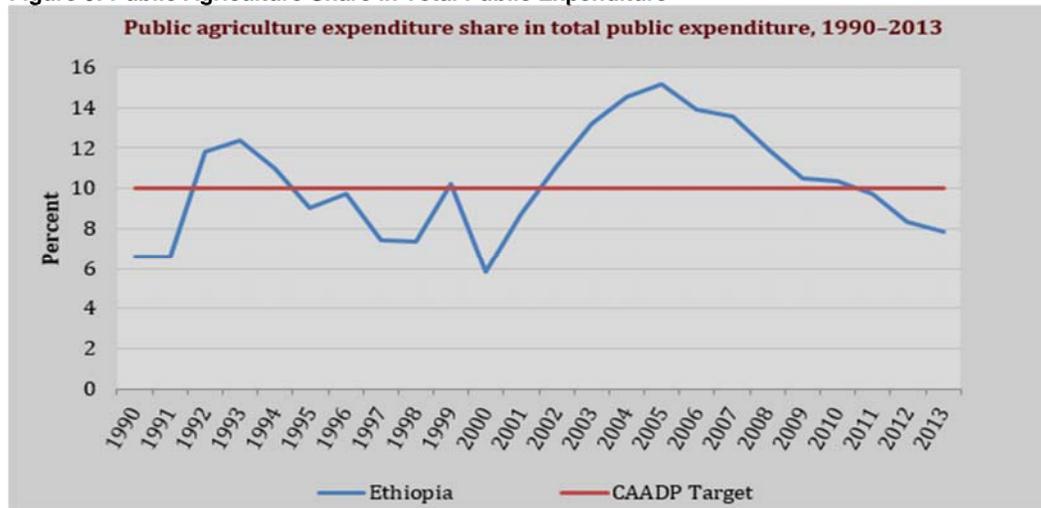
Agriculture accounts for about two-fifths of Ethiopia’s national income and is the determining factor of the economy in terms of providing employment. The sector directly contributes about 85 percent to the total employment and more than 40 percent to the country’s gross domestic product (GDP). It generates about 90 percent of the export earnings and supply around 75 percent of the raw material requirement of agro-based domestic industries (MoFED, 2010). It also promises to be the main sector to provide the necessary surplus capital for the overall socio-economic development of the country.

Of Ethiopia’s estimated 112 million hectares of land, 65 percent is suitable for some form of agricultural activity. Of this total, less than 15 percent is cultivated by about 13.5 million farmers, mostly engaged in the production of major food crops (FAO/WFP, 2012). Cereal production is the main activity in terms of its share in agricultural land use, rural employment, calorie intake, and contribution to national income. The livestock population of Ethiopia is the largest in Africa and ranks 9<sup>th</sup> in the world and is an important source of foreign exchange generating approximately 32 percent of the agricultural GDP. Ethiopia also has abundant water resources that can be used for irrigation although very little of this potential has so far been developed.

The sector is dominated by smallholder farmers each cultivating two hectares of land or less and accounting for approximately 95 percent of agricultural GDP, most of which is destined for home consumption and seed. While coffee remains the single most important export commodity, over the last decade, Ethiopia has managed to diversify its export portfolio with the emergence and expansion of non-traditional exports, particularly oilseeds, pulses, livestock products (skins and hides, leather, live animals and meat), fruits, vegetables, textiles, natural gum, spices, and mineral products and cut flowers, although export volumes in these new products remain relatively low.

Due to the significant position of agriculture in the Ethiopian economy, the sector's spending has increased substantially since the 1990s. The country's annual agricultural budgetary allocation had already surpassed targets when the CAADP<sup>11</sup> compact was signed in 2009<sup>12</sup>. Capital budget allocated to agriculture increased by nearly two and a-half times from 4.4 billion birr in 2006/07 to over 10 billion birr in 2011/12 (MOFED, 2010). Since 2005, agricultural spending started to decline and reached a low threshold of 7.8 percent in 2013 (see Figure 3). It is to be noted that the high priority accorded to agriculture and rural development due to the ADLI Strategy during the earlier periods was relaxed and urban development accorded more recognition starting from around 2005 when the Plan for Accelerated and Sustainable Development (PASDEP) was launched. In addition, the rising public expenditure during the previous decade was partly due to increased capital investment in the construction of basic agricultural infrastructure that later became unnecessary due to the improved conditions.

**Figure 3: Public Agriculture Share in Total Public Expenditure**



Source: Regional Strategic Analysis and Knowledge Support System (ReSAKSS), 2015

Although the agricultural sector has performed well over the last decade, challenges still remain. Ethiopia is still a net importer of agricultural commodities, including dairy products, vegetables, cereals, flour and malt, animal and vegetable fat and oil, and sugar and sugar confectionary. Due to the frequent shocks related to weather conditions, the country is forced to depend on massive food imports both in the form of food assistance and commercial imports. Imports of cereals, mainly wheat, have risen since 2008 slowing Government's efforts towards stabilising prices following the significant increase in domestic food prices.

Inflation was a major challenge in Ethiopia particularly during the global food price rise in 2007 and 2008. While the price for non-food items rose by 27 percent, food prices tripled and cereal prices more than doubled between 2007 and 2008. Food and general prices soared by 92 percent and 64 percent, respectively. The cereal price index, whose share in the CPI is estimated to be about 23 per cent, increased by about 172 per cent between March

<sup>11</sup> The Comprehensive Africa Agriculture Development Programme (CAADP) is Africa's policy framework for agricultural transformation, wealth creation, food security and nutrition, and economic growth and prosperity for all. In Maputo, Mozambique, in 2003, the African Union Summit made the first declaration on CAADP as an integral part of the New Partnership for Africa's Development (NEPAD). CAADP is a growth-oriented agricultural development agenda aimed at increasing agriculture growth rates to a minimum of six percent per annum in order to facilitate the creation of the wealth needed by Africa to prosper.

<sup>12</sup>CAADP sets the principle of allocation of 10 percent of the national budget to the agricultural sector in order to attain a 6 percent average annual growth rate for the sector at the national level as a main strategy, and reduce poverty by half and realise food insecurity by 2015.

and September 2008 (Admassie, 2013). To curb inflation, the Ethiopia government took several steps ranging from fiscal, trade and monetary policy to social protection and safety net measures. Accordingly, it banned the export of major food grains, removed value added tax and turnover taxes on food grains and flour, introduced price control on selected food commodities, released food grain reserve stocks, intensified the Productive Safety Net Programme, established a commodity exchange system, and created incentives for increased long-term private investment in agriculture for investors particularly from China and India.

Currently, agricultural productivity in major crops is still low due to depleted soil fertility and marginal use of improved agricultural inputs. Being vulnerable to weather conditions, as it is predominantly a rain-fed system, climate resilience and adaptation are factors of concern. In addition, the growth in population has led to increasing land scarcity in the major highland and medium land agricultural zones of the country. The performance of the sector is further challenged by inappropriate farming practices leading to overgrazing and massive soil degradation, deforestation and high population density, poor physical infrastructure that restricts access to markets, weak information base, low use of improved technology and weak implementation capacity. Issues of tenure security, in the context of state ownership of land, and the effect of weak property rights and tenure security on credit access and investment (Dessalegn, 2009), and the high-handed manner in which the state interacts with the peasantry to entrench socio-political control that threatens to suffocate local initiatives (Kassahun, 2012), are additional challenges. Although the country has achieved strong economic growth, the continued dependence on imported wheat tends to threaten both the growth trend as well as the country's food security. Between 500,000 and 790,000 tonnes of wheat were imported per year from 2008 until 2011 due to the inflation representing about half of the total imported wheat (FAO and WFP, 2012). Ethiopia's food imports' bills increased several-fold between 2000/01 and 2011/12 from around 2 billion birr to 35 billion birr.

### **3.2.1 The Political Evolution of Commercial Farms in Ethiopia**

In addition to its sizeable land with diversified agro-ecology suitable for agriculture, potential land for irrigation is estimated at 3.5 million hectares out of which only 0.16 million hectares is currently under use. The bulk of this land is located in the lowland areas of the country characterised by the lack of basic infrastructure, skilled and unskilled labour, and health services. Aware of this potential, successive Ethiopian governments have always focused on the rapid growth of agriculture as a means of accelerating economic transformation, reducing poverty and creating employment (Mellor and Dorosh, 2010).

Particularly during the second five-year plan, the imperial regime promoted the expansion of large scale irrigated commercial farms, most of which were established by evicting the peasantry. Commercial agricultural schemes proliferated in the 1960s around the south-eastern plateau and the western and north-western lowlands in the Awash Basin and the Rift Valley producing cotton, sugarcane, coffee, soybeans and sesame, among others<sup>13</sup>. They employed an estimated less than 250,000 people as wage workers, out-growers, contract farmers, and sharecroppers. It was also estimated that a total of 350,000 labourers were deployed in mechanised farms throughout the country on the eve of the 1974 Revolution, of which the majority were non-locals (Addis, 1975). The steady and gradual rise in unemployment figures and consequent political agitation triggered by economic downturn and famine are believed to have contributed to the downfall of the imperial regime.

During the military regime (1974-1991), investments in large-scale commercial farms were attuned to socialist agrarian relations. Majority of large-scale farms owned by individuals and cooperatives established during the imperial era and covering about 75,000 hectares were converted into state farms (EEA, 2013). The total size of state farms was about 216,000 hectares by 1987/88 accounting for 3.3 percent of the total cultivated land. This was supposed to increase to 6.4 percent (i.e. 468,000 hectares) during the ten-year plan period of 1985 to

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<sup>13</sup>At a later stage, large-scale production of cereals, pulses, fruits and vegetables took place.

1994. The primary objectives of expanding state farms were to ensure production of adequate marketable surplus for the urban population<sup>14</sup>; production of raw materials for domestic agro-processing industries (e.g. cotton for textile industry, sugar-cane for sugar industry); and production of cash crops such as coffee for export. Although their contribution to agricultural output was comparatively minor, the state farms received considerable government support that was beyond the reach of smallholder farmers. However, despite the preferential treatment accorded to state farms, they were faced with several problems such as poor management, uneconomic use of inputs, labour shortages as well as financial constraints.

After 1991, the government adopted a free-market economic policy emphasising a shift towards the establishment of large-scale commercial agricultural schemes and simultaneously lending support to smallholder production. Accordingly, many state-owned enterprises, including former state farms, were privatised and policy directions and strategies to attract new entrants and strengthen the already existing ones designed. Large tracts of land amounting to several hundreds of thousands of hectares, mainly in the lowland areas, were leased out to domestic and foreign investors seeking to engage in commercial agriculture (Dessalegn 2011). Large scale land deals were promoted mostly in the lowland areas while horticulture and labour-intensive agriculture out-grower schemes were promoted in the more densely populated highlands. Ethiopian Investment Authority (EIA) data records more than ten thousand agricultural investment projects registered for which more than 1.1 million hectares of land was allocated between 1992 -2011<sup>15</sup>. And, a recent study by the Ethiopian Economics Association (2013) showed that the majority of the approved investment applications (80.5 percent) were made by domestic investors while foreign investment projects and joint ventures constituted only 19.5 percent of the total.

### **3.3 Recent Developments in the Industrial Sector**

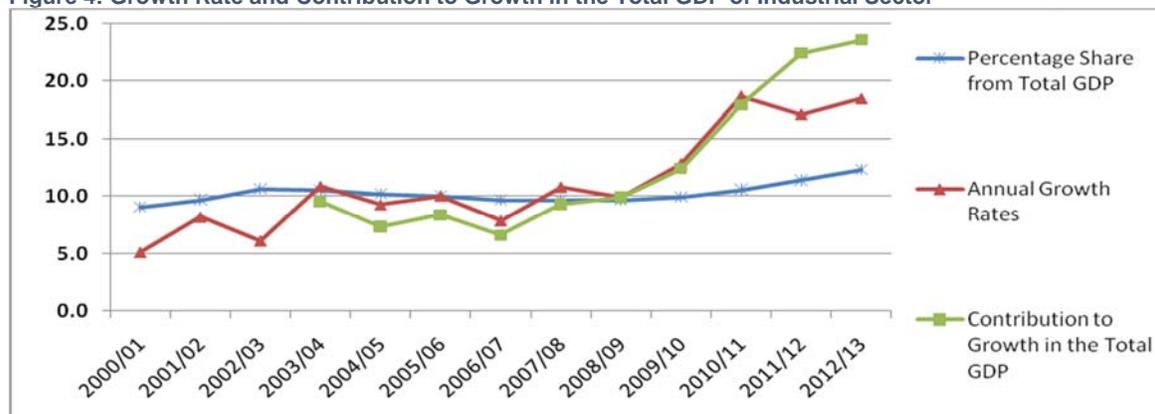
Although agriculture could serve as a good vehicle for poverty reduction and economic progress at early stages of development, economic transformation cannot be achieved only through promoting agriculture; hence some kind of engagement in industrialisation becomes necessary. The Ethiopian policy makers have generally been interested in promoting industrialisation and increasing the contribution to the GDP of the industrial sector in general and the manufacturing sub-sector in particular. Nevertheless, the contribution of the industrial sector to the GDP has always been low accounting for less than 15 percent and constituting less than 10 percent of the country's labour force.

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<sup>14</sup> There was a serious supply problem of staple food grains after the land reform of 1975 since peasants withheld most of their produce for household consumption.

<sup>15</sup> According to Daniel et al (2015) based on Central Statistical Agency (CSA) data, a total of 1.33 million hectares were transferred to 6,612 commercial farms that became operational in 2013/14, i.e., some 200 hectares per farm, compared to 9.6 million hectares cultivated by smallholder farms.

Figure 4: Growth Rate and Contribution to Growth in the Total GDP of Industrial Sector



Source: EEA Annual Report, 2015

As shown in Figure 4, the industrial sector made a major change in value-added, expanding at a rate of 20.6 percent in the first four years of the GTP I cycle, much higher than the 10.1 percent growth rate during the PASDEP period (2005/6-2009/10). The contribution of the industrial sector to overall growth also accelerated from 6.6 percent in 2006/07 to 23.6 percent in 2012/13. The high growth performance of the sector continued during the 2014/14 fiscal year as value added in the sector expanded at a rate of 20.1 percent. However, the contribution of the manufacturing sub-sector remained dismal with an overall contribution of only 5.4 percent to the GDP. The draft GTP II (NPC, 2015) lists weak leadership capacity, shortage of raw materials, inadequate power supply characterised by frequent interruptions, shortage of foreign exchange, weak forward and backward linkages, low technical capacity as well as shortage of skilled manpower as the main constraints to the manufacturing sector. In addition, the investment incentive structure has not been discriminatory between investment in the manufacturing, which is often associated with several risks and whose gestation period is usually long, and investment in other sectors with much shorter payback periods.

### 3.4 The Agro Processing Sub Sector<sup>16</sup>

The potential for agro-industrial development is largely linked to the relative availability of agricultural raw materials and low-cost labour and can lead to, through forward linkages, the establishment of a number of more advanced industries. The development of agro-industries is also expected to have several beneficial feedback effects on agriculture itself, the most direct one being the stimulus it provides for increased agricultural production through market expansion. Ethiopia's agro-industry sub-sector consists of about seven industrial groups and is dominated by small-scale operations with less than 10 employees. According to the 2012/13 CSA Survey, the agro processing subsector accounts for about 48 percent of the value-added of large and medium scale manufacturing industry. Food and beverage production is the largest single sub-sector comprising 33 percent of all the agro-processing in 2012/13 (CSA, 2013).

In spite of the existing potential, the agro-industry sub-sector and agribusiness are underdeveloped both in terms of product innovation and market competitiveness. The sector is faced with chronic challenges such as supplier-driven farming practices, inconsistent supply and poor quality of raw materials, and weak vertical linkages, which government is addressing. For example, in trying to expand local cotton production to meet the growing demand, it has

<sup>16</sup> According to the UN International Standards Industrial Classification of Economic Activities, agro-processing includes manufacture of food, beverages and tobacco; manufacture of textile, wearing apparel and leather products; manufacture of wood and wood products including furniture; manufacture of paper and paper products; printing and publishing; and manufacture of rubber products.

established the Textile Industry Development Institute (TIDI) to deal with investment promotion, training, research and marketing services.

### **3.5 Employment Creation in Commercial Agriculture and Agro Processing Industries**

Generation of quality employment remains a challenge in Ethiopia majorly because the majority of the labour force is concentrated in the least productive sector in agriculture, namely peasant farming.

#### **3.5.1 Employment Creation in Commercial Agriculture**

The Ethiopian government had strong expectations that expansion of large-scale farms would create vast employment opportunities. According to the investment proposals in commercial agriculture, about 86 percent of the farms were expected to employ both permanent and temporary workers while the remaining employed either of the two. Accordingly, the mean ratio of temporary workers to permanent employees was projected to be 15 to 1 and the mean potential employment generation as 7 persons per hectare. Therefore, a farm operating on 100 hectares of land, for instance, was expected to hire about 44 permanent workers and about 656 temporary workers<sup>17</sup>.

However, the results have been disappointing with commercial agriculture generating much less gainful employment than smallholder agriculture. In addition, the level of employment varies across the different investment categories (EEA, 2013). Projects designed for livestock production are the most labour intensive followed by horticulture and forestry. Moreover, several studies (Dessaiegn, 2011; Oakland Institute, 2011; Moges, 2010) also recorded that on-farm and off-farm employment generated for local communities by large commercial farms is characterised by low pay, often seasonal and short-term engagement, stressful work conditions with minimal safety regulations, and lack of job security<sup>18</sup>.

Further, technology transfer, capital accumulation and efficient land use of large-scale farms has been disappointing. A comparison of the employment creation potential of smallholder farms and large-scale farms shows that smallholder farms still generate the highest employment per hectare compared with the latter (EEA, 2013). In addition, the level of employment varies across different investment categories (EEA, 2013).

Other adverse factors include environmental degradation and social disorder due to forced eviction of local smallholder farmers and pastoralists from the so-called 'unutilised' lands (Dessaiegn, 2011; Moges, 2010; Getnet, 2012)<sup>19</sup>. Such land belonged to local communities for different purposes, including grazing, but was allocated to foreign private companies without compensating the affected individuals. Because the commercial farms did not create market linkages from which local communities could benefit, according to Fouad (2014), protests by the affected communities led to series of violent episodes (Tsegaye, 2015; Horne and Bader, 2012).

#### **3.5.2 Employment Creation in the Agro Processing Industries**

In spite of the various efforts towards changes within the Ethiopian economy, meaningful and clear structural change did not occur. The structure of large and medium-scale manufacturing sectors remained dominated by the production of consumer goods. The percentages of employees in large, medium, and small and cottage industries to the total nationally employed persons was 4.4, 0.38 and 4.02 respectively, in 1999 (see Figure 5) and 4.49, 0.48 and 4.01 a decade and a-half later, thus depicting the stagnating contribution of the sector.

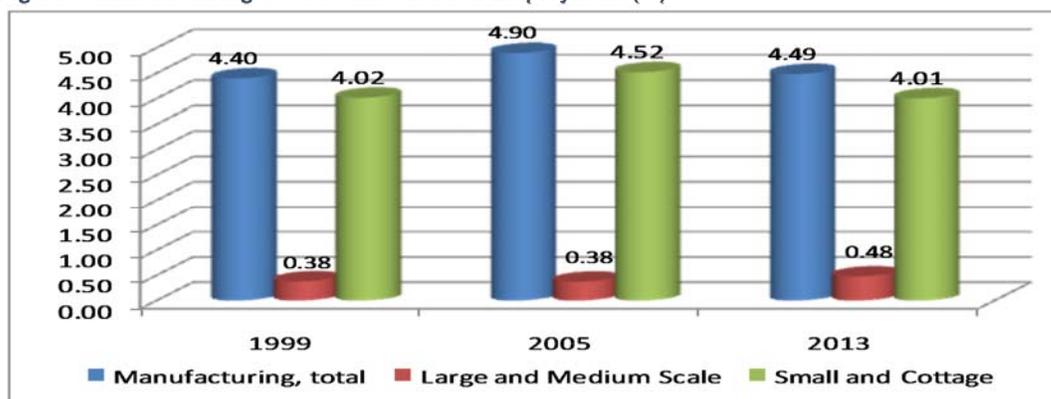
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<sup>17</sup> Temporary workers include contractual as well as casual labourers.

<sup>18</sup> According to Alamirew (2013), the bulk (>70 percent) of the wages earned by employees of the Karuturi agricultural project in Bako-Tibe District of Oromia Region is spent on food as a result of which the vicious cycle of income poverty remains unchanged. According to Abbink (2011), employment generation in large-scale agricultural schemes is marked by low earnings on the part of small number of people and hence cannot compensate for lost livelihood resulting thereof.

<sup>19</sup> Land and other resources taken away from the rural people who used to eke their livelihoods on their traditional holdings forced them to be increasingly dependent on food handouts (Oakland Institute, 2013).

Figure 5: Manufacturing Sector Share in Total Employment (%)



Source: EEA Annual Economic Report 2015

In total, manufacturing employed some 1,900,000 people in 2013<sup>20</sup> (CSA, 2014). Although this figure indicates an upward trajectory regarding the contribution of the manufacturing industries to the total national employment, the situation has remained quite low over time. According to CSA data, on average, about 28.5 percent of all large and medium-scale manufacturing firms operated in the food and beverage sector in 2012/13 and employed more than 52,441 people, which is more than 40 percent of the total employed in the large and medium scale manufacturing industries (see Table 1). Nonetheless, the share of employment in the food and beverages sub-sector has been oscillating. For example, it employed 60,110 people in 2009/10 and dropped to 52,441 in 2012/13, meaning it lost about 7,700 jobs in a time span of three years.

Table 1: Number of Employees by the Major Large and Medium Scale Agro industrial Groups

Industrial Group	2008/09	2009/10	2010/11	2011/12	2012/13
Manufacture of food and beverages	44,957	60,110	67,072	54,492	52,441
Manufacture of tobacco products	1,122	986	1,342	1,342	431
Manufacture of textiles	16,466	21,382	13,431	32,595	34,483
Manufacture of wearing apparel except fur apparel	7,793	9,342	5,802	11,669	8,016
Tanning and dressing of leather, manufacture of footwear, luggage and handbags	8,750	10,707	14,019	15,126	18,311
Manufacture of wood and of products of wood and cork except furniture	2,111	3,261	3,988	4,055	5,577
Manufacture of paper, paper products and printing	8,822	9,998	10,076	9,013	9,720
<b>Total No. of Employees</b>	<b>90,021</b>	<b>115,786</b>	<b>115,730</b>	<b>95,697</b>	<b>128,979</b>

Source: CSA, Large and Medium Scale Manufacturing Survey, 2012/13

On the other hand, the percentage of people employed in the textile and leather sub-sectors has somewhat increased in recent years thereby indicating that the growth is within the agro-processing industries. The advantage of the textile industry is that Ethiopia grows some of the world's finest cotton and has a rich spinning and weaving historical record. In 2012/13, there were around 145 large and medium-size factories in addition to the many

<sup>20</sup> This figure refers not only employment in Agro processing industries but also other manufacturing industries such as metal industries, pharmaceutical and others.

small-scale enterprises operating in this field. During the first three years of the GTP I cycle, the textile and apparel sectors earned a total of US \$ 520 million in foreign exchange and created more than 105,996 jobs. In recent years, a number of foreign garment companies like AYKA Addis have invested and/or are licensed to commence operations in the country. There are also microenterprises operating in the informal sector particularly in footwear manufacturing and traditional cloth production with significant potential to meet the standards of high-end markets.

### **3.6 Gender Gaps in Employment in Ethiopia**

In line with the dictates of human rights, job creation should target all individuals seeking employment without any discrimination based on attributes such as gender, religion or other identity markers. Equality is not just an intrinsic value and a right in itself, but is instrumental in achieving economic growth and poverty reduction. Indeed, economic growth cannot be sustained over a longer period under situations where women are unable to participate in and find productive employment opportunities in the labour market. Consequently, gender equality and mainstreaming for ensuring improvements in women's position within the labour market cannot be realised under a situation where issues of equity and social justice are not pursued in earnest. Thus, gender inequality in the labour market remains a critical development challenge to policy makers (World Bank, 2012).

In the case of Ethiopia, women's participation in the labour market has improved due to enhanced access to education, health care, family planning services together with expansion in infrastructure (roads and rural electrification). Nevertheless, a significant gender gap in employment exists and the absorption of women in the labour force in the different sectors of the economy is still weak. According to the National Labour Force Survey (CSA, 2014), women employment ratio to that of men is 1 to 2 in the civil service and about 2 to 5 in other paid employment. They are also only half as likely to be self-employed women and one in six as likely to be employers compared with men. Women are, however, over-represented among unpaid family workers and among paid domestic workers. A recent study (EEA, 2014) in the prevailing trends in the gender gap in Ethiopia showed an increasing reduction in women's participation in the labour force. Compared to 2003, the gap in urban employment 2012 rose by nearly five percentage points at the national level from 9.3 percent to 13.5 percent. This has had a negative effect on women's earned income (Arkebe, 2015). The reason for this rising trend in the gender gap both at the national and regional levels is not yet clear although critics argue that the ruling party's technocratic fixes in combination with its autocratic tendencies and hostility towards civil society has enabled it to monopolise the agenda of women's emancipation (Biseswar, 2011).

## **4. Findings from the Case Studies**

In this section, an attempt is made to unravel the political economy and political settlements underpinnings of the findings that emerged from the case studies regarding generation of productive employment. Four cases within two value chains comprising commercial agriculture in cereal production and food processing on the one hand and cotton farming and textile production on the other are covered.

### **4.1 Historical Overview of Employment Creation in the Case Study Value Chains**

Food production in Ethiopia dates back to millennia while the food processing sub-sector is one of the earliest forms of manufacturing. Food production remained a priority goal by successive governments towards food self-sufficiency. Food production by smallholder farmers and pastoralists is a major source of employment both in the past and at present. Out of the country's total active workforce of 42.4 million, 30.8 million participate in agriculture and related activities mainly producing food items (CSA, 2014). The number of wage workers in agriculture, fishing and forestry including labourers deployed in commercial farms was 690,000 in 2013. Wages in this sector are low with over 60 percent of the labourers earning less than US \$ 25 per month and over 80 percent earning less than US \$ 50 (CSA, 2014).

Although food processing is not given strategic focus as compared to textile and other firms producing for export, it nonetheless remains the largest component of the manufacturing sub-sector in terms of employment. According to official data, 192,900<sup>21</sup> people are deployed in food processing enterprises (CSA, 2014).

While export-led growth in manufacturing appears to have triggered the development of the textile industry, its strong backward linkage to cotton farming is no longer evident as was the case in the past. According to interviews with a representative of cotton producers, annual cotton production has recently declined from around 110,000 tonnes to 50,000 tonnes (Assefa Aga, pers. comm., June 27, 2015), which is far below the annual national output of 75,000 tonnes some 30 years ago (Mulatu, 1990). It is claimed that the cotton sector employs 20,000 labourers in the commercial farms and 50,000 smallholders are also partially engaged in cotton production (Mesele Mekuria, pers. comm., October 2, 2015). However, these figures do not reflect a level of expansion that is commensurate with employment figures in textile manufacturing. The genesis of modern textile industry in Ethiopia dates back to the 1950s with further development picking up in the 1960s under the rubric of the import substitution industrialisation strategy that the government vigorously pursued through providing considerable incentives and protection that led to low productivity (Eshetu, 1973). According to Eshetu (1973), 12 textile firms were established between 1957 and 1962. While one of these located in Bahir Dar Town in the north-western part of the country was state-owned and financed through proceeds from the Italian war reparation, the majority among the remaining were privately owned. Initially, Indian and Japanese investors were notable sources of capital in the course of proliferation of private textile firms. Between the mid and the late 1960s, the country's thriving manufacturing sector was made up of the textile industry along with food and beverage processing enterprises. During the same period, the textile industry accounted for between one-third and two-fifths of the manufacturing sector's output, and between 40 percent and 45 percent of its employment (Assefa and Eshetu, 1969; Eshetu, 1973). Progress in the textile industry was, however, curtailed in the following decades due to the limitations of the import substitution strategy. These were further compounded by the oil price hikes and unfavourable conditions in the international market that prevailed in the 1970s and the 1980s.

Following the 1974 revolutionary upsurge in Ethiopia, most of the manufacturing firms, including the privately-owned textile plants, were nationalised and put under state ownership. The revolution's social turmoil and the war economy, which left the state with limited resources to invest, took a toll on the sector and, even though employment in the sector remained relatively significant accounting for between 30,000 and 35,000 jobs mainly due to over-staffing measures aimed at addressing the problem of unemployment, real productivity was constrained leading to a downward slide in wages (Mulatu, 1990; Mulatu and Yohannis, 1988). By the time the military regime was ousted in 1991, the sector was dominated by bloated enterprises that operated at loss.

Following the 1991 regime change, the dismantling of the military administration in general led to the revival of textile production. The prevalence of peace since the early 2000s in particular enabled the entry into the market of new local private firms, privatisation of enterprises that were nationalised, and infusion of fresh investments in some of the textile plants that remained under state control. The lucrative incentive packages offered, comprising duty-free privileges, tax holidays, and preferential access to land, credit services, and other facilities, attracted new foreign investors who brought in capital inflows lending impetus to the enhancement of the export potential of the sector. Different textile products destined for export became the focus of government strategy. Consequently, the volume of export items originating thereof as well as employment in manufacturing grew in tandem. Between 2005/06 and 2013/14, exports grew by over 40 percent per annum generating a ten-fold growth in revenue from US \$ 11.1 million to US \$ 111 million (Mol, 2014). In addition, 97,400 people were employed within the textile industry and another 40,300 were engaged in the

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<sup>21</sup> This includes small and micro industries as well.

manufacture of wearing apparel in 2013 (CSA, 2014). Regrettably, wages for both unskilled as well as skilled labour remained low. The Ministry of Industry admitted that “*compared to other countries, personnel expense [in Ethiopia] is very low (US \$ 40-US \$ 80 for operators, US \$ 80-US \$ 200 for technicians, and US \$ 200-US \$ 400 for professionals depending on experience and performance)*”. In fact, a review of wages in the manufacturing sector in general (compiled from Statistical Abstracts of the Central Statistical Agency deflated by the consumer price index of Addis Ababa) indicates that real wages remain significantly lower when compared to the situation in the mid-1970s.

## **4.2 Profile of the Case Studies**

An analysis of the commercial farms and the agro-processing enterprises under study– their opportunities and challenges surrounding sustainability, growth, and productive employment generating ability are highlighted below.

### **4.2.1 Commercial Farms**

The **Herero Commercial Farm** that engages in wheat and improved seed production, located in Dodola Woreda of the West Arsi Zone, Oromiya National Regional State, was owned by a group of local private operators prior to its nationalisation and conversion into a state farm by the military regime in the mid-1970s. The farm was put under the control of the Federal Public Enterprises Development Authority– a parastatal tasked with administering state-owned firms engaged in agriculture, agro-processing, and industrial production. Following negotiations between the Authority and the Oromiya Regional Government, the farm was recently transferred to the Oromiya Seed Enterprise Agency. During the said transfer, the original size of the farm amounting to over 7000 hectares was reduced to 3443 hectares with the balance being distributed to the landless people inhabiting the surrounding area. The farm currently employs 128 permanent and contract workers, and 340 seasonal of whom the majority are male. The enterprise registered a profit of 47 million birr (approximately 2.35 million US \$) in 2014/15.

The **Badhamo Cotton Farm** is located in the Amibara Woreda of the Awash Valley in the Afar National Regional State. It was established by the military regime in 1978 but was later privatised following the liberalisation measures by EPRDF. At present, it is privately run on 720 hectares owned by members of the local pastoralist community who exercise the right of leasing their holdings to investors. This arrangement entitles the local people to have a say in production matters. The farm currently employs 41 permanent employees and about 400 daily labourers. Of the permanent employees, only 2 are female.

### **4.2.2 Agro Processing Firms**

The **Kality Food Processing Share Company**, which is jointly owned by local and foreign investors, operates on 68,000 square meters of land in the Akaki-Kality sub-city of the Addis Ababa City Administration and processes wheat by producing pasta, biscuits and bread. The company, established in the late 1930s during the Italian occupation, is one of the oldest among the current 24 existing agro-processing plants. Following its nationalisation in 1975 by the military regime, it was privatised in 2010 and handed over to the Romel General Trading Company. In 2014, a US investment firm, SGI, joined in as a partner by acquiring a 39 percent share. The enterprise employs 375 workers. Although its products are mainly sold to the local market the enterprise has established a track record of being highly profitable over the last several years.

Established by Turkish investors in 2007, **Ayka-Addis** is a new textile firm located in the town of Alem Gena District of the Oromiya Region west of Addis Ababa. The initial investment capital of Ayka-Addis was 100 million birr that has since increased to 1 billion (approximately 50 million US \$). Given its operational scope, the size of employment it generates, and the volume of its outputs, the firm features as the flagship of the Ethiopian textile industry. Its products account for 70 percent of the country’s garment and textile exports mainly to European markets. Its operations include spinning, knitting, dyeing, pattern

construction, and garment production. The full industrial process, from the production of raw cotton yarns and synthetic fibres to the finished ready-to-wear apparel takes place within the factory. Ayka-Addis currently employs around 7,000 workers out of which 75 percent are females. An ongoing expansion of the firm is underway on another site in the Ayer Tena District of the Addis Ababa City Administration, where it hopes to employ an additional number of 6,000 workers. Ayka-Addis is also in the process of establishing a cotton farm on 10,000 hectares in the Omo Valley of the Southern Regional State. An agreement was recently reached between the firm and the local people who hope to benefit from the venture in various ways including employment opportunities and infrastructure development.

#### **4.3 Value Chain Dynamics and Disarticulations**

One problem at the higher end of the agro-processing value chains pertains to the quality and price of inputs. At the Kaliti Food Processing Enterprise shortage of raw materials and low quality of grain are reported to partially cause machinery downtime. In the wheat-belt areas, from where the enterprise procures inputs, the government-owned Ethiopian Grain Trade Enterprise is a key player in the purchase of wheat, which is then sold at subsidised rates to flour mills and bakeries in order to offset the effect of price hikes on basic food items like bread. This move drives the price of wheat in the local market upwards on one hand and creates scarcity on the other. The persistence of this problem may lead to suspending production until the next harvest thereby diminishing the prospects for generating new employment and retaining those already engaged.

A similar problem is experienced within the cotton-textile value chain where there is mismatch between supply and demand. At the Badhamo Cotton Farm, key informants opined that the cotton sector is suffering from neglect by Government, which lends more attention to the production of cash crops such as sesame and coffee, a result of which prospects for expanded employment in the cotton farms and maintaining the standard and quality of products are constrained. The main problem is the inability of producers to secure markets for their products, which is further exacerbated by the Government's import of cheap subsidised cotton. Representatives of the Ethiopian Cotton Producers, Ginners and Exporters Association claim that imported cotton, while of superior quality and lower price, is procured by making use of preferential credit facilities giving leeway to textile industries to pay for the cotton received only after an extended period of time. According to the association's representatives, this is indicative of increased Government focus on the textile manufacturers while neglecting the plight of smallholders and commercial farmers including ginners. The neglect of domestic cotton production is further compounded by the ban on exporting raw cotton. Besides, Ethiopian cotton growers cannot compete with foreign counterparts who receive subsidies from their governments. Imported cotton that is of better quality and lower price is sold on credit to manufacturers rendering local products to remain unsold. Given that cotton production absorbs more labour than any other activity at the lower end of the value chain, the unabated persistence of neglect of local cotton production would adversely affect employment generation.

Informants at the Textile Industry Development Institute were of the view that since the status of cotton production has recently been elevated, with the establishment of cotton directorates under the Institute, it is likely that problems affecting local cotton producers would be resolved soon. Additionally, a cotton sector strategy is now in the process of being developed to address some of the problems affecting the sector.

In both value chains (wheat and cotton) there seems to be a major problem of effectively integrating the agro-processing high end of the value chain into the low end agricultural production of basic raw materials used as manufacturing inputs. While the earlier phase of Ethiopian industrialisation drive anchored in import substitution generated strong backward linkages, the more rapid recent growth in export-oriented manufacturing seems to showcase reduced backward linkages. The mismatch between demand and supply in the cotton market, and to some extent its replication in the wheat market, reflects an underlying problem that

negatively impacts on efforts aimed at generating productive employment as an aspect of inclusive growth across the value chains.

#### **4.4 Summary and Analyses of Findings**

The findings from the case studies reveal a number of overarching problems hampering efforts towards employment generation.

One of the problems affecting the lower end of the value chains pertains to the land tenure system. In the case of the Herero Farm, this was evidenced by relinquishing about half of the land to the local communities. In addition to diminishing the prospects of benefits that could have accrued from economies of scale by putting larger tracts of land under cultivation, encroachment on the farm creates operational problems. However, the Badhamo Cotton Farm did not report any problems with its neighbouring communities. This could be partly due to the fact that local community members are the ultimate owners of the land.

In places like the Afar Region where cotton production is intensive, access to and availability of land for investors is reported to be a major problem. Informants attributed this to the recent preference of the government to use land for sugarcane production at the expense of cotton cultivation. On the other hand, informants at the two agro-processing firms under study reported that no difficulties were encountered in accessing land needed for their operations in the urban areas where their plants are located. Constrained access to land adversely affects the lower end of the value chain more severely in terms of producing manufacturing inputs than issues associated with supply and price of inputs at the higher end. It would seem that the state is yet to strike a balance in terms of supporting both agricultural development and manufacturing. This would mean that as long as the political leverage of smallholders remains a foundational imperative of the prevailing political settlements the pace of economic growth and transformation may face various predicaments in regard to generating productive employment opportunities. In other words, political considerations on the part of a government that depends on smallholders as its major constituency of support in its quest for ensuring regime security and survival could prompt preservation of smallholder interests at the expense of large-scale farms that command a clear potential of employing a large number of people. This is evidenced in Government's decision to distribute part of Herero Wheat Farm to the local community.

A second general problem affecting private commercial farms is with the lack of access to credit as reported by the Badhamo Cotton Farm. Conversely, the two agro-processing firms under study are able to easily access foreign currency. For example, being a prominent exporter of textile products, Ayka-Addis enjoys preferential access to credit facilitated by the government.

A third and more serious general problem affecting the higher end of the value chain establishments is unreliable power supply causing machine downtime. This limits the production capacity of the enterprises, which in turn reduces employment opportunities.

A fourth problem that adversely affects both the higher and lower ends of the value chain relates to the disarticulations between them. This seems to be more pronounced in the cotton-textile value chain where buyers cannot find inputs and sellers lack market outlets. As a consequence, the lower end of the value chain encounters a dire situation that requires government intervention.

A more specific concern that impacts on the generation of productive employment within the two areas of productive engagement relates to the scope of productive employment opportunities generated. As already mentioned, governmental priorities could also negatively affect the potential of employment creation. Findings from the case studies have indicated that attracting and retaining skilled labour is a major problem. In the cotton producing commercial farms, for example, a problem of labour shortage was reported. Since cotton production mainly takes place in the lowlands of the peripheral regions, the subsector has historically relied on migrant labour particularly from the south-central highlands. With the recent rapid expansion of sugarcane plantations, however, much of the available labour has shifted to this. It appears at present that increased engagement in sugarcane growing is

preferred by Government due to a variety of factors that include the need to overcome prevailing foreign exchange shortages rendering the import of sugarcane unnecessary and impractical, and strengthening the prospects to earn hard currency by exporting refined sugar.

There is also evidence that differential wage levels and working and living conditions play a role in the productivity of the labour force. At Ayka-Addis, representatives of the workers' union reported inadequate safety regulations, lack of unified and standard salary structures, and prevalence of favouritism and discrimination as disincentives affecting employees' morale. At Kality too, low wages and lack of safety mechanisms and equipment are cited as problems. In both cases, labour representatives argue that employees' high turnover and the recurrent training schemes that are necessitated thereof contribute to the undesired performance of the enterprises. Despite this, however, both firms reported having cordial labour-management relations.

## **5. Implications of the Case Study Findings for Political Settlements and Employment**

Three interrelated steps have been taken to ground the findings from the case studies in the broader literature of the prevailing political settlements approach in general and developmental outcomes in Ethiopia in particular. These include: discerning the theoretical notions derived from the literature on political settlements that are useful in interpreting the findings; bringing into focus recent debates on the political settlements prevailing in Ethiopia and its impact on developments from the point of view of employment generation; and highlighting the implications of the case study findings for outcomes associated with the prevailing Ethiopian political settlements.

### **5.1 Key Theoretical Underpinnings of Political Settlements**

As a starting point, the political settlements approach takes the underlying distribution of power, the economic structures that uphold such distribution of power in society, and the historical struggles that resulted in power configuration. Power is thus understood in political economic terms as the ability of individuals or groups in asserting or maintaining claims on property and income flows (Gray and Whitfield, 2014:11). The underlying distribution of power also lends shape to the prevailing social and institutional configuration. The social distribution of power ushers in a number of probable political settlements that are defined as a 'combination of power and institutions that is mutually compatible and sustainable in terms of economic and political viability' (Khan, 2010:4). A particular political settlement is a relatively stable configuration that can endure over the medium and longer term. The higher the degree of stability of a given political settlement, the more it enables a ruling coalition to develop a long-term developmental strategy.

Clientelism and rent creation are likely to prevail within an economy that has yet to undergo structural transformation associated with capitalist development, since the ruling elite must maintain a level of social support that allows it to achieve some degree of stability and security. To this end, forging a coalition coalesced by patron-client relations in the distribution of rents is necessary. Indeed, political settlements in Africa tend to use rents to shore up support aimed at averting short-term challenges militating against their privileges and incumbency. In effect, short-term regime survival increasingly takes precedence over long-term developmental line of thinking. This trend has quite often entailed the transfer of resources from rural to urban areas (Bates, 1981) – the rationale being that the relatively stronger lower factions become the lesser the capacity of the ruling coalition to enforce institutional rules and policies.

Consequently, political settlements are often determined by the underlying social distribution of power; first, horizontally (between elite factions) and, second, vertically (between elite factions within the ruling coalition and non-elite groups on whose support the ruling coalition depends). This implies that the greater the power of the excluded horizontal factions, the lesser is the security of the ruling coalition and the stability of the prevailing political settlement. But, according to Booth (2015), developmental and structural transformative outcomes have resulted from the adoption of an iterative and adaptive policy-

making process as an activist orientation towards ‘building capabilities and acquiring new comparative advantages’. A policy process that allows for such outcomes to happen must, in turn, be supported by a stable political settlement favouring a long-term coalition that is insulated from short-term clientelist imperatives in the quest of ruling elites to stay in power.

## **5.2 Analysis of the Recent Political Settlement and Developmental Outcomes in Ethiopia**

The Ethiopian Government has recently pursued a scheme for an activist developmental state initiated by former Prime Minister, Meles Zenawi. According to Meles (n.d.; 2012), the history of Africa is replete with negative experiences perpetrated by the workings of predatory regimes and ‘developing countries face formidable market failures and institutional inadequacies that create vicious circles and poverty traps, which can adequately be addressed only by an activist state’ (Meles, n.d). Looking for a third way, Meles vowed that his regime would draw historical lessons from East-Asia by developing an activist state that strives to eliminate market failures and that uses a carrot and stick approach in dealing with the private sector so as to promote growth-enhancing behaviour against rent-seeking dispositions and practices (Meles, 2012).

A number of scholars have evaluated the recent Ethiopian experience in a relatively positive light and underscored the commitment of the government towards ensuring industrial and pro-poor development, as well as its role in managing rent creation and distribution. Vaughan and Mesfin (2011) opined that the current government has managed to achieve ‘a high degree of centralisation of rent management and allocation while retaining control over a large proportion of available sources of rents and economic levers’. Kelsall (2013) also argued that ‘development policy has been facilitated by a formidable concentration of political [and] economic power’. According to Kelsall (2013), this disposition of the regime entails considerable consolidation of state capacity and firm party control over the levers of government institutions. According to Arkebe (2015), the activist developmentalist policy has been successful in unlocking prospects for sustained growth in a manner unprecedented in Ethiopian history. He credits EPRDF regime for embarking on a number of interventions to unlock both the agrarian and the industrial potential of the country with a view of developing new comparative advantages rather than relying on the already existing areas of engagements.

Similarly, Kassahun and Poulton (2014) underline the dominance of the ruling party as a central element of the current trajectories of Ethiopia’s political economy. They emphasise that, the recognition by EPRDF that the eventual overthrow of the two previous ruling constellations resulted from their failure in addressing the problem of agrarian transformation is what has led to its urge in seeking acceptance through expediting various mechanisms of social control. The developmental efforts of the government, then, are generally viewed as stemming from insecurity embedded in the prevailing political settlement.

Though relatively effective, state intervention, rent management and centralisation also carry a number of risks. According to Mulu (2013), non-transparent government interventions have resulted in tensions and policy uncertainties affecting private sector operations. This is reinforced by the inclination of the government to patronise the private sector rather than encouraging its proactive involvement and competitiveness. More serious, however, is the practice of the government in crowding out private capital by restricting access to credit and foreign exchange – an issue frequently raised by international financial institutions like the World Bank and IMF, as well as scholars like Altenburg (2011). For Altenburg, there are weaknesses resulting from the central role of the government to the extent of becoming ‘the sole driver of the national modernisation agenda’ in a manner that hampers industrial development. In a landscape dominated by state-controlled economic commanding heights and endowment trusts that are politically aligned to the locus of power in a manner that fuses business and politics the risk of the capture of public institutions and resources could be imminent. In terms of outcomes, it is noted that Ethiopian developmental efforts have not yet succeeded in realising goals associated with structural transformation that are officially

sought. Mulu (2013) noted that despite strengthening linkages between agriculture and industry being one of the core principles of ADLI, prospects for creating such linkages still remain farfetched. As a result, dependence on import of industrial inputs has prevailed, following which Ethiopia's export orientation did not lead to a significant expansion of manufacturing products destined for export. Instead, domestic-oriented industries seem to have been benefitting from the ongoing growth process. A recent World Bank study (Geiger and Moller, 2015) outlined the obstacles that bedevil the ailing manufacturing sector such as the prevailing credit crunch resulting from negative real interest rates and a plethora of mechanisms of channelling credit away from the private to the public sector. The existing land tenure system and frequent power outages are also listed as problems. Geiger and Moller conclude that *de facto* preference for foreign investors over domestic investors is built into the model considering that foreign investors enjoy relatively privileged access to land, credit, and utilities.

The failure in bringing about structural transformation is most glaring in the area of employment generation. Pedro (2014) argues that the contemporary growth in output did not lead to a commensurate increase in the size of employment whose structure remains untransformed. Geigert and Moller (2015) noted how Ethiopian labour productivity is much higher than that of peer economies due to a higher level of capital infusion as opposed to being labour intensive. The average manufacturing firm in Ethiopia uses about 6 times as much capital per worker compared to similar firms in Nigeria and Cote d'Ivoire (Geigert and Moller, 2015). Additionally, the prevailing political settlement in Ethiopia is based on the centrality of ethnicity in both its horizontal and vertical dimensions. Horizontally, the elite factions that comprise the ruling coalition are ethnically organised regional parties. Vertically, the centrality of ethnicity expresses itself in networks comprising officially recognised mass organisations and endowments, and businesses that are closely associated with these parties that exercise patronage and distribute rents. By and large, the prevailing political settlement in Ethiopia is characterised by a level of relative insulation from vertical pressures as there is little popular participation in policy making processes marked by the absence of organised pressure groups that exercise meaningful influence. Nevertheless, policy formulation at times takes into account the need to reduce vulnerabilities that could entail popular opposition resulting from discontent of smallholder producers in particular.

At the same time, there are vulnerabilities that are built into the horizontal and vertical power configuration embedded in the fabrics of the prevailing political settlement. The ethnic compartmentalisation of the ruling coalition at times leads to fissures and fractures that are experienced between and among the constituents of the ruling coalition. This is so, for instance, the case with regards to the recent uprising in the Oromiya region over the proposed Addis Ababa Master Plan project that is perceived to be detrimental to the livelihood of the concerned population. Furthermore, the uneven nature of distribution of power between the different factions of the ruling coalition may lead to strains thereby rendering the viability of the prevailing political settlement questionable. Thus, the strength of the prevailing Ethiopian political settlement is conditioned by the very same factors that caused its weakness.

## **6. Conclusions and Recommendations**

### **6.1 Conclusions**

Ethiopia's relatively stable political settlement has allowed the political system to achieve a high degree of rent centralisation directed towards both political and developmental ends, which has enabled the country to achieve rapid economic growth over the past decade. However, this growth did not lead to a major transformation in the creation of productive employment. Further the majority of the Ethiopian labour force is still deployed in the agriculture sector, which suffers from inadequacies in productivity while only small increases in wage employment have occurred in the expanding services sector. Moreover, women are

disproportionally left out from the formal labour market and are forced to concentrate in the informal sector.

The downside of Ethiopia's centralised political settlement and EPRDF's considerable domination of the country's political and economic landscape are indications of the contracting political space, securitisation of development, and the existence of little leeway for organised interests in influencing development policies. It is in light of this that problems relating to low wages, poor working conditions and gender disparities must be viewed.

The study has brought to light EPRDF's prominent role in spearheading socio-economic and political processes through a system of ensuring fast growth and economic recovery on the one hand and political control through patronage on the other. In this regard, the study has shed light on how some practices could be biased in favour of some sectors at the expense of others for reasons driven by political expediency. For example, the state seems to be more responsive to the demands of the larger enterprises at the higher end of the value chain than it recognises the importance of the small and medium private sector enterprises. Although this could be driven by the government's quest to augment its foreign exchange earnings through export of commodities like textile products, provision of incentives to the enterprises at the higher end of the value chain as opposed to the potential of labour intensive enterprises in the lower value chain limits prospects for expanding employment generation and runs counter to what is officially declared in the industrial and employment policies of Government.

## **6.2 Recommendations**

The findings on employment creation within the commercial farms and agro-processing firms in Ethiopia clearly indicate that there are serious challenges against employment creation despite the formulation of well-intended and feasible policies. The key issue that is worthy of consideration is, therefore, how Ethiopia can translate its rapid economic growth into inclusive growth by creating employment opportunities for all. Towards this, it is recommended that:

- Efforts to transform the agrarian economy into a more resilient and sustainable economic structure anchored in manufacturing and industrialisation be expanded through a clear understanding of how commercial agriculture should relate to peasant agriculture in the highlands, and the special challenges it poses in the marginal lowland areas.
- The development of agro-processing and commercial agriculture is integrated to enable backward and forward linkages along the value chains for them to create more employment opportunities.
- Appropriate incentive packages for employees and investors alike are designed and implemented in order to encourage stakeholders to work towards the expansion of the manufacturing sector, which is the major generator of quality employment.
- Appropriate incentives and other encouragement mechanisms are designed to promote labour-intensive agro-processing industries.
- The capacity of government bureaucracies and policy-making institutions are improved if the enacted policies and strategies are to deliver the desired results.
- The rights of employees are promoted. Accordingly, legislation for a minimum pay should be introduced.
- Appropriate measures towards access to employment opportunities are instituted to ensure women's rightful place in development.

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