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Change in trend and new types of large-scale investments in Ethiopia

Philipp Baumgartner

Introduction

International investors have acquired farm land abroad with increasing speed over recent years, the trend being furthered by the food price crisis in 2007–8. Other factors contributing to an increased interest in extension of agricultural production include the tightening of market constraints in Asia; and increased demand for food due to population growth and rising income leading to a change in diet as well as improved business climate in many countries of the South. Several research teams have attempted to trace the current new wave of large-scale acquisitions of farmland abroad (von Braun and Meinzen-Dick 2009; Cotula et al. 2009; Deininger et al. 2010; Anseeuw et al. 2012). Owing to lack of transparency within the process of land deals or available information from recipient governments, access to reliable and comprehensive data remains a major issue of concern. Consequently, the analyses of country-level trends and patterns of large-scale investments are scarce.

Sub-Saharan Africa as a continent has the large number of foreign land investment projects.¹ East Africa as a region has proved to be very attractive for investors. Ethiopia, among other countries, has to date leased out significant areas to foreign investors, providing an excellent case study of the process. Despite much media attention on a few large international cases, reliable discussion on the extent and nature of the deals, their institutional arrangements and regional distributional pattern is missing.

This chapter will help closing this gap, in using available data on the history of investments licences and information on size and distribution of planned projects across the country. First, using information about the investments in the agricultural sector for the past two decades, the chapter will help answer the question: *Is the current trend in large scale investments structurally different from past investments?* In addition to this time-bound question about trends, the chapter examines patterns among the existing and planned investments, looking at their country of origin, location within Ethiopia and size characteristics. The chapter will therefore answer the additional question: *What type of investments can be observed in Ethiopia?* Findings of both research questions shall be discussed regarding their robustness and how they fit into the broader discussion on large-scale agriculture production and land deals in Ethiopia.

Large-scale investments in Ethiopia

The discussion in this chapter is based on the analysis and triangulation of three different data sets. Each of these sets is capable of illustrating different aspects of the past and ongoing investments in agricultural land in Ethiopia. The first data set (which I call EIA 2011b) lists investment licences for all of Ethiopia for the period 1992 to January 2011. It includes all licences issued by the federal-level Ethiopian Investment Agency (EIA) and its regional branch offices which involve 100 hectares or more of land. The second set of data was purposely collected for the research on large-scale land transactions by senior government officials through the Prime Minister's Offices, Ministry of Agriculture and Rural Development and Regional Administrations. It compiles information on the status of projects across regions, identifying which zones and districts are especially active and attractive to investment, and some incorporates information about the process of land compensation, etc. The last set of data comes from a regional investment office and states how much land was requested and actually allocated to each investor, for the case of Gambella region.

History of large-scale production and land governance in Ethiopia

Large-scale production: risks and opportunities

Foreign investment in agriculture involving a substantial amount of land is not necessarily a new phenomenon. Colonial attempts to establish plantations in colonies represent a first wave, which in many cases outlasted colonial rule itself. Large acquisition of use rights over land is often accompanied with large-scale production on that land in the form of plantation or extensive mechanised use, depending on the crop cultivated. Other forms, such as out- or in-grower schemes, are also possible. The organisational form has strong influence on asset accumulation and human capital formation leading to growth and socio-economic development. But it is also important to discuss, from a simple efficiency perspective, what size is *optimal* for production (Lipton 2009).

Efficiency of large-scale agricultural production outweighed family farms at initial stage of land-opening in labour-scarce economies.² However,

technological scale economies arising from the use of indivisible inputs such as managerial ability or machines are outweighed by scale diseconomies from the use of hired labour as the economy moves from land-abundant to land-scarce stage after the completion of the opening process.

(Hayami 2010: 3308)

The second reason for the form of larger-scale production is shown to be a need for close coordination of farm-level production with large-scale processing and marketing of the product. Banana production for export or processing of non-fermented black tea would be an example for such crops. Yet even here, in many cases such as sugar cane production, it can be argued that losses from delayed processing are outweighed by lower monitoring costs of family labour (Hayami 2010). A third reason for the persistence of plantation or large-scale production is the granting of long-term concessions to (powerful) elites that, through relatively free access to large tracks of land, can exploit natural resources.

While the first two reasons explain the existence and persistence of large-scale production with economic efficiency, the last argument points to the danger of political power corrupting efficiency arguments. This argument is extended if one looks at comparative studies from Latin America: Deininger (2005) discusses the historical evolution of the coffee sector comparing Colombia and Costa Rica with El Salvador and Guatemala. While in the former two countries

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smallholder structures dominated the coffee production, large estates were prevalent in the latter two countries. A boom in the coffee price triggered very positive socio-economic developments in the first two, especially investments in human capital and increases in literacy rates. In the other two no such positive developments could be observed and democratic structure took about 40 years longer to emerge (Deininger 2005). This indicates how organisational structures not only influence economic efficiency, but also shape political power and distributional aspects.

Despite these threats and criticisms of large-scale investments, there exist a number of potential benefits from such trends: One potentially significant positive impact of large-scale investments is their impact on the local labour market. Proponents underline the importance off-farm employment plays for poverty reduction (Otsuka and Yamano 2006). Additionally, large investments can trigger agricultural commercialisation, i.e. increased share of marketed inputs and outputs of the agriculture production system. Commercialisation's potential benefits include stimulating rural growth, which poor people can gain from directly; diversifying employment opportunities (depending on the labour intensity of crop types); increasing agricultural labour productivity; direct income benefits for employees and employers; increased food supply and potentially improved nutritional status (von Braun and Kennedy 1994).

Finally, agriculture has not received much investment – private or public – in many countries of the global South during the past two decades. However, to meet increased global demand for agricultural produce due to population increase, increasing welfare and changing diet, investments in agriculture are necessary (HLPE 2011).

Access to and ownership of land in an agrarian society

In a traditional agrarian society such as Ethiopia, land is the most important natural resource. Access to land (and water) is key for agriculture and pastoral activities and consequently crucial for most people's livelihood strategies. Therefore, political and economic power relations as well as social change and transition are embedded and reflected in the control over land and land allocation mechanisms. The *transaction* of use rights for land, be it through the form of permanent selling or lease limited to a number of years, as a contractual arrangement poses several challenges to a developing country. Access and use rights are often overlapping and might be held by individuals, communities or groups (Meinzen-Dick and Mwangi 2009).

As established in the federal and regional constitutions, as well as by land laws, all land, whether urban or rural, is property of the state. Private ownership of land is not allowed. Land users can only acquire use rights over 'their' land. It is forbidden to sell, mortgage or exchange land in any way.³

The use right of land holders is dependent on a number of conditions: residence in a *kebele* (locality or sub-district), personal engagement in agriculture, proper management of the land and other restrictive conditions (Dessalegn 2011). Holders who violate any of these conditions are subject to penalties and can even lose the right to their land. Such loss might also happen if they are absent from their farms or the land is left idle for three or more consecutive years.

In practice, throughout the country three types of land tenure for private holding prevail: (1) The administrative system described above. (2) In the past three years a market-based tenure system has emerged, partly triggered by change in regulation, allowing for renting out shares of one's land, while still permitting informal practices such as share-cropping. This changes has been driven by population pressure. Land is usually used intensively and rarely left fallow, in part leading to problems of degradation. (3) In the lowland areas a customary-based non-market arrangements structure land tenure exists. Families often receive land based on ancestral lands and heritage. In addition, there exist communal land titles, e.g. for forest land or pasture which are not bound to an individual but rather to a group of people.

Government's investment policy and relevant regulations

In the 1990s the government's rural development strategy was based on smallholders. Policies were biased towards small-scale production and the land tenure system put in place was considered to be peasant-friendly. From the 2000s a shift is observed in the logic, embracing that idea that once 'the objective of accelerated agricultural development is achieved ... [t]he key actor[s] in the sector's development will be relatively large-scale private investors and not the semi subsistence small farmers' (Dessalegn 2011): 9). Such change in government focus became apparent as a number of investment-stimulating legal changes and proclamations were issued, especially to attract foreign investors to the agricultural sector.⁴

The main legal basis for investments in Ethiopia is Proclamation 280/2002 (and amendments 375/2003). They state the incentive to attract foreign investments in order to promote export industries and technology transfer and thereby increase foreign exchange earnings. The investment regulation (84/2003) lists numerous incentives for investors and outlines sectors which are limited to domestic investors only, and those which are also open to foreign investors.⁵

In 2009 a new proclamation (Proclamation 29/2001) changed the process of land allocation. The federal government was empowered to carry out all aspects of foreign land transfers involving 5,000 hectares or more. Following this proclamation the Agriculture Investment Support Directorate (AISD) was created within the Ministry of Agriculture and Rural Development (MoARD). Its mandate is to assist investors in land acquisitions and facilitate the process of land transfer, identification and review of business plans and other documents. The MoARD furthermore established a Land Bank which lists potential land for agriculture expansion. Regions were advised to identify suitable areas and earmark them for agriculture investment activities.

Investors have to obtain a business licence at the Ethiopian Investment Agency (EIA), either in Addis Ababa or through one of its regional branches, making the EIA the entry point. Before the new proclamation and establishment of AISD, investors had to contact regional investment offices or governments to identify suitable land.

Large-scale investments are not necessarily a new phenomenon. Historically, large-scale production based on hired labour has been necessary for internalising gains from investments in infrastructure and the opening of vast tracks of land. When indigenous communities became able to cultivate the same crop, they often proved to be more efficient on a per hectare basis than foreign investors, mainly owing to lower supervision costs of family labour (among other factors) (Hayami 2010; Lipton 2009). Persistence of large estates is based on (free) access to natural resources rather than economic efficiency. At that point it might become harmful for socio-economic and political development. Changes in the Ethiopian government's land policy started to favour large-scale investments in the early 2000s and the policy sees them as a main pillar of agriculture production.

The trend of investments in Ethiopia over the past two decades

Amount of land requested by investors

In Ethiopia, demand for agricultural land by foreign and domestic investors has soared in the last decade. The histogram in Figure 2.7.1 shows the total land requested by agricultural investments each year for the period 1992–2010. Requests for greater areas of land by investors started to increase from 2004 onwards. This coincides with the government changing the investment policy in the early 2000s. The decline for the year 2006 might be partly explained by national elections and reduced investment activities in that and the subsequent year. Since

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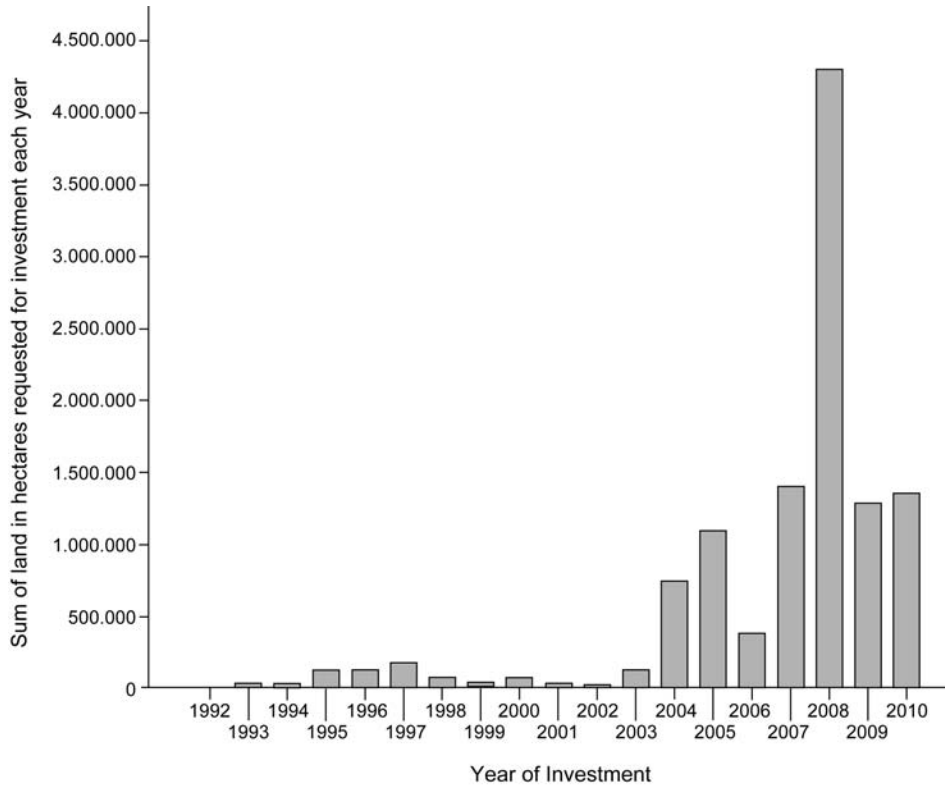


Figure 2.7.1 Total land requested by investors per year
Source: Data set EIA 2011b.

2007, however, a very large interest in farmland is shown. This confirms the globally observed trend of increasing interest in acquisition of farm land following the global food price spike in 2007 and remaining high food prices since then. In 2005 for the first time a total of more than 1 million hectares was requested, and 2008 shows a peak value of more than 4.3 million hectares requested by domestic and international investors.

Increasing share of foreign investment activities

Another frequently discussed trend is the internationalisation of land transactions. As mentioned in the introduction, despite rare media reporting, it is clear that domestic investors play a major role. Nevertheless, *internationalisation* of land deals can also be observed in Ethiopia. If investment licences are grouped according to their Ethiopian share we obtain three groups: (1) fully Ethiopian, (2) Ethiopian share (joint-investment with foreign), and (3) fully foreign. Figure 2.7.2 shows the historic trend for the total sum of hectares requested by each group per year.

The dark line indicates the fully Ethiopian (domestic) investments. Prior to 2003 this group of investors accounted for almost all land requested. Domestic investors also increasingly demanded land from 2005 onwards, with a peak volume close to 1 million hectares in 2008.

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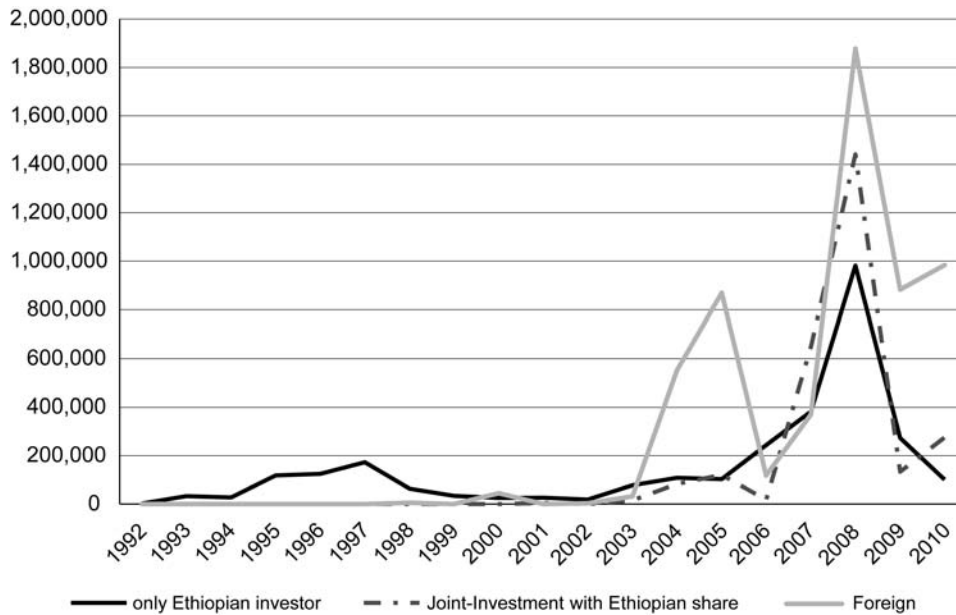


Figure 2.7.2 Total annual land requested in hectares (by domestic, joint and foreign investments).

Source: Own calculation based on data set EIA 2011b.

Thereafter, the demand fell again to ca. 100,000 hectares in 2010. The dotted grey line indicates investment with Ethiopian partnership. These joint investments started to increase significance in 2005 with a total of above 120,000 hectares. Demand was very high in 2008 with about 1.4 million hectares, but dropped to about 200,000 hectares for the two consecutive years. The last group of 100 per cent foreign investment is characterised by the light grey/white line. While for the period 1992 to 2003 this group never demanded more than 50,000 hectares per annum, in 2004 a sharp increase to more than 500,000 hectares can be observed. Again, this sharp increase correlates with the changing investment policy, expressed by the proclamations issued in 2002 and 2003 (see the section on the history of large-scale production and land governance in Ethiopia). Following a short drop in the year after the national elections in 2005, the trend rises again with total request close to 2 million hectares in 2008 and around 1 million hectares of land in both 2009 and 2010. This indicates a clear internationalisation of agricultural investments in Ethiopia. As discussed above, this trend has the potential to trigger commercialisation of the agricultural production system, i.e. to increase the share of marketed inputs and outputs. Technological learning and other spill-overs are other potential positive by-products. However, they do not necessarily occur automatically but are crop-dependent and related to other factors, including the functioning of related markets, public investment and policy incentives and regulations.

Characteristics of investments by country of origin

Foreign investments tend to be bigger in median size than domestic investments and originate mainly from the Middle East, Western Europe, North America and South Asia. Using information on country of origin of each investment licence, it is possible to group investments into regions (Table 2.7.1). From the total count of number of investments, a striking trend is observed whereby

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Table 2.7.1 Characteristics of investments by origin

Origin of investment by region*	Investments grouped by size (medium, large, mega)			Total count	Land in hectares (requested for investment)			
	Medium (100–1,000 ha)	Large (1,001–10,000 ha)	Mega (> 10,000 ha)		Median	Minimum	Maximum	Sum
Ethiopia (domestic)	1,790	437	19	2,246	500	102	153,713	2,918,909
North Africa	28	18	10	56	1,500	150	150,000	659,608
Middle East	84	75	29	188	2,000	120	400,000	2,455,239
Sub-Saharan Africa	4	1	2	7	800	400	22,100	52,300
East Europe and Central Asia	2	1		3	350	200	3,000	3,550
West Europe	62	35	20	117	1,000	110	500,000	2,558,495
South Asia	22	25	18	65	4,000	110	500,000	1,510,051
China	4	2	2	8	1,500	500	100,000	160,700
Southeast Asia and Pacific	5		2	7	500	200	100,020	133,820
Latin America and Caribbean	4			4	400	300	1,000	2,100
North America	58	42	12	112	1,000	120	300,000	956,586
Total	2,063	636	114	2,813	500	102	500,000	11,411,358

* For joint investments the grouping is based on the main financier. As there are several joint investments between foreigners and Ethiopians, the Ethiopian role should not be underestimated.

Note: Only investments requesting 100 hectares or more are listed.

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domestic investments make up 2,246 of the total of 2,813 projects, equivalent to almost 80 per cent of the number of projects. However, the vast majority of all projects are smaller in size, and the domestic share of investments exhibits an inverse trend with project size. By frequency, investors from the Middle East make up the largest group of foreign investments, followed by Western European countries and North America. There is also significant activity from countries from North Africa and South Asia, especially India. There are few investments from Sub-Saharan African countries, of which most are from South Africa, and a small number from Southeast Asia and Latin America.

Since 2003 international investors have dominated the acquisition of land. The right-hand half of Table 2.7.1 presents information relating to project size and the total land requested by each region of countries is listed. It shows that domestic investments, though being dominant in the number of cases, are *only* accounting for about 3 million of the 11 million hectares requested by investors (25.6 per cent of the total land requested). Four regions stand out with especially large shares of total land requested: the Middle East and West Europe with demand for about 2.5 million hectares (21.5 per cent and 22.4 per cent respectively), as well as South Asia and North America with around 1.5 million hectares (13.2 per cent) and around 1 million hectares (8.4 per cent) respectively. Moreover, the maximum sizes of projects of these four regions are the biggest, ranging from 300,000 to 500,000 hectares. While there remains huge variation regarding planned project size for all regions (compare differences between minimum and maximum) the median shows that some regions tend to plan bigger projects than others. South Asia and especially India are especially notable with a median value of 4,000 hectares,⁶ which is eight times larger than Ethiopian investments' median, and still twice the median size of Middle Eastern investment activities.

Other regions make up smaller shares, for example China, which has eight investment licences with a rather small share of the total land demanded, and similarly for Sub-Saharan Africa, East Asia and the Pacific. Latin America and the Caribbean, Eastern Europe and Central Asia only play a very minor role.

These trends indicate that it is especially the developed countries from Western Europe and North America and the emerging economies in South Asia and the Middle East that have an interest in agricultural investments in Ethiopia. Investments from North African neighbours exist (especially Egypt and Sudan) but only in a few cases involving a relatively small volume of land. Furthermore, while purely domestic investments account for a large number of investments, they are smaller in size and *only* account for about one quarter of the total land requested. However, there are a number of joint investments where Ethiopians are partners to foreign investors.

Location of investments within Ethiopia

Using the amount of land (in hectares) requested for investment allows further analysis of trends in the way allocation of land across regions has developed over the two decades under consideration. Table 2.7.2 lists the respective regional totals of land requested and stated in agricultural licences for the two periods. If we first look at the total period (1992–January 2011) we see that Oromia is noted as hosting almost one third of the land allocated for the total period, followed by Amhara (15.4 per cent). Together with the multi-regional⁷ licences, these two regions account for over 75 per cent of the land requested. SNNPR, Benishangul Gumuz (B. Gumuz) and Gambella are the three other regions hosting a significant share. Most of the multiregional licences also state one or more of these three smaller regions as part of their destination. Only very limited amounts of land have been requested by investments in Addis Ababa, Dire Dawa, Harari and Somali (all below 10,000 ha). Tigray and Afar list about 300,000

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Table 2.7.2 Regional distribution of land as stated in licences (two periods)

Region	Total period (1992–Jan. 2011)		Post-food crisis (2007–Jan. 2011)		Comparing two periods	
	Land in hectares	(% share total)	Land in hectares	(% share new)	'Rate of change' (new/total share)	Share after 2007
Addis Ababa	81,523	(0.7%)	25,200	(0.3%)	0.42	Decrease 0.31 %
Afar	325,146	(2.8%)	112,991	(1.4%)	0.47	Decrease 0.35 %
Amhara	1,754,555	(15.4%)	1,247,124	(14.9%)	0.97	Remaining 0.71 %
B. Gumuz	590,446	(5.2%)	428,150	(5.1%)	0.99	Remaining 0.73 %
Dire Dawa	79,300	(0.7%)	35,500	(0.4%)	0.61	Decrease 0.45 %
Gambella	529,180	(4.6%)	506,880	(6.1%)	1.31	Increase 0.96 %
Harari	7,400	(0.1%)	*	*	*	0.00 %
Multiregional	3,400,625	(29.8%)	3,126,362	(37.4%)	1.26	Increase 0.92 %
Oromia	3,426,540	(30.0%)	1,857,902	(22.2%)	0.74	Decrease 0.54 %
SNNPR	1,003,750	(8.8%)	945,439	(11.3%)	1.29	Increase 0.94 %
Somali	9,379	(0.1%)	3,379	(0.0%)	0.49	Decrease 0.36 %
Tigray	203,512	(1.8%)	68,600	(0.8%)	0.46	Decrease 0.34 %
Total	11,411,358	100.0%	8,357,527	100.0%	1.00	- 0.73 %

Source: Data set EIA 2011b; only investments involving more than 100 hectares are considered.

* No investments of this size recorded for Harari region after 2007.

Note: Requested land might not be fully developed or even allocated, so this could overstate what actually happens on the ground.

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hectares of land requested. This indicates that the biggest chunk of activities is concentrated in the two bigger highland areas, Oromia and Amhara, followed by some significant shares located in the south (SNNPR) and west (B. Gumuz and Gambella).

The second column lists the subset of investments for the years after 2007 only. For this second period, Oromia and Amhara remain the regions with most investment activities in terms of the amount of land allocated. SNNPR, B. Gumuz and Gambella remain the next three most significant investment regions. The more urbanised regions, however, receive decreasing attention. The last column allows for some comparison, allowing us to identify whether, despite the pattern of most investments (by size) remaining the same, there is a change in the distributional trend. Dividing the share of recently requested land by the share of total land requested for the whole period, the 'rate of change' was calculated. A value of 1 would indicate that there was no change, while a value $< 1 / > 1$ implies a *relative* decrease/increase, respectively, in a region's share of total land requested. The biggest relative increases can be observed in Gambella (1.31) and SNNPR (1.29), as well as for multiregional licences (1.26).

The last column indicates (as has already been seen from the histogram in Figure 2.7.1), that about 73 per cent of the land was requested after 2007. There are regional variations, however. Most surprising is the small interest in Afar and Somali⁸ regions, which originally were considered favourable for production of castor seed and jatropha, two of the much promoted bio-fuel crops. In general, the change in relative shares of investments received by each region indicates that investors have recently been going west.

How potential for future expansion is distributed across regions

Using a second data set we can look at where the Ethiopian government sees the biggest future potential for land-intensive agricultural investments. This data set from March 2011 listed a total of 5.7 million hectares of potential land for large-scale commercial agriculture across Ethiopia. This total combines land listed in the federal Land Bank and regional administrations. Out of this area around 900,000 hectares or 16 per cent had already been leased out in March 2011. This indicates that the government is still holding huge areas of land for future investments. Figure 2.7.3 shows how much of the land has already been leased out and how much is still remaining for future investment activities.

Oromia, with a total of land earmarked for investments of above 1.4 million hectares, is again the leading region when it comes to agriculture investment activities. However, Gambella and B. Gumuz, the two lowland provinces in the western part of Ethiopia, also have significant areas earmarked. Somali and Afar regions are also planned to host 800,000 and around 600,000 hectares respectively. However, both of these eastern regions have to date leased out only a very small share of their potential area (Somali: 591 hectares; Afar: ca. 22,000 hectares). SNNPR, Amhara and especially Tigray seem to have almost reached their potential, with only SNNPR having some significant 140,000 hectares left for future investments.⁹

At this point it is important to understand that this data from the Prime Minister's Office, Ministry of Agriculture and Rural Development and Regional Administrations, is only partly comparable with the data from the Ethiopian Investment Agency (data set EIA 2011b).

Land transferred at the regional level

As discussed in the section on the history of large-scale production and land governance, land can be allocated by the federal level or by regional offices. During an extended research period in Gambella region, it was possible to gain access to data from the regional investment office,

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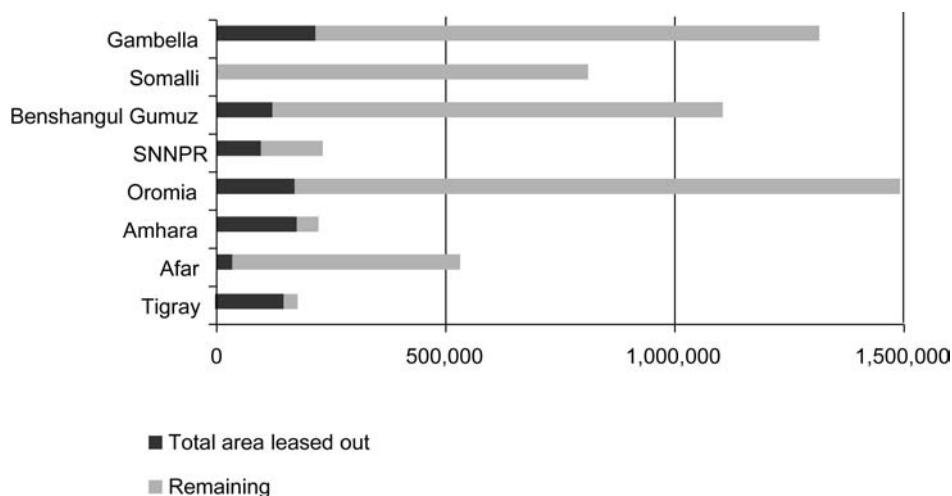


Figure 2.7.3 Agricultural land earmarked for investments by region.

Source: Prime Minister's Office, Ministry of Agriculture and Rural Development and Regional Administrations, 2011.

including information on how much land was demanded by an investor and how much had actually been allocated. The data set goes back to the year 1991, but with the exception of a handful of cases in the late 1990s and early 2000s investment activities in that western region only start after 2004/5. The period 2004–mid-2010 therefore accounts for the vast majority of cases displayed in Table 2.7.3. The table lists the five *woredas* of Gambella region with investment activities involving land acquisition by domestic and foreign investors.

It is clear that most investment activities (more than half) are taking place around the region's capital, Gambella Town. This is explained by good access to infrastructure and labour in that part of the region, while other *woredas* have smaller populations, thus creating a shortage of labour.¹⁰ As can be ascertained for the case of the 93 investment projects in Gambella *woreda*, only 22.4 per cent (38,659 hectares of the high number of hectares demanded: 172,350) was actually approved for investment. A similar pattern can be observed for Itang, and even in Dimma and Abobo *woreda*; a good share of the land requested was not allocated. Only the three projects in Godere received the full amount of land requested.

This indicates an important finding which is absent in much of the discussion around large-scale land transactions: The local government, at least for the period documented here, did test

Table 2.7.3 Investments by district level for Gambellaregion (1992–August 2010)

District	No. of investments	Hectares requested (demand)	Hectares allocated (supply)	% of demand met
Abobo	63	146,350	61,270	41.9%
Gambella (semi-urban)	93	172,740	38,650	22.4%
Godere	3	11,588	11,588	100.0%
Dimma	5	8,000	6,100	76.3%
Itang	12	41,900	12,100	28.9%
Total	176	380,577.59	129,707.59	34.1%

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the capabilities of investors and assess their business plans. Following such assessment they gave out land, often below what was initially requested by the investor. For the Gambella region overall, for the period 1992 to mid-2010, only about one third of the requested land was actually given to investors, indicating a rather conservative practice of allocating land.

Notably, during 2010 the governance of land within the region changed, following increased political attention at the federal level since 2007/8 to the trend of land investments. The regional president's office established a secretariat handling large-scale land leases. Such transfer of competencies to the president's office indicates the increasing political relevance of the issue, which is also the case at the regional level. Around the same time, the MoARD established the Agriculture Investment Support Directorate, which since then has been the main contact point for large-scale investors. This indicates a change in the governance structure over land.

Discussion of results and conclusion

Discussion of results

Extent of deals in number and amount of land requested: the first and most obvious result shown was an increase in agricultural investment activities, both in number and in total land area requested. This increase started in 2004, following the change in government policy. Another sharp upward trend was shown in 2007, peaking in 2008 with more than 4.3 million hectares requested.

Internationalisation of land acquisitions and origin of investors: domestic investors account for the biggest number of investment licences requested – both for the recent and the pre-2007 periods. However, foreign investments are larger than domestic ones, comparing both median size as well as number of mega-size projects (above 10,000 hectares). There is a tendency towards a good share of joint investments with Ethiopian partners, but starting in 2003 foreign investors' demand for land exceeded domestic demand. The overall demand from domestic projects only amounts for 3 million hectares out of the 11.4 million hectares requested in total. Most demand for agricultural land comes from developed countries in Western Europe and North America, as well as from emerging economies in the Middle East and South Asia. China plays a minor role.

Location within Ethiopia: while most investments are still located in the highland regions of Amhara and Oromia, investors have shown a recent trend to go west and request land in the western lowland areas of B. Gumuz and Gambella. In these western parts, demand for land also meets supply, as indicated by land earmarked for future expansion. In the eastern parts of Afar and Somali, demand has not met supply thus far.

Allocation of land to investors: data from Gambella region has shown that the demand for land is only partially met by the land supplied by the local government. For the projects which were processed through the regional authorities, on average only about one third of the acreage requested was actually allocated. However, this does not include land allocated through the federal level.

Limitation and further research: what we cannot say

As described at the beginning of the chapter, the data set EIA 2011b used for analysis only lists the amount of land requested. Therefore, the data can represent the investors' view and their demand for land quite well. However, it does not allow estimation or prediction of the level of activity on the ground. As noted above, the data for Gambella region does not include investments negotiated through the federal-level agencies, but rather it only presents those handled by the local-level agencies. More research on the process of land transfer and monitoring of the investment process would be necessary to better understand this aspect of the trends.

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The discussion about spatial distribution of investments is limited to the regional level. Especially for the two large regions, Amhara and Oromia, it would be interesting to look at the district level in order to identify intra-regional changes. Such analysis is beyond the scope of this chapter. But indicators do exist: within Oromia, for example, much of the area earmarked for extension is seen to exist within a lower-level area in the southeast (Bale – ca 1 million hectares).

Furthermore, the discussion above has mainly concentrated on the size characteristics of investments in land. This makes sense with regard to the question of how much land is requested, by whom, and where it is allocated. However, other production factors, such as employment creation, capital invested, technology transfer and organisational form chosen, are not necessarily related to size. Nevertheless, they are highly relevant for agricultural growth and socio-economic development.

As indicated, the establishment of large-scale production units has an impact on the power distribution within related markets for labour, land and water. Little research attention has been given to these impacts at the micro and meso level. Bues (2011) has carried out some analysis, however, and indicates that larger producers tend to gain more bargaining power and can therefore secure their access to scarce resources, which at least indirectly deprives local users.

Conclusion

We have seen that investments in agriculture involving substantial areas of land are very frequent in Ethiopia. Such investments increased in number and size after the government changed the incentives for investors, and even more since the boom of food and commodity markets in 2007/8. While the reaction to prices shows the ‘market’ part of the explanation, the start of increased investment activities *before* the price peak indicates that governance and policy also explain a good proportion of the increased trend. Thus, this underlines that developing countries are not only ‘victims’ of global market development, but can also actively stimulate or regulate the trend through their investment policies.

The fact that both size and foreign share of investments is increasing might shift agricultural production in Ethiopia from relying largely on smallholders to an increasing share of larger, commercial farms. Such commercialisation could bring about several benefits through changes to the markets for inputs and outputs. In addition, it could have positive nutritional impacts. However, these benefits might not occur automatically, but may require accompanying public investments in social infrastructure and education as well as monitoring of investors to avoid harmful side-effects.

The establishment of a federal-level office handling land acquisitions beyond 5,000 hectares can be seen as a good step towards increasing governance capacities to oversee these rising investment activities throughout the country. Whether the central agency will become as critical for large requests as the regions have been (at least as has been shown in the case of Gambella) cannot yet be determined. However, there remains a danger of ‘super-sizing’ projects, pushing them far beyond economic viability. While a certain size might be required to internalise costs derived from opening land at the agricultural frontier, projects requesting hundreds of thousands of hectares are not likely to produce efficiently across an entire area within a short period of time. Continuous scaling up, after successful establishment of core farms, might be a more viable solution.

As has been the case with the different development of the coffee sector in the four Central American countries, large-scale production tends to offer less socio-economic and enabling stimuli than other organisational forms. In addition, path dependencies might occur, as big investors tend to accumulate not only economic but also political power. While such developments are not necessarily negative, other integrated rural development strategies should be explored for

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their potential. However, given the rising global demand for food, fodder and agricultural products, increased agricultural investments should be viewed as a positive. Furthermore, employment creation, especially off-farm, is likely to alleviate poverty among the local population.

It has been shown that much more land is being made available for large-scale agricultural production. Land identification should take careful account of existing user rights, which might be only seasonal or for less intensive use. Such users remain very prone to being left out when it comes to compensation measures. The complex decision of transferring land and thereby cutting a web of existing user rights should not to be taken lightly.

Notes

- 1 Outside Africa, Pakistan, Kazakhstan, Southeast Asia (Cambodia, Laos, Philippines, Indonesia) and parts of Eastern Europe (e.g. Ukraine) are among the major recipient countries of FDI in land (Anseeuw et al. 2012).
- 2 Apart from plantation crops, the expansion and management of agricultural production has historically been characterised by owner-operated farms. Increases in farm sizes were mainly driven by rising non-agricultural wages (Deininger et al. 2010; Lipton 2009).
- 3 For a detailed discussion on the legal framework of agricultural land see Dessalegn (2009).
- 4 Before foreign investments were mainly incentivised to invest in manufacturing and industrial production.
- 5 This legislation has recently changed, removing most of these limitations. For the data presented here it was, however, still relevant.
- 6 It should be noted that this is much lower than most cases reported in the media.
- 7 The scope of this chapter does not allow us to look beyond regional-level distributions or to dismantle the multi-regional investment licences, which would be necessary to understand intra-regional changes in distribution. This is certainly a case for the bigger regions.
- 8 Security problems might explain especially why Somali and, to a lesser extent, Afar are not targets of much investment activity.
- 9 It should be noted that the identification process for agricultural investments was not fully completed at the time of data collection.
- 10 It is important to highlight that parts of Ethiopia, as in many other African countries, are very sparsely populated, thus making labour the scarcer factor (when compared to land). This is especially pronounced during harvest time.

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