

‘Land grab’ as development strategy?

The political economy of agricultural investment in Ethiopia

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Abstract

This paper examines the domestic political economy of so-called ‘land-grabbing’ in Ethiopia, assessing the motivations of the Ethiopian government, which has strongly promoted foreign agricultural investment. The paper draws on a unique set of federal and regional databases detailing foreign and domestic investments in Ethiopia to analyse the likely role investment will play in the Ethiopian economy and the areas which have been targeted for investment. The analysis identifies increased foreign exchange earnings as the main likely contribution of investment but in doing so highlights concerns for food security in Ethiopia, as the goal of national self-sufficiency has given way to a risky trade-based food security strategy. The paper also argues that the federal government’s attempts to direct investment to sparsely-populated lowlands have important implications for the ethnic self-determination that is a key tenet of Ethiopia’s federal system.

Keywords: Ethiopia; development strategy; land grab; foreign investment; ethnic federalism

1. Introduction

The growing literature on the ‘land grab’ has tended to focus on the international drivers of a wave of recent land transactions in developing countries—in particular the crises of finance, food, fuel and climate (GRAIN 2008, Cotula et al. 2009, McMichael 2010, Zoomers 2010, De Schutter 2011)—but has thus far paid little attention to the motivations of developing country governments, which play an important role in facilitating these deals. ‘Receiving’ country governments tend to follow proponents of large-scale investment in agriculture by claiming that investment can play important developmental roles, including: addressing the food crisis (Collier 2008); creating employment (Deininger & Byerlee 2010); and earning foreign exchange. In contrast, critics have warned of a ‘neo-colonial land grab’ that threatens food security in developing countries (e.g. GRAIN 2008, Mackenzie 2008, Baxter 2010). Given the dearth of research on the motivations of ‘receiving’ countries and impacts of agricultural projects, all these claims are open to challenge.

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This paper considers these issues in Ethiopia, where the government's longstanding development strategy claims to provide security for smallholders and encourage labour-intensive agriculture to increase productivity. Nevertheless, the government has recently promoted land leases to foreign and domestic 'investors'² leading to the possibility of large-scale farmers competing for land with smallholders. A few recent studies have described the trends in agricultural investment in Ethiopia specifically (Weissleder 2009) or as part of a global analysis (Cotula et al. 2009, Deininger & Byerlee 2010), while case studies have assessed the impact of particular agricultural projects in the country (Fisseha 2011, Guillozet & Bliss 2011, Shete 2011). However, none of these studies has analysed how these processes relate to domestic political economy and the government's development strategy. This paper examines the motivations of the Ethiopian government in promoting agricultural investment and how these relate to domestic political dynamics, as well as analysing the role these projects are likely to play in the Ethiopian economy.

The research draws on quantitative and qualitative data generated during fieldwork conducted between October 2009 and September 2010. In particular the analysis draws on semi-structured interviews with government officials and investors operating in Ethiopia, secondary sources, which provide additional information on particular investments, and government laws and policy documents in order to analyse government motivations and objectives in promoting investment. I also present an analysis of the emerging picture of investment in Ethiopia which utilises a unique set of federal and regional investment databases detailing the types and sizes of foreign and domestic agricultural projects.

The paper concludes that foreign investment in Ethiopia is part of a modification to the previous development strategy, reducing its focus on internal production linkages in favour of an increasingly trade-oriented approach. This risky strategy intends to utilise foreign exchange earnings from agricultural exports to achieve food security through trade and ultimately to finance technological imports to accelerate industrialisation. As a result of the political importance of the smallholder sector in the highlands, the government has directed most investments to what it claims is 'unused' land in lowland areas. Targeting these areas has required re-centralisation of control over land allocation by the federal government and raises questions regarding Ethiopia's ethnic federal system, established to provide for the autonomy of ethnic groups.

The paper continues in section two by outlining the framework which structures the analysis of agricultural investment that follows. Section three examines the government's longstanding development strategy, the state of existing smallholder production and the economic roles envisaged for agricultural investment. Section four evaluates recent investment trends in the context of the government's agricultural policy, focusing in particular on the likely economic roles of crops produced, the types of investor and the location of investments. Section five then relates this emerging pattern of agricultural investment to domestic political economy focusing in particular on class and ethnic cleavages and the role of the state. Section six concludes.

² These land leases are subject to federal and regional investment proclamations stipulating the rights and responsibilities of what are termed by the government as 'investors', distinct from smallholders whose land rights are governed by separate land use and administration proclamations. In this paper I therefore use the term 'investor' in line with the government's definition, albeit recognising that in some cases 'investors' actually invest very little in their projects.

2. The role of the state in agricultural investment

This paper asks why the Ethiopian government is promoting agricultural investment and what role the government envisages for investment in its development strategy. Although the 'land grab' debate has focused on headline-grabbing large-scale land deals involving foreign companies and states, in Ethiopia these are part of a wider government push for commercialisation that includes small and large, foreign and domestic investors, as well as smallholders. In Ethiopia at least, an effective analysis of large-scale foreign investment must therefore take into account broader commercialisation processes. To do this, I analyse foreign investment in the context of the Ethiopian agricultural sector focusing in particular on the economic roles played by crops produced in the smallholder and investment sectors, the attempts by the government to influence this production and how these policies fit into its overall development strategy. In addition, the analysis considers the political economy implications of this strategy, focusing on cleavages in Ethiopian society along class and ethnic lines and the interests of these groups in the government's agricultural policy.

To this end, I build on the work of Crouch and de Janvry (1980) who highlight the importance of the role of crops in the process of accumulation and the social context of their production, each of which are strongly influenced by political, historical and social factors specific to the country in question (see also Little & Watts 1994, White & Dasgupta 2010). Crouch and de Janvry (1980) suggest that crops can be classified into four groups: 'peasant' foods, produced for self-consumption by subsistence farmers; 'wage' foods, bought by wage labourers; industrial inputs; and export crops. The increasing importance of bio-fuel crops warrants an additional category given the particular characteristics of the energy sector. The types of crops grown by investors and the economic roles they play greatly affect the benefits and costs to the 'receiving' country. For example, the expansion of peasant food supplies has the potential not only to enhance national food security³ but also to contribute to agricultural commercialisation, since smallholders are more willing to switch to cash crops if local food supplies are affordable and reliable (Leavy & Poulton 2007). Equally, expanding wage food production can contribute to industrialisation since employees maintain the same living standard on lower wages, ensuring that industry is more competitive internationally (Kay 2009). The growth in production of these different types of crops is strongly influenced by government policies which affect price incentives for producers, such as protection from competition from cheap imports, and the distribution of government resources, for example credit and research funding (Crouch & de Janvry 1980).

An analysis of the agricultural sector must also take into account the social context of production of different crops, broadly distinguishing between peasant and capitalist farms (Crouch & de Janvry 1980). Within the capitalist sector, realisation of the potential benefits afforded by different types of investment crop depends in part on the characteristics of the investor. First, foreign and domestic investors are likely to differ regarding their access to

³ To address food insecurity, it would be necessary not only to increase the supply of certain types of foods but also to get this food to food insecure areas (through investment in infrastructure and integrating markets) and to raise entitlements so that those in need could buy the food. This paper considers only the impact of investment on food supply.

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

The macro drivers of investment processes, like all processes of agrarian change (Byres 1991), are mediated through state organisations. Rather than a unitary actor, the state comprises multiple organisations each with their own political and economic priorities which they attempt to balance with the interests of other state organisations, those of powerful groups in society—including those based on class and ethnicity—and international influences—including investors and foreign governments (Migdal 2001). In a federal country like Ethiopia, the spatial location of investments and the balance of power between federal government and regional administrations are important factors in the political economy of investment. The tools available to policy elites (Grindle & Thomas 1991) attempting to regulate investment processes and to influence the types of investment and investor include restricting investors through legislation, drafting policies to guide implementing agencies or providing incentives to encourage investors in preferred sectors.

3. Agricultural policy in Ethiopia

This section outlines the federal government's agricultural development strategy, while also identifying the economic roles played by particular crops for use in section four. In doing so, I illustrate an emerging dualism in the agricultural sector: on one side the smallholder sector, for so long central to the government's development strategy, and on the other, the expanding investment sector.

3.1. Agricultural Development-Led Industrialisation

The current Ethiopian regime came to power in 1991 when the previous *Derg* government was militarily defeated by the Tigrayan People's Liberation Front (TPLF), an ethnic-based insurgency organised along Maoist principles, which prioritised living and working with the peasantry in order to gain their support (Young 1997). On seizing power at the national level, the TPLF formed the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), a coalition of ethnic parties also created by the TPLF, and established a federal system based on ethnic regional administrations. Largely to secure international legitimacy and development assistance, the EPRDF claimed to have switched to a market-based development strategy, although in practice the government retains close control over the economy (Vaughan & Tronvoll 2003). Similarly, despite claims of democratisation, space for political opposition has reduced substantially in recent years leaving Ethiopia as an effective one party state, with the EPRDF and its affiliate parties winning 99% of seats at the 2010 federal and 2008 local elections and controlling all levels of government (Aalen & Tronvoll 2009, Tronvoll 2009).

Since coming to power, the EPRDF's development strategy has been based on the argument that since 85% of the population depends primarily on agriculture, development requires rapid agricultural growth (MoFED 2003). To achieve this, since 1993 the government has adhered to a strategy of 'Agricultural Development-Led Industrialisation' (ADLI). This asserts that as a labour-rich and capital-poor country, labour-intensive, non-mechanised agriculture should be implemented alongside technologies such as irrigation, fertiliser and improved seeds, which improve yields but do not replace labour (MoFED 2003). Increased agricultural productivity will lead to national food security and stimulate industry through forward linkages, such as the increased supply of wage foods and industrial inputs, and backward linkages, providing demand for domestic production of fertiliser, farm implements and consumption goods.

Key to ADLI is the state ownership of land and the guarantee of usufruct rights for smallholders. Land was nationalised by the *Derg* in 1975, wiping out the landholding elite and all capitalist production, and redistributing user rights to smallholders. The EPRDF has largely maintained the *Derg*'s land policy, arguing that land privatisation would lead to distress sales and the displacement of the peasantry. Thus, the land and agricultural policies are intended to play important social and economic roles. Labour-intensive agriculture is expected to increase productivity, stimulating industrialisation, while ensuring that the benefits of growth accrue to smallholders. The expected result is equitable growth, national food self-sufficiency and smallholder security (MoFED 2003).

In addition to these socioeconomic objectives, the land policy is strongly influenced by political interests. First, for the EPRDF, which began as a peasant-based movement, the land policy, which claims to protect the peasantry from displacement, can be seen as a populist policy which appeals to the party's political base. Second, by placing restrictions on land transactions, the land policy limits class differentiation within the peasantry and prevents the emergence of a class of large landholders who might translate economic power into political influence (Rahmato 2009). Third, by restricting land transfers, the land policy also limits the flow of migration, which the government believes to be the 'source of economic, political and social instabilities' (MoFED 2002, 56). In particular, urban migration, which would swell the ranks of the urban unemployed, is expected to contribute to social and political upheaval (interviews with respondents J, K, see annex), while migration across ethnic borders is considered likely to lead to ethnic conflict (MoFED 2002). As such, state control of land and the supply of other agricultural inputs brings the state and peasantry into direct contact and maintains the authority of the state with respect to a dependent peasantry (Rahmato 2009).

The result of the land policy is that prior to recent attempts by the government to promote investment, there was virtually no capitalist agricultural production in Ethiopia and smallholder production continues to dominate the production of all crops, accounting for 95% of agricultural output (CSA 2009). Within the peasant sector the wealth of households varies based on access to agricultural inputs such as land, labour, oxen and irrigation. However, there is very little class differentiation, with the vast majority of farmers relying primarily on household labour (Rahmato 2003), although there are growing numbers of landless (Habtu 1997) who are forced to seek a living through sharecropping or wage labour outside the agricultural sector.

While a relatively homogenous rural class structure has been maintained, the agricultural sector has not been able to make the contribution expected by ADLI. Despite claims by Ethiopia's Central Statistical Agency (CSA) of rapid increases in yields, which are questioned in some quarters (Dercon & Vargas Hill 2009), table 1 shows the very low marketed surpluses of most crops, with the vast majority used for self-consumption. The main staples for smallholders are maize, sorghum, wheat, teff, enset and pulses and these are classified as 'peasant' foods for the purposes of subsequent analysis. The small surplus feeds the urban population, with the result that there is no clear distinction between 'peasant' and 'wage' foods, although the greater marketed proportion of teff reflects desirability and greater importance in urban diets. However, rather than providing a cheap and reliable supply of wage foods, the cereal market is extremely volatile with rapid price increases in recent years (FAOstat) highlighting the limited forward linkages to industry. Meat is classified as a 'wage' food, reflecting its importance in urban diets and the fact that it is beyond the purchasing power of most peasants.

Table 1 – The marketed proportion of major crops

	Production (ql)	Percentage self- consumption	Percentage of crop sold
Cereals	155,342,280	66	16
- Teff	31,793,743	53	27
- Barley	17,504,436	63	13
- Wheat	30,756,436	59	20
- Maize	38,971,631	75	12
- Sorghum	29,712,655	73	12
- Finger millet	5,241,911	70	14
Pulses	18,980,473	62	21
Vegetables	5,573,568	80	17
Root crops	18,063,778	72	17

Source: CSA (2010)

The expectation is that backward production linkages will ensue as farmers' wealth increases, creating demand for domestically produced consumption goods and agricultural inputs. As with the forward production linkages, the impact of any backward production linkages appears to be limited. First, studies have shown that given the degree of poverty of many Ethiopian households, when their income does rise, they tend to spend extra money on more food rather than consumption goods (Dercon & Vargas Hill 2009). Second, to date there is no domestic production of fertiliser, the main industrially produced agricultural input, with the agricultural sector relying solely on imports.

The most dramatic evidence of ADLI's failure thus far is persistent food insecurity in many rural areas and reliance on food aid. More than seven million people are classified as 'chronically food insecure' and receive regular support from the cash- and food-for-work Productive Safety Net Programme (PSNP) (MoARD 2009). Additionally, in any given year several million more people facing weather-related or other shocks require emergency assistance. In 2011, in part due to the failure of rains across East Africa, this figure reached 4.5 million in Ethiopia (FAO 2011). The majority of food aid is received in wheat, which

constituted between 11% and 50% of domestic supply since 2000 (FAOstat). It is this foreign aid that has enabled the government to retain ADLI, based on political imperatives, despite limited economic success. Nonetheless, a strategy founded on aid dependency is likely to be unsustainable in the long-term.

Although the main focus of ADLI is on internal production linkages, exports are expected to play a supporting role, by earning foreign exchange to enable the import of capital goods which are required for industrialisation but which cannot be domestically produced or replaced by labour-intensive production processes (MoFED 2002). Nevertheless, the range of agricultural exports from Ethiopia also remains limited. Table 2 shows the few crops of which significant proportions are exported. The major ones, such as coffee, oil seeds, soya and tea, are therefore classified as 'export crops'. These data show past trends and give an indication of likely markets for investment crops. Nevertheless it is entirely possible that investment will lead to changes in export patterns.

Table 2 – Exports as a percentage of total production (by weight)

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

Source: FAOstat

Over the period for which data are available, virtually no cereals have been exported. This is partly due to a 2006 directive banning most cereal exports due to domestic shortages (MoTI 2008). However, according to Dercon and Vargas Hill (2009), regardless of this directive, high transportation costs to Djibouti⁴ mean that there have only been a few occasions, including the recent food crisis, in the last decade when it would have been profitable to export cereals based on prices in Addis Ababa.

Despite implementation of ADLI for nearly twenty years, cereal markets remain volatile and, in recent years, food prices have risen rapidly. In many rural areas production and distribution problems are manifested in high rates of food insecurity, while high food prices in urban areas and the limited production of crops used as industrial inputs are among the barriers to industrialisation. Indeed, the industrial capitalist sector remains extremely small and industry as a whole contributed just 13% of GDP in 2010 (MoFED 2010). At the same time limited agricultural exports and demand for imported goods has contributed to a foreign exchange crisis. The reasons for these failings are complex. They derive in part from insufficient support to the smallholder sector, including declining foreign aid for agriculture (Lavers 2009), with inadequate investment resulting in a shortage of and rising prices for agricultural inputs, limited context specific agricultural research, poor infrastructure and a lack of credit (Githinji & Mersha 2007, Alemu 2010, Spielman et al. 2010). In addition,

⁴ Since the de facto secession of Eritrea in 1991, Ethiopia has been landlocked. In addition, poor relations with neighbouring countries and instability in others means that the vast majority of Ethiopia's international trade passes through the port of Djibouti, with much smaller amounts transported through Berbera in Somaliland or by road through Kenya.

volatile output markets and the shortage of land resulting from population growth mean that investment in increased production or switching to cash crops constitutes a considerable risk, leading many farmers to focus on subsistence production (Rahmato 2003, Dercon & Vargas Hill 2009). This has been compounded by limited growth in non-agricultural sectors which have therefore been unable to absorb surplus agricultural labour.

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

Although the main pillar of the ADLI strategy is smallholder-based agriculture, the first PRSP nevertheless left a space for large-scale agriculture, as long as it did not threaten the smallholder sector (MoFED 2002). For many years this was largely an empty statement, although in recent years a combination of stagnation in the smallholder sector alongside the international drivers of the land grab has led the government to identify the need for greater agricultural commercialisation, signifying a spatially differentiated dual approach (MoFED 2005), which represents a compromise between political and economic priorities. The first maintains the politically-sensitive smallholder sector in the highlands, though redoubling efforts to increase cereal productivity and specialise in 'niche', high-value export markets, where there is potential (MoFED 2005, 47). The second envisages a new role for foreign and domestic investment by 'supporting the development of large-scale commercial agriculture where it is feasible' (MoFED 2005, 47). Government policymakers claim that these sectors are entirely separate—investors are given 'unused' land that smallholders, lacking resources, could not develop thereby expanding total production while avoiding displacement (respondent A, also MoFED 2005).

Building on ADLI's focus on domestic production linkages, some government officials expect foreign investment in agriculture to expand production of peasant and wage foods and industrial inputs, in order to address food security and promote industrialisation, as well as providing employment, technology transfer to smallholders and infrastructure development (Kebede 2011 and respondents A, B, C, D). However, the latest PRSPs go further than ADLI in also envisaging a role for investors and smallholders in the production of export crops in order to earn foreign exchange (MoFED 2005, 2010), hinting at an increasingly trade-oriented development strategy.

It seems a number of factors combined to convince senior policymakers that new initiatives were required. First, a mounting body of evidence, referenced in the first part of this section, demonstrates the limited success of the government's policies in the smallholder sector (Teshome 2006). Indeed, the interlinked processes of rapid population growth, land shortages and increasing dependency on food aid are reaching a point at which continuation of past policies seems socially and politically unsustainable. Second, the foreign exchange crisis has demonstrated the implausibility of maintaining a strategy focused on domestic production linkages in the face of a substantial trade deficit. Third, government officials have come under increasing pressure from many donors, in particular the World Bank, in favour of agricultural commercialisation, while the potential impact of agricultural investment was demonstrated by horticultural projects in neighbouring Kenya prior to their adoption in Ethiopia (Teshome 2006).

The extent to which foreign investors or their governments influenced this change in policy is unclear. Although Chinese investors are key players in other developing countries (Cotula et

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

4. The impacts of agricultural investment

This section uses empirical data to evaluate government policy in the light of emerging patterns of agricultural investment in Ethiopia. The analysis examines the types of crops, the types of investors and the location of projects.

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

The policies and laws designed by policymakers in federal and regional governments contain a number of restrictions and incentives which reflect an attempt to realise the objectives of the agricultural development strategy—increasing production of export crops and food, expanding industrial processing, creating employment and focusing investment on low population areas to limit smallholder displacement, as well as raising productivity in the smallholder sector.

All investors must apply for an investment licence, from the Ethiopian Investment Agency (EIA) for foreign investors or from regional agencies for domestic investors (respondent G). Investors with licences can then submit project proposals to the relevant administration to apply for land, giving the government the ability to select only those in line with government priorities. Land is leased to investors for fixed periods, for example, 15-40 years in Tigray (TNRG 2000 Ethiopian Calendar (EC)) and 35-50 years in the Southern Nations, Nationalities and Peoples' Region (SNNPR Investment Agency 2008), but remains the property of the state. Consequently, the government retains the contractual right to repossess land if investors fail to adhere to agreed plans (Oromiya Investment Commission n.d., articles 7, 10, Tigray EPLAUA n.d., article 6).

In addition, there are a number of policies to encourage particular forms of investment. For example, investors are eligible for exemptions from corporation⁵ and export taxes for five years if exporting more than half their production or providing 75% to exporters (FDRE 2003, article 4, respondent A). In contrast, those producing for the domestic market are given lower priority, paying no tax for only two years. An additional incentive is that the state-owned Development Bank of Ethiopia (DBE) provides concessional lending of up to 70% of an investment. The DBE does not require the investor to provide any capital and lends at lower

⁵ The proclamation actually specifies exemptions from 'income tax' which it defines as 'profits from business'.

interest rates than commercial banks. It does, however, promote production linkages by requiring investors to invest in crop processing and only lends money for priority projects—those that produce export goods or grain for domestic markets and create employment (respondent B).

Table 3 presents foreign investments according to the likely role of crops in the economy. Most land under active projects, and a substantial proportion of pre-implementation projects,⁶ is for bio-fuel crops, primarily castor and jatropha. These projects are few in number but cover a large area. Currently no bio-fuel is processed in Ethiopia, although some investors plan to establish domestic processing in the future. Therefore, while domestically processed bio-fuel crops have the potential to play distinct roles in the economy, substituting for imported fuel, at present they constitute a sub-category of export crops, with China the most common destination (respondents H, I).

Table 3 – The economic roles of foreign investment crops⁷

	Pre-implementation (ha)	%age	Active (ha)	%age	Active (no. of projects)	%age
Export crops	1,577,161	32	129,497	20	144	49
Coffee	29,680	1	3,601	1	6	2
Horti/floriculture	278,019	6	3,274	0	99	33
Oil crops	502,632	10	73,687	11	11	4
Wheat	502,535	10	0	0	0	0
Other	264,295	5	48,935	7	28	9
Bio-fuel crops	745,410	15	255,101	39	7	2
Industrial inputs	504,294	10	120,314	18	23	8
Peasant foods	522,267	10	91,565	14	22	7
Wage foods	905,251	18	46,235	7	75	25
Miscellaneous	725,386	15	13,194	2	25	8
Total	4,979,769	100	655,906	100	296	100

Sources: EIA and MoARD (2011)

Between bio-fuel crops and the export crop category, export crops constitute the largest category of both active and pre-implementation projects. Of the export crops, floriculture constitutes the greatest number of projects but very little land, indicating that projects are small. In principal, the main contribution of these export-oriented ventures will be earning

⁶ According to the EIA, projects are classified as pre-implementation if the investor has been granted an investment licence by the relevant authority but not yet allocated land, and 'implementation' or 'operation', which I have aggregated to 'active', if the investor has been allocated land. Many investors who receive licences never start operations and reports indicate many cases where investors have been allocated less land than requested (Anderson & Belay 2008; Weissleder 2009). Equally, however, due to delays in updating this database, it is probable that some of the investors marked 'pre-implementation' have already been allocated land and consequently the 'active' category is likely to be an underestimate.

⁷ Crops are classified based on analysis in section three unless it is specified in the dataset that the crop is for export or if it says that sugarcane is used for ethanol production (it is assumed to be for sugar, which requires industrial processing). Some investments list several crops, in which case the land size is evenly divided between each crop.

foreign exchange by exporting produce and spending part of the money on operational costs such as wages and any locally-sourced inputs (Sklair 1994). The impact of employment will be higher in labour-intensive projects such as floriculture. In addition, these flower farms have also spawned packaging factories, although most inputs used in flower production are imported (Tiruwaha Melese & Helmsing 2010).

Vitally, given the extent of food insecurity problems in Ethiopia, there are few projects likely to contribute to peasant food availability, with a small number producing maize and pulses. The majority of the land producing peasant foods under active projects is leased by Karuturi, an Indian investor who has said that he intends to market much of his crop in Ethiopia, with the remainder destined for neighbouring African countries. In addition, a few foreign investors producing rice and wheat for export claim they will market part of their produce domestically as part of a Corporate Social Responsibility (CSR) strategy (Empora 2009, Capital Newspaper 2010). Nonetheless, these are not contractual obligations (MoARD 2010) and it remains to be seen whether these promises will transpire. In any case, at just 14% of the land leased so far, investors growing peasant foods are at best likely to make a small contribution to rural food security in Ethiopia and reduced urban food prices that might contribute to industrialisation.

The 'wage foods' category in table 3 consists mainly of livestock projects. Meat is categorised as a 'wage food' because previous production has tended to serve the domestic market. Nonetheless, a few investors explicitly state that their projects will produce meat for export and were accordingly classified. It is unclear whether most livestock projects, which do not state their destination market, will continue to produce for domestic markets or if meat will become a major export. In addition to wage food production lowering the salary required for a living wage, investment could potentially contribute to industrialisation through the production of industrial inputs. However, realising these linkages requires the crops to be locally processed. A 25,000 hectare Chinese sugarcane plantation in Gambella (MoARD 2011) is likely to require local processing as sugarcane must be processed shortly after being cut in order to prevent fermentation. In contrast, cotton, which constitutes the majority of the land leased for industrial input crops, could be easily exported for processing elsewhere, raising some doubt about the destination of the cotton produced. Nevertheless, investment in cotton production is given special priority by the DBE, which exempts investors from the requirement to invest in local processing to qualify for loans since the few textile factories already established in Ethiopia have experienced difficulties sourcing good quality materials domestically (respondent B). There are also some isolated examples of projects directly contributing to local processing, with rice and sesame dryers planned by investors to cater for expanded production (Alemu 2010).

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

Only data on Oromiya, presented in table 4, contain information on land requested by both domestic and foreign investors.⁸ This shows that domestic investors are by some way in the majority, although foreign investors have applied for much more land and have considerably

⁸ The division between local and foreign investors is not always totally clear as many Ethiopian diaspora have been encouraged to invest money accumulated abroad in their 'home' country. Consequently, there are many Ethiopian names among the list of 'foreign' investors.

more capital per investor. Indeed, foreign investors in Oromiya intended to invest 43m *birr* per investor compared to 12m *birr* per domestic investor.⁹

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

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

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

Source: Oromiya Investment Commission

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

Investment data do not contain information on company ownership, preventing quantitative comparison between public and private investors. Based on available reports, the majority of investors are almost certainly private companies (though perhaps supported by home governments), although there have been some high profile foreign state-owned or affiliated investments in Ethiopia. A respondent in the AISD stated that the Ethiopian government makes no distinction between foreign private and state-owned investors (respondent A). Nonetheless, there are good reasons to believe that investors' priorities differ. As discussed

⁹ Based on an exchange rate of USD 1 to 16.5 *birr* in September 2010, this equates to USD 2.6m per foreign investor compared to USD 0.7m for domestic investors. These figures should, however, be viewed with caution as investors have an incentive to overstate the amount that they intend to invest in order to gain government approval. Nonetheless, foreign projects are on average much larger than domestic ones.

previously, cereal prices in Addis Ababa are dominated by local supply and demand due to the transaction costs that usually make import or export unprofitable. In addition, many of the investments in Ethiopia are in remote areas in the west and south of the country, further increasing transport costs to Djibouti, the main route for exports. Consequently, a private company would be expected to follow price incentives and market cereals domestically. This conclusion is supported by prominent Indian investor, Ram Karuturi, who explains that, '[w]ith the high cost of transportation in Africa, it does not make sense for us to try to export beyond the region' (X. Rice 2010). Consequently, Karuturi intends to market the majority of his produce within Ethiopia, while exporting some to neighbouring African countries.¹⁰

Nevertheless, one German, private investor plans to grow wheat for export to the EU on 500,000 hectares (Empora 2009). The investor's plans not only anticipate a repeal of the directive banning cereal exports, but also challenges findings regarding their profitability. This raises the question of whether investors are speculating on a change in market dynamics—will infrastructural improvements and rising international food prices make it profitable to export cereals from Ethiopia? Such economic calculations do not necessarily apply to the 3,000 hectare farm in Oromiya granted to the Government of Djibouti to export wheat (Zenebe 2010b), an apparent exception to the export ban. The goal of this state investor is not profit maximisation, but national food security, while for Ethiopia, the decision to allocate land free of charge, is presumably to ensure the support of the Government of Djibouti which provides Ethiopia's only reliable access to a port, essential for international trade.

Similar arguments may be applicable to Al-Amoudi's Saudi Star investment in Gambella, initially covering 10,000 hectares but which the company hopes to expand to 200,000 hectares (Zenebe 2010a). Al-Amoudi reportedly presented the first rice produced to King Abdullah (A. Rice 2009, Vidal 2010) and the venture is subject to incentives offered by the Saudi Government for Saudi companies to produce food for Saudi Arabia abroad (Cotula et al. 2009). The company has stated its intention to market 45% of its produce domestically (Capital Newspaper 2010). Though this intention may hold when international food prices are relatively low,¹¹ as a state-affiliated investment, doubts remain whether Saudi Star would still market its produce in Ethiopia when Saudi Arabia faces problems sourcing grain imports, a key driver of the 'land grab'.

While the dominant trend is for the Ethiopian government to lease state farms to investors who have the resources to invest in production, the Ethiopian state has nonetheless expanded certain of its own projects. Prominent examples include the state-owned sugar plantations, all of which are in the process of major expansion (ESDA 2010). Rather than constituting a move towards greater liberalisation and privatisation of the economy, the

¹⁰ The company is apparently exploring the possibility of exporting produce to Uganda and Sudan on the Baro River, a tributary of the Nile (Davison 2010b). Gambella town itself was originally established as a port on the Baro by the British colonial administration in Sudan which was trying to gain commercial and political influence over western Ethiopia in the early twentieth century. At that time, export on the Baro was cheaper for producers in western Ethiopia than the Addis Ababa-Djibouti railway. Nevertheless, the use of the Baro for export came to an end, in part due to the political importance to the Ethiopian state of exports passing through Addis Ababa (Zewde 2008a).

¹¹ Even if the rice is sold locally, the impact is uncertain as there is very little domestic market in Ethiopia for rice, which is not a traditional staple.

government's investment policy is an attempt to mobilise foreign and domestic capital to increase production, within the framework outlined by government policy. Nevertheless, where private investors are unable or unwilling to invest in projects which are the government sees as domestic priorities, it remains willing to establish such projects itself through state organisations.

4.3. The spatial distribution of agricultural investments

When the EPRDF came to power in 1991, it diagnosed many of Ethiopia's problems in terms of the military conquest by the 'Amhara dominated' Imperial government of the rest of modern day Ethiopia in the late nineteenth century and the subsequent domination under Imperial and *Derg* rule of the Amhara over other ethnic groups (Vaughan 2003). This, the party claims, resulted in deep rooted inequalities which could only be overcome through ethnic self-determination and the management of the groups' resources in the interests of ethnic groups (Eshete 2003, Vaughan & Tronvoll 2003, Clapham 2006, Turton 2006). Land is one of the principal group resources according to ethnic federalism, which equates ethnicity with territory and consequently, according to the Constitution, the administration of land is the responsibility of ethnically-delineated regions (FDRE 1994, article 52). Nevertheless in 2009, the growing importance of agricultural investment led the federal government to re-centralise control over investment, creating the Agricultural Investment Support Directorate (AISD) in the federal Ministry of Agriculture and Rural Development (MoARD) to allocate land to all foreign and large (more than 5,000 hectare) domestic investments. The stated intention of this change is to speed up land allocation compared to regional processes which, especially in 'emerging' regions,¹² are considered slow, bureaucratic and prone to corruption (respondent A).

Despite the fact that all regional governments are administered by parties which are members or affiliates of the EPRDF, the creation of the AISD has provoked contrasting responses from the different regional administrations. Before 2009, all regional governments were leasing land to investors, broadly in line with federal policy. In the emerging regions, which were created 'from above' by the EPRDF and have always had limited administrative capacity, regional governments have submitted to the request to delegate the allocation of investment land to the federal government. The AISD has renegotiated and standardised many of the contracts originally signed with these regional administrations (respondent A, contracts published in MoARD 2011). In contrast, several of the established regions have questioned the compatibility of the AISD with constitutionally-enshrined ethno-regional responsibilities (respondents C, E, F). In my interviews the respondents most opposed to centralisation of investment were those in the Oromiya Investment Commission. For example one respondent stated that,

'The constitution does not allow this [centralised allocation of investment land] to happen. According to the constitution, land is administered by the regions, so to make the changes they [the federal government] need to change the constitution' (respondent C).

¹² Afar, Benishangul-Gumuz, Gambella and Somali are considered to be 'emerging' regions, relatively less developed and lacking state capacity, while Amhara, Oromiya, SNNPR and Tigray are 'established' regions.

The tensions created by these changes were also acknowledged by a respondent in the Amhara Investment Promotion Agency,

'It is somewhat self-contradictory. Regions are given full responsibility [for land administration] but the federal government is given responsibility for promoting investment for the whole country. The idea comes from the good intention to promote development but it makes regional departments unhappy. It does not make for good relations' (respondent E).

Opposition in Oromiya, in particular, is surprising given that the ruling Oromo Peoples' Democratic Organisation (OPDO) has in the past been characterised as an artificial creation of the EPRDF to implement federal policy (Clapham 2009), in contrast to the administrations in Tigray and, to a lesser extent, Amhara, which have roots in society (Vaughan 2003). My interviews failed to reveal any significant policy difference on investment between the regional and federal governments that might be the cause of the tensions. A more likely cause would appear to be an institutional concern with maintaining administrative power or, perhaps, an attempt by regional governments to enhance their legitimacy in the eyes of their own populations by establishing their autonomy from federal government. It remains to be seen whether in the future regional administrations will be able to retain control of investment or whether ultimately the federal and party chain of commands, where the real decision making power lies according to past commentators (Aalen 2002, Ayenew 2002, Vaughan & Tronvoll 2003, Fiseha 2006), will enable the re-centralisation of investment administration.

The federal government's investment policy broadly distinguishes between areas cultivated by smallholders and other areas categorised as 'unused'. As such, the government invokes a narrative on land use and so-called 'marginal lands' which has been commonly used to justify 'land grabs' by host governments, agro-businesses and observers who see potential benefits from these land deals (Deininger & Byerlee 2010, Deininger 2011). Nevertheless, 'unused' or 'marginal' land is a category defined from the perspective of the state (Scott 1998, Borrás & Franco 2010) and is subject to the constraints of its administrative capacity. As such, the identification of 'unused' land leased to investors is limited by the state's incomplete knowledge of existing land use in many parts of the country (as acknowledged by respondents K and M) and implicit assessments from the state's perspective regarding the relative productivity of different land uses. In particular, government policy, which focuses almost exclusively on settled agriculture, identifies pastoralism and shifting cultivation as unsustainable land uses that must ultimately be transformed through state organised settlement programmes (MoFED 2003, 2010). In the words of Dr Abera Deresa, State Minister for Agriculture and Rural Development, 'we are not really appreciating pastoralists remaining as they are. We have to improve their livelihood by creating job opportunities. Pastoralism, as it is, is not sustainable. We want to change the environment' (Butler 2010). Indeed, most land leased to investors tends to be in lowland areas, where population density is much lower than in smallholder areas and reports suggest that at least some of the land already leased to investors includes land previously used for pasture and shifting cultivation (Cotula et al. 2009, Daniel & Mittal 2010, The Oakland Institute 2011, Lavers 2011).

Vitaly, these existing patterns of agricultural production in many cases overlap with ethno-regional boundaries, implying that different regions are likely to be affected by investment in very different ways. In particular, all of the emerging regions, where the major livelihoods

include pastoralism or shifting cultivation, are situated in lowland border areas and are relatively sparsely-populated. In contrast, large parts of the established regions are highland areas cultivated by settled smallholders, with smaller amounts of low lying, sparsely-populated land. The federal government has actively promoted investment by providing investors with an extra year exempt of taxes if investing in sparsely-populated areas like Gambella, Benishangul-Gumuz and South Omo (FDRE 2003, article 4). Additional incentives are provided to start investments on previously 'uncultivated' land (ONRG 2001, article 2), while land lease fees in all regions vary considerably, with the lowest fees in remote, sparsely-populated areas (TNRG 2000 (EC), SNNPR Investment Agency 2008).

Table 5 – The regional distribution of investment land

	Population density (people/ha)	Foreign investments in active projects (ha)	Identified for future investment (ha)
Addis Ababa	5536	171	0
Afar	21	10,000	409,678
Amhara	117	20,702	347,430
Benishangul Gumuz	15	83,931	691,984
Dire Dawa	237	0	0
Gambella	12	202,012	1,238,005
Multiregional	N/A	45,017	-
Oromiya	105	214,003	438,212
SNNPR	152	79,770	529,181
Somali	N/A	0	N/A
Tigray	55	300	0
Total		655,907	3,654,491

Sources: AISD/MoARD, Amhara BoEPLAU, CSA, EIA, MoARD (2011), Oromiya Investment Commission, SNNPR Investment Agency (2008), Tigray EPLAUA

Table 5 presents data on the regional distribution of investment land. Data on active projects reflect leases which were, on the whole, negotiated by regional governments before the creation of the AISD. Land identified for future investment is now managed by the AISD on behalf of the emerging regions, while the established regions continue to allocate land to investors themselves. The data show that the main sites of active projects are Gambella, Oromiya, Benishangul-Gumuz and SNNPR, while Gambella and Benishangul-Gumuz are by far the main locations of land identified for future investment. Indeed, as relatively small regions, the land identified for future investment constitutes 42% of the surface area of Gambella and 14% of Benishangul-Gumuz. Although Amhara, Oromiya and Tigray have all leased land or identified land for future investment, for the time being these processes remain under regional administration and have been conducted in a far more selective manner, with investment land constituting a far smaller proportion of the total surface area of the regions. The consequence is that the federal government's re-centralisation of investment administration is removing huge tracts of land in some of the emerging regions from regional governments and placing them under direct federal control.

5. The political economy of investment policy in Ethiopia

Although recent work on the 'land grab' has highlighted factors driving demand for land in developing countries, in Ethiopia increased investment is not merely the result of increased demand. Because of state ownership, investors would not be able to obtain land through market transactions. Rather than investors running roughshod over a passive government—one interpretation of the term 'land grab'—investment is a policy which is managed and promoted by the government, selecting investors and investments in an attempt to take advantage of demand for agricultural production to achieve the objectives set out in its development strategy. Arguably, the term 'land grab' goes beyond questions of legality and should also take into account whether investors and the state 'grab' land from its previous occupants and the extent to which new projects merely extract resources from a site to the benefit of outsiders. Indeed, the new systems of production established by investors in Ethiopia and the potential for these to provide benefits for local people as well as investors are key issues which I consider elsewhere (Lavers 2011). Nonetheless it is important to note that foreign agricultural investment is a policy which is promoted by the government and conducted within its legal framework. As with any other government policy, domestic criticism of or resistance to investment is considered a political challenge to the EPRDF.

Government officials are reluctant to acknowledge a change in agricultural strategy which implies problems with the previous strategy. Nevertheless, the promotion of export oriented investment indicates recognition by the government of the limited success of ADLI and an attempt to resolve its problems by moving from a strong focus on internal production linkages towards a more trade-based and regionally differentiated development strategy. To this end, the exchange rate was devalued by 20% overnight in September 2010 in an attempt to improve export competitiveness for agricultural and industrial products, to reduce demand for imports and to promote import substitution (MoFED 2010, Teklehaimanot 2010). In addition, government resources are increasingly focused on promoting export-oriented agricultural investments through subsidised loans from the DBE, tax incentives and priority access to land and irrigation for investors. In contrast with the original articulation of ADLI, according to which foreign trade had only a minor role, the government anticipates that these projects will address the foreign exchange shortage and ultimately enable the import of machinery required to advance industrialisation enabling it to become the key sector of the economy (MoFED 2010). According to one respondent in the AISD,

'The investors bring foreign currency, which is in the interests of the country. Foreign exchange is needed to develop the other [non-agricultural] sectors of the economy. Ethiopia cannot develop with just food' (respondent A).

In important respects ADLI attempted to replicate the labour-intensive smallholder-led primitive accumulation in South Korea and Taiwan (Byres 1991). As envisaged in ADLI, in those East Asian countries the state played a key role providing improved inputs to smallholders, in order to raise productivity, and extracting the agricultural surplus. This primitive accumulation enabled the process of capitalist industrialisation to begin without the emergence of a class of large-scale landholders. The modification to ADLI, reducing its emphasis on internal production linkages and envisaging a greater role for international trade through commercialisation of the smallholder sector as well as large-scale capitalist agriculture, constitutes a step towards the neo-liberal mainstream in part of the Ethiopian

agricultural sector. This mainstream highlights the importance of integrating producers into global markets through export-oriented agricultural production, enabling them to exploit their comparative advantage (Akram-Lodhi 2008, World Bank 2008, Chang 2009, Bernstein 2010).

It is also worth noting that in many respects ADLI resembled some of the alternatives to the land grab proposed by its critics. For example, De Schutter (2011), like ADLI, highlights arguments for an inverse relationship between farm size and productivity per hectare, the potential complementarity of equitable land distribution with productivity growth and the dangers of displacing large numbers of peasants for technology intensive production which requires few workers in the absence of a vibrant industrial sector capable of absorbing surplus labour from agriculture (see also Li 2011). Consequently a smallholder-led agricultural development strategy is suggested, which would, like ADLI, require a major role for the state, preventing concentration of holdings and displacement of peasants, while providing support to the sector to raise productivity. Though a full discussion is not feasible here, the Ethiopian experience is well worth considering by those searching for a coherent vision of an alternative to the 'land grab'. The failings of smallholder policies have been the subject of considerable research, yet researchers remain divided as to whether fundamental structural barriers stand in the way of smallholder-based agriculture-led industrialisation (Dercon et al. 2009, Rahmato 2009) or whether the problems can be attributed to poor implementation (Githinji & Mersha 2007, Alemu et al. 2008, Spielman et al. 2010).

Despite statements by mid-level officials that they expected investment to contribute to food security, the change in development strategy also appears to reduce the emphasis on achieving national self-sufficiency as the means of addressing food security and instead turn to a trade-based food security strategy. As Dr Abera Deressa explained, 'If we get money [foreign exchange from investment] we can buy food anywhere. Then we can solve the food problem' (Davison 2010a). Apparently, it is the anticipation of increased foreign exchange earnings that is behind the government's claim in the latest PRSP that national food security will be achieved within five years (MoFED 2010). Given the overlap between peasant and wage foods, discussed earlier, this strategy also implies a reliance on trade for achieving a supply of low cost wage foods, required to support industrialisation and to encourage more smallholders to switch from the production of staples to the production of cash crops.

The most obvious beneficiaries of the change in strategy are the emerging class of foreign and domestic capitalist farmers who receive preferential treatment from the government to establish their enterprises. Indeed, for the first time since the 1975 land reform the promotion of investment by the government is creating a class of economically powerful landholders. Restrictions on land transactions in the smallholder sector keep this sector of capitalist investors legally distinct from the smallholder sector and, in effect, prevent smallholders from developing into capitalist farmers. As a result, investors are predominately foreign businesses, Ethiopian urban elites or returning diaspora, rather than successful local farmers with strong links in the communities in which they are investing. Investors are therefore unlikely to be able to bring together economic power with strong rural support to constitute a political challenge to the government. Rather this new class of investors relies on the state for continued access to agricultural resources and to control labour required for production. While this class of capitalist farmers has the potential to become an important influence on

government policymaking, the mutual dependence between investors and the state suggests that this relationship is more likely to lead to coordination rather than conflict (Boone 2003).

If the investment strategy achieves its objectives in earning foreign exchange and financing industrial expansion, an emerging group of industrial capitalists also stands to reap the rewards of a favourable policy environment. However, the existing private sector in Ethiopia is heavily dominated by organisations with close links to the ruling party (Vaughan & Tronvoll 2003, Poluha 2004). In particular, large numbers of those manufacturing organisations which are not directly state-owned are controlled by the MIDROC business empire, owned by Sheik Al-Amoudi who enjoys close links with the EPRDF, or the Endowment Fund for the Rehabilitation of Tigray (EFFORT), which is effectively controlled by the TPLF (Vaughan & Tronvoll 2003) and many other companies are privately owned by party officials. Consequently, this group of industrialists do not constitute a truly independent interest group.

In comparison to the support given to the agro-export sector, there is relatively little incentive for investors to establish cereal production for the domestic market since the main incentives offered by the government favour export crops. In addition, large-scale imports of food and food aid, in particular wheat, depress domestic cereal prices (respondent L), reducing the price incentives for investment in production for the domestic market. Currently the marketed surplus of cereals is produced by relatively wealthy smallholders and, although avoiding smallholder displacement is a major concern of the government, these farmers do not have much influence over government agricultural policy more broadly.

The attempt to resolve Ethiopia's economic problems through an increasingly trade-based strategy involves considerable risks both for the government and key interests. First, while export-oriented investments offer the potential to earn foreign exchange, it should not be taken for granted that they will do so. In particular, the experience with FDI in other countries has shown that companies frequently use transfer pricing to reduce exposure to local taxes with the effect of reducing foreign exchange earnings accruing to host countries (Zdanowicz et al. 1997, Singh 2007). The need to monitor transfers between associated parties to prevent this from occurring presents an important challenge for states' capacity to regulate investors. Second, there are great risks to relying on trade for food security in developing countries where even a temporary fall in export prices or rise in food prices can reduce food consumption below a necessary minimum (Chang 2009, De Schutter 2011). In the contemporary context of high and fluctuating international food and fuel prices, it seems doubtful that such an investment-led export-oriented development strategy will better equip the Ethiopian government to address problems like those resulting from the 2011 drought in East Africa. Meanwhile, devaluation of the Ethiopian currency means that food imports are considerably more expensive, as well as competing for foreign exchange with industrialists wanting to import machinery. All of these factors suggest that for the time being Ethiopia will continue to rely heavily on foreign food aid. Finally, the strategy also presents political risks related to the impact on urban interests. Devaluation means that the emerging middle class will find that imported consumer goods are increasingly expensive, and, should international food prices remain at high levels, increasing reliance on imported food will raise the cost of living leading to discontentment among urban residents and industrialists.

The analysis in the previous section, summarised in table 6, also suggests important differences between the economic roles played by different types of investors. For the

Ethiopian government, if the objective of investment promotion is solely to increase exports, the promotion of all foreign investors, who are more export-oriented than domestic investors, may be sufficient. However, if export promotion were to be combined with other objectives such as industrialisation and food security, the government would need to pay more attention to the types of investors it encourages. For example, foreign state investors, though politically important, are unlikely to invest in processing industry or Ethiopian food security given their focus on their own domestic priorities.

Table 6 – Investment crops by type of investor

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

Even though the markets for peasant foods and industrial inputs have thus far proved insufficiently attractive to private investors, investment could potentially be used to expand domestic food supply or promote industrialisation either by expanded production by the Ethiopian state or by the government ‘satisfying the economic demands of the wage-food capitalist group for rent-yielding high prices’ (Crouch & de Janvry 1980, 12). Nevertheless, though some state sugarcane production is being expanded, the current trend is for the government to lease out state farms to foreign private investors, reducing the state’s grain production. At the same time, increased reliance on imported food will further reduce incentives for investors to invest in food production for the domestic market.

Finally, the role of investment in the government’s development strategy and the centralisation of investment policy raise important political questions regarding the compatibility of ethnic self-determination with a centrally-defined development strategy. The government’s political priority is to maintain the smallholder sector and, consequently, the focus of investment policy is to expand production in sparsely-populated areas. To achieve this the federal government is attempting to re-centralise control over investment policy in Ethiopia’s ‘national interest’, as defined by the federal government, in contravention of the federal system, which stipulates that key resources such as land should be managed by ethno-regional administrations. While the established regions, including Oromiya and Tigray where public desire for ethnic autonomy are probably strongest, have thus far resisted this

centralisation, the weaker administrations in emerging regions, which were created from above rather than as a result of local demands, have relinquished control.

These tensions can be seen as part of an ongoing debate in Ethiopia about federalism. The EPRDF has found itself in the middle of two opposing camps drawing on very different historical interpretations of the creation of the Ethiopian state (Eshete 2003). On one side, the centrists emphasise the historical unity of Ethiopia and fear its break up. These centrist views are usually associated with urban areas and the diaspora, where ethnic identities are frequently less clear cut, and Amhara region, although they are not limited to them. On the other hand, regionalists use narratives of internal colonisation as the basis of claims for greater autonomy of ethnic regions and some Oromo nationalists continue to argue for secession from Ethiopia (e.g. Jalata 2005). On the whole, the EPRDF has occupied the middle ground between these two positions, establishing a formally federal structure while retaining strong central control of policy, encroaching on regional autonomy where necessary. While this position has brought some political advantages, dividing the EPRDF's political opposition (Vaughan 2003), it has also brought problems, creating expectations of regional autonomy, particularly among some groups in Oromiya, that the government has been unable to fulfil (Clapham 2009).

Investment in the lowlands, meanwhile, takes place in the context of a long history of inequality going back to the original incorporation of these areas into the Ethiopian Empire by conquest in the nineteenth century. Under Imperial rule the relationship between highland centre and lowland periphery was characterised by inequality, exploitation and extraction of resources through collection of tribute and taxes, and the slave and ivory trades (Donham 2002, Garretson 2002, Wolde 2002, Feyissa 2006). Indeed the present turn to agricultural investment bears a resemblance to policies pursued in the latter years of the Imperial government, which provided long-term leases to foreign investors on concessional terms to establish commercial agriculture, at that time focusing on the Awash River and displacing the Oromo and Afar pastoralists that previously occupied the land (Zewde 2008b).

Now encompassing a much wider area, the current government's classification of huge swathes of lowland areas as 'unused' raises the prospect of the exploitation of politically marginal regions for the benefit of the centre, precisely the inequality which ethnic federalism was intended to prevent. Like past regimes, which sought to settle pastoralists, changing their 'backward' practices to the more 'civilised' sedentary farming of the highlanders (Donham 2002, Teshome 2006), the present government's policy is to settle pastoralists, whose livelihoods are considered unsustainable (MoFED 2003, Butler 2010). Ultimately, the debate on legitimate 'use' rests on arguments between groups' rights to use their land in the way that they see fit, as implied by ethnic federalism, and the government's interpretation of the 'national interest', turning unproductive land over to 'more productive' users. Despite the legal recognition of ethnic equality, therefore, these emerging regions in practice remain politically marginalised and are permitted a lesser degree of autonomy, in direct contradiction of the principle of self-determination that underpins ethnic federalism.

6. Conclusions

Since the early 1990s, the EPRDF has pursued a development strategy which drew inspiration from the path of agrarian transition in East Asia and attempted to raise the productivity of smallholder agriculture through labour intensive cultivation in order to stimulate industrialisation. The active promotion of foreign and domestic agricultural investment by the Ethiopian government recognises the limited success of this strategy, reducing its focus on domestic production linkages and placing greater emphasis on foreign trade. To this end, the government has particularly encouraged export-oriented investments in order to boost foreign exchange earnings, to achieve food security through trade and ultimately to finance capital imports to start industrialisation.

The result is the re-emergence of a class of foreign and domestic capitalist farmers. These export-oriented farmers, along with the industrial capitalists, stand to be the main beneficiaries of the change in strategy, receiving priority support from the government, while incentives for investors and smallholders to invest in increased domestic food production remain limited. In the context of high and fluctuating international food prices, therefore, the turn to a trade-based food security strategy in a country that already faces serious problems of food insecurity constitutes a considerable risk. In the short to medium-term at least there seems little possibility that such a strategy will be able to reduce Ethiopia's reliance on foreign food aid.

Thus far, the Ethiopian government has paid relatively little attention to the types of investors investing in Ethiopia, if anything favouring foreign investors due to the likelihood that they will export their produce. Data on the types of projects established by different types of investors suggest that they have diverse priorities and are therefore likely to have varying impacts on the Ethiopian economy. While domestic political priorities will prevail for foreign state investors, there remains the possibility that the Ethiopian government could use price incentives to encourage private investors to produce grains and industrial input crops for the domestic market, as well as export crops.

The limited socioeconomic success of Ethiopia's smallholder-focused development strategy has meant that smallholders are no longer seen as the sole engine of economic transformation. Nonetheless, the political importance of the sector has ensured its protection, leading to an expansion of investment in remote, sparsely populated areas. The spatial differentiation in investment policy also maps onto differences in ethnicity and livelihoods, which have enormous historical significance in Ethiopia. Indeed federally managed investment processes raise the prospect of the exploitation of the periphery for the benefit of the centre, a pattern of inequality which ethnic federalism was designed to prevent.

Annex: Interview respondents

Respondent	Position / organisation	Place	Date conducted
A	Manager, Agricultural Investment Support Directorate	Addis Ababa	28 Dec 2009
B	Manager, Development Bank of Ethiopia	Addis Ababa	17 Feb 2010
C	Manager, Oromiya Regional Investment Commission	Addis Ababa	3 Feb 2010
D	Manager, SNNPR Investment Agency	Awassa	1 Mar 2010
E	Manager, Amhara Investment Promotion Agency	Bahir Dar	16 Mar 2010
F	Manager, Tigray Investment Agency	Mekele	1 Apr 2010
G	Manager, Ethiopian Investment Agency	Addis Ababa	18 Feb 2010
H	Investor growing castor for bio-fuel	Addis Ababa	7 Sep 2010
I	Investor growing castor for bio-fuel	Addis Ababa	8 Sep 2010
J	Manager, Tigray Environmental Protection, Land Administration and Use Agency	Mekele	1 Apr 2010
K	Manager, Oromiya Land Use and Environmental Protection Bureau	Addis Ababa	17 Nov 2009
L	Manager, United Nations Food and Agriculture Organization sub-regional office for East Africa	Addis Ababa	12 Feb 2010
M	Manager, Amhara Bureau of Environmental Protection, Land Administration and Use	Bahir Dar	15 Mar 2010

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