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**An Assessment of Challenges and Prospects of Foreign Direct Investment in
Agricultural Sector in Ethiopia (with Reference to Foreign Investment in
Large Scale Farmland)**

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Table of Content

Acknowledgement	i
Table of content -----	ii
List of Table-----	vi
List of Figure -----	vii
Acronyms -----	viii
Abstract -----	ix
Chapter One	1
1. Introduction.....	1
1.1 Background of the study	1
1.2 Statement of the Problem	3
1.3 The Research Questions.....	5
1.4 The Research Objectives.....	5
1.7 Scope and Limitation of the Study	8
1.8 Significance of the Study	8
1.9 Organization of the Thesis	9
CHAPTER TWO	10
2. Review of Related Literature.....	10
2.1 Introduction	10
2.2 Definition of FDI in Farmland.....	11
2.3. Foreign Direct Investment in Africa.....	12
2.3.1 Africa’s Attempts at Attracting Foreign Direct Investment	13
2.4 The Race for the World’s Farmland	14
2.4.1 The New Farms Race: Roots and Reasons.....	15
2.5 Recent Investment Trends and Patterns in Farmland	18
2.6. Host Country Motivations.....	18

2.7 International Frameworks Concerning FDI in Farmland.....	20
2.7.1 Agricultural Farmland Acquisitions	20
2.8 Why the Concern is for FDI in Farmland?.....	21
2.8.1 Unequal Power Relations	21
2.8.2 Conflicting Interpretations of Land Use	22
2.8.3 Scarce Natural Resources	23
2.9 The Promises of Agricultural Farmland Investment	23
2.9.1 The Danger Signs of Agricultural Farmland Investment	24
2.10 Foreign Direct Investment in Ethiopia.....	27
2.10.1 Agricultural land Policy of Ethiopia	27
2.10.2 Recognition and Enforcement of Land Rights in Ethiopia.....	29
2.10.3 Restriction on Land Rights and Land Use Planning	31
2.10.4 Environmental and Social Safeguards.....	31
2.10.5 Food security.....	32
2.11 The Impacts of Foreign Direct Investment in Farmland on Target (Host) Countries in Terms of Sustainable Development.....	33
2.11.1 Possible economic impacts of FDI in farmland on rural livelihoods.....	34
2.11.2 Possible Socio-Cultural Impacts of FDI in Farmland on Rural Livelihoods.....	37
2.11.3 Possible Environmental Impacts of FDI in Farmland on Rural Livelihoods	38
Chapter Three	40
3. Data Presentation and Analysis.....	40
Introduction.....	40
3.1 Composition of Investment Capital in Ethiopia by Type of Ownership	40
3.1.2 The Total National Investment Made.....	41
3.1.3 Expected Vs Operational Foreign Projects.....	43
3.1.4 Expected Vs Actual Capital Generated	44
3.1.5 Employment Generation.....	45

3.1.6 Percentage Share of Foreign Direct Investment projects in the Agricultural Sector	46
3.1.7 Trends of Foreign Investment in Agricultural Farmland.....	47
3.1.6 Expected Vs Operational Foreign Agricultural farmland Investment Projects	48
3.1.7 The Main Sources of Foreign Investments in Ethiopia	51
3.2 Government Officials’ Responses Regarding Foreign Investment in Large Scale Farmland in Ethiopia	52
3.2.1 The Previous Use and Types of Land Contracted to Foreign Agro-Investors.....	54
3.2.2 The Extent of Transparency and Consultation of Concerned Government Authority with Local People	56
3.2.3 The Recognition of Farmers Right and Compensation Made To Local Farmers.....	57
3.2.4 The Type and Period of the Large Scale Farmland Contract	58
3.2.5 The Amount of Capital Required to Get Investment License	61
3.2.6 Special Terms of Contract	62
3.2.7 The Impact of the Large Scale Farmland Contract on the Food Security	64
3.2.8 The Impact of Foreign Investment in Large Scale Farmland on Environment	65
3.2.9 Impact of the Large Scale Farmland Contract on the Revenue of the Country.....	66
3.2.10 Impact of the Large Scale Farmland Contract on the Land Tenure Arrangement.....	67
3.3 Responses of Respected Individuals from the Assessed Foreign Agro-Investment Company	69
3.3.1 Economic benefit of foreign agricultural investment.....	69
3.3.2 Market Plan of the Company	70
3.3.3 Incentive Packages Influenced the Investor to Engage In Agricultural Sector	71
3.3.4 Employment generation.....	71
3.3.5 Technology Transfer	72
3.3.6 Environmental effect of the foreign agro-investment company	73
3.3.7 Displacement of Indigenous People and Loss of Income Opportunities	74
Chapter Four	76
4. Conclusions and Recommendations.....	76
4.1 Conclusions	76

4.1.2 Trends of Foreign Investment in Farmland	76
4.1.3 Previous Use and Types of Farmland Leased To Foreign Agro- Investors	77
4.1.4 Environmental Concern	77
4.1.5 Institutional Concern	78
4.1.6 Incentive Concern	78
4.2 Recommendations.....	79
4.2.1 Establishing an Institution That Follow Up and Monitor Foreign Agro-Investment Companies	79
4.2.2 Detail and Careful Examining of the Capacity of Foreign Agro-Investors.....	79
4.2.3 Strengthening Environmental and Social Impact Assessment	80
4.2.4 Clearly Defining the Communal Farmland	80
4.2.5 Strengthening the Rural Land Ownership Certificate and Completing the Process As Soon As Possible	80
4.2.6 Put in Place the Benefit Sharing Mechanisms	80
4.2.7 Making the Incentive More Balanced or Benefiting both Government and Investors .	81
4.2.8 Strengthening Transparency and Consultation with Concerned Farmers and Communities.....	81

Bibliography

Appendixes

List of Tables

Table 3.1 Total Licensed Vs Operational Investment Projects (1992-2010) -----	42
Table 3.2 Number of Foreign Licensed Projects Vs Operational Foreign Projects (1992-2010)-----	43
Table 3.3 Expected Vs Actual Capital Generated from foreign projects During the Year (1992-2010) -----	44
Table 3.4 Expected Vs Actual Employment Generated by foreign investments (1992-2010)-----	45
Table 3.5 Trends of Foreign Investment in Agricultural Farmland -----	47
Table 3.6 Total Licensed Vs Operational Foreign Agricultural farmland Investment Projects (1994-2010)-----	49
Table 3.7 Responses of Government Officials on Why Ethiopia Is Entered Into Large Scale Farmland Deal with Foreign Investors -----	53
Table 3.8 Previous Use and Types of Farmland Leased to Foreign Agro-Investors -----	55
Table 3.9 the Extent of Consultation of Concerned Government Authority with Local Farmers -----	56
Table 3.10 Type of farmlands for which Compensation has Made to Local Farmers -----	57
Table 3.11 the Period of Farmland Contract to Foreign Agro-Investors -----	59
Table 3.12 Type of Contract Made With Foreign Agro-Investors -----	59
Table 3.13 the Separate Dispute Resolving Institutions-----	60
Table 3.14 Capital Required By Foreign Agro Investors to Get Investment License -----	61
Table 3.15 Special Terms of Agreement That Favors the Interests of Local Farmers -----	63
Table 3.16 the Influence of the Contract Agreement on the Market Plan of Foreign Investors -----	64
Table 3.17 Impact of Large Scale Farmland Investment on Environment -----	65
Table 3.18 Market Plan of Saudi Star Agricultural Development Company -----	70
Table 3.19 Employment Creation of the Company to the Local People -----	71

List of Figures

Fig 1: Percentage Share of Investment Capital as of 2010-----	40
Fig .2 Percentage Shares of Foreign Investment Projects Went Into the Three Sectors-----	46
Fig.3 Trends of Foreign Investment Projects in Agricultural Farmland -----	50
Fig.4 Percentage Share of Foreign Investment Projects in Agricultural Farmland vs. Total Foreign Investment Projects made in agricultural sector -----	51
Fig.5 Percentage Share of Foreign Sources of Investments in Ethiopia-----	52

Acronyms

ADLI.....	Agricultural Development Led Industrialization
EIA.....	Environmental Impact Assessment
EIA.....	Ethiopian Investment Agency
EPA.....	Environmental Protection Authority
FAO.....	Food and Agricultural Organization
FDI.....	Foreign Direct Investment
GDP.....	Gross Domestic Product
IFAD.....	International Fund for Agricultural Development
IFPRI.....	International Food Policy research Institute
IIED.....	International Institute for Environment and Development
IMF.....	International Monetary Fund
MoARD.....	Ministry of Agriculture and Rural Development
MoFED.....	Ministry of Finance and Economic Development
OECD.....	Organization for Economic Cooperation and Development
PASDEP.....	Plan for Accelerated and Sustainable Development to End Poverty
PRSP.....	Poverty Reduction Strategy Paper
SDPRP.....	Sustainable Development and Poverty Reduction Program
SSA.....	Sub-Saharan Africa
UN.....	United Nations
UNCTAD.....	United Nations Conference on Trade and Agricultural Development
UNDP.....	United Nations Development Program
UNEP.....	United Nations Environmental Program
USD.....	United States of Americas' Dollar
WFP.....	World Food Programme
WIR.....	World Investment Report

Abstract

It is obvious that our country has engaged in farmland deal with foreign agricultural investors. The government is leasing tenth of thousands of hectores of farmland to foreign agricultural firms. Therefore, this study is done with the main objective of examining the major benefits and as well threats of foreign investment in large scale farmland in Ethiopia. Thus, this paper has attempted to explore the challenges that made difficult for the country to easily drive the due benefits from foreign investment in large scale farmland.

To this end the study collected primary source of data from concerned government authorities and as well from assessed foreign agricultural firm. Secondary sources of data were also used in addition to the primary data gathered.

The study has found that there are various obstacles that have challenged the government from driving the due benefits from the contracts of large scale farmland. For instance the issue of transparency and consultation with local farmers and community can be mentioned among many others.

The profitability of any foreign investment to a given host country depends on that respective country's government role, that makes it beneficiary to the host country or misery to that host country. Therefore, the study was concluded by recommending certain necessary suggestions, that may enables the government to get a due benefits from large scale farmland deal and consequently address some challenges that hampered the process of the deal and thus strengthen the prospects of foreign investment in large scale farmland.

Chapter One

1. Introduction

1.1 Background of the study

Agriculture is the main stay of Ethiopia. The share of agricultural production in the total GDP has been declining over time and falling below fifty percent. Nevertheless, the sector is still the primary source of foreign exchange and employment opportunities. This can be evidenced by the fact that the sector provides employment for 85 percent of the population, generates about 90 percent of foreign earnings and it also supplies about 70 percent of raw material requirements for large and medium sized agro based industries (Ethiopian Economic Association, 2007).

Agriculture is the foundation of the country's food production and hence the major contributing sector to food security. Thus, it is the major means that helps to eradicate malnutrition, hunger, starvation and absolute poverty in general.

The sector is characterized by utilization of backward inputs and techniques; hence, the productivity of the sector has been probably one of the poorest in the globe, because of which the production is only for bare subsistence. In the same manner, utilization of outdated technologies and production processes characterize the industrial sector, which consequently led to poor industrial productivity.

Sustainable economic growth is highly determined by the rate of investment, which in turn is mainly determined by the national savings level. The national savings level of African countries is quite low. Foreign direct investment (FDI) is an alternative source of capital to bridge the gap between savings and the required investment level. The proponents of foreign direct investment point out that FDI fills savings, foreign exchange and local revenue gaps of developing economies. FDI can also provide managerial, entrepreneurial and technological skills and increases export and integrate the country's economy into global economic network (Solomon, 2008).

Even though the developmental role of foreign investment is highly debated; in recent times, however, most empirical studies conclude that it enhances factor productivity, the efficiency of resources use and national income of the host country (OECD, 2002).

In addition, the study made on 58 developing countries also concludes that foreign investment enhances private domestic investments (Douglas et al, 2003). As a result of this, in the present globalized world, many countries spend enormous resources and time to design policies that encourage the inflows of foreign direct investment, as appropriately designed policy plays important role in promoting foreign investment inflows.

Most African countries have been undertaking numerous policy measures to create hospitable investment climate for foreign direct investment. The major policy measures are: Liberalizing controls on foreign exchange and price, liberalizing investment regulations and privatization of public enterprises and creating a stable macroeconomic environment. In this regard, the Organization for Economic Cooperation and Development (OECD, 2005) indicates that the policy frameworks of African countries for foreign direct investment are on average not more restrictive than other developing nations.

Despite their notable efforts, the flows of foreign investment in Africa are extremely small compared to other developing nations. Africa's share in the total foreign direct investment flows to developing economies fell from 19 percent in the 1970s to 11 percent in the 1980s and to 8 percent in 2006 (World Investment Report, 2009).

As a result of the financial and economic crises happened in recent years in all over the world, the prices of food has risen up and became very difficult for many countries to feed their respective citizens. The problem is very worse especially in food importing countries. In order to solve the problem of food crises, many countries have engaged in overseas agricultural investment activities. As various sources of data reveals Ethiopia became the main destination of foreign agro-investors because of various reasons mainly for its fertile farmland, peaceful and disciplined people and relatively stable political situations. As a result of these realities many foreign agricultural companies has engaged in agricultural activities in almost all regional states of the country by receiving plots of land from the federal government on a lease bases.

As the writers of foreign direct investment testify, the involvement of foreign investors in agriculture of a given country has both benefits and risks. However, the role of government is so decisive to make such investment more beneficial. The hard working of government can make these kinds of investment a win-win play whereby both the host country and the foreign investors can get benefit from such investment activities.

1.2 Statement of the Problem

The Ethiopian economy has to grow at least at annual growth rate of 10 percent for more than two decades so that the country can attain the per capita income level achieved today by average Sub-Saharan African (SSA) countries. However, Ethiopia's gross domestic savings as proportion of gross domestic product (GDP) is quite low, and it is unlikely to achieve this growth rate by mobilizing the meager domestic savings (Ethiopian Economic Association, 2007).

The current government of Ethiopia has realized the inadequacy of the domestic capital and opened several economic sectors to foreign investors. The government has also issued several investment incentives, including tax holidays, duty free importation of capital goods and export tax exemption to encourage foreign investment. Furthermore, Ethiopian Investment Authority (EIA) has been established to service investors and streamline the investment procedures. Nevertheless, Ethiopia's performance in attracting foreign direct investment (FDI) is very poor compared to many African countries. For instance, Ethiopia accounted for only 1.56 percent of the total FDI flows coming to Africa in 2003-2006 while representing 9 percent of the population of Africa. Besides, Ethiopia's per capita inflows were only USD 5 in 2006, compared with USD 39 for Africa countries as a whole (Alexandra and Sophia, 2010).

According to the UN Food and Agriculture Organization (FAO), 1.2 billion People worldwide live in hunger. This is an increase of more than 100 million people since 2006, and represents a major setback in efforts to halve (and ultimately to eradicate) hunger in the world, an objective that governments committed to in 2000 with the adoption of the UN Millennium Development Goals. This increase in hunger comes at a time of great uncertainty for global ecosystems and for economic structures and institutions. For the first time in three decades, there is strong agreement among policymakers that more investment in agriculture is urgently needed in poor countries to

address hunger and poverty, to develop and diversify their economies, and to stop the steady erosion of arable land even as the demand for food continues to grow(*ibid*).

Lack of investment has been identified as a fundamental cause of the stagnant production and low productivity of developing-country agriculture. The United Nations Food and Agricultural Organization (FAO) estimates that in order to double food production by 2050 (a target that must be attained to feed growing populations and to ensure a basic right to food), developing countries need an additional USD 30 billion per year in investment. Public investment resources are limited by budgetary pressures, and official development assistance to agriculture has been declining over many years. The private sector in developing countries has tended to have little capacity to fund investment. International investments therefore have a potentially important role to play (David Hallam, 2009).

At the same time, a number of countries are enthusiastically seeking to attract such investments to exploit surplus land that is unused or underutilized. However, selling, leasing, or providing concessional access to land raises questions about how the land concerned was previously being utilized, by whom, and on what tenure basis. *“It is true that much of land in sub-Saharan Africa is currently not utilized to its full potential, ‘surplus’ land overall does not necessarily mean land is unused or unoccupied”* (*Ibid*).

As the fact reveals Ethiopia is believed to have about 74.3 percent of arable land from its total land area. However, so far only about 18 percent of the farmland is being utilized by local farmers with traditional backward farming techniques. Surprisingly, as a whole, the farmland which is given to foreign agricultural investors within the past few years is not less than 5 percent (The Ethiopia macroeconomic hand book, 2010).

Ethiopian Investment Authority data show that approximately 1,100 foreign agricultural investors have registered since 2005, though only around 6 percent (64 in number) are reported to be operational so far (*Ibid*).

To address the crisis of food problem of their respective country many foreign investment companies have engaged in large scale crop farming activities by signing a land lease contract with government of Ethiopia. Even though the agriculture is currently being invested on by foreign investors’ who are believed to have better experience and advanced technological

equipments that can increase the yield of agricultural production far better than that of local farmers, yet it is far from addressing the problem of food shortage and hunger that is prevalent in the country.

Thus, at this juncture, identifying challenges and prospects of foreign involvement in large scale farmland in Ethiopia is a key step to know the factors responsible for the poor performance of Ethiopian government in making use of foreign agro-investments so as to enhance the benefits of the investment and minimize the threats that could come along with the investment.

1.3 The Research Questions

The problem arise the following pertinent questions:

- What are the major factors those hamper the benefits of foreign investment in large scale farmland?
- What are the potential benefits of foreign direct investment in large scale farmland?
- What are the critical threats of foreign direct investment in large scale farmland?
- What does the trend and inflow of foreign direct investment in large scale farmland looks like?
- What is the performance of Ethiopian government in maximizing the benefits and as well minimizing possible risks of FDI in agricultural farmland?

1.4 The Research Objectives

In present globalized world it is obvious that the countries across the globe are highly interrelated and interdependent. There could be economic, political and diplomatic ties among nations. The recent global economic and financial crisis, among other factors has raised the interest of many countries to invest overseas so as to address the food requirements of their respective country. On the other hand, many least developed countries are enthusiastically attempting to attract these foreigners by revising their policies and making ready their natural resources to be invested on. In only few past years, many East, Middle East and Gulf Countries have engaged in agricultural investment in Ethiopia by receiving many hectares of arable land. Taking these facts into mind, the general objective of the research is therefore assessing the challenges and prospects of foreign direct investment in the agricultural sector of the country.

1.4.1 The specific objectives of the study are:

- Assessing the challenges that impede the benefits of foreign investment in large scale farmland
- Identifying the major threats of foreign investment in large scale farmland on local farmers
- Examining the trends of foreign investment in large scale farmland
- Forwarding necessary policy recommendations based on the findings of the study

1.6 The Research Methodology

The qualitative research approach is mainly used to undertake the research at hand. Because the research is mostly based on the opinion of respected public officials even though there are some quantifiable data that was gathered from concerned government agencies. Therefore, employing this approach makes such type of study sounder.

1.6.1 The Research Methods

The survey research was applied to conduct the research at hand; because survey is an important and useful method of data collection. As the challenges and prospects of foreign agricultural investment is mainly being discussed and debated over by the international Medias, Press and the likes, it is therefore more appropriate to employ this method which is mostly used methods in media research, primarily for its flexibility.

This method has chosen for its multifaceted advantages and benefits and above all for its typical easing of investigations of problems in realistic settings. Thus, it enables one to examine the current trends of foreign investors in agricultural farmland, the benefits so far attained, and performances of government in enhancing the benefit of foreign investment in agricultural farmland, its major threats and prospects as it happen can be scrutinized and predicted without requirement of any laboratory or screening room under artificial conditions.

Further, this method (descriptive survey) is an appropriate to conduct a research in a situation where there is shortage of money available to do the study. Because its cost is reasonable considering the amount of information needed to be gathered. The researcher can control the

amount of expenses by choosing from among the data gathering tools: mail, telephone, questionnaire or personal interview, and group administration.

Finally, it lets one to collect large amount of data with relative ease from a variety of sources. The survey method allows the researcher to examine many variables (demographic and lifestyle information, attitudes, motives, intentions and so on) and to use multivariate statistical data analyzing methods and also geographical boundaries do not limit surveys.

1.6.1.1 Sources of Data

Both primary and secondary sources of data have been used to undertake this study. Primary data were collected from the contacted respondents and as well from archives of the Ethiopian investment agency. Secondary sources of data were gathered from different publications and as well from official websites of Ethiopian investment agency.

1.6.1.2 Data Collection Tools

In order to collect primary sources of data the researcher used closed and open ended questionnaires and as well has made face to face interviews with some selected public officials.

Open ended questionnaire is purposively selected because of its various advantages. For instance, it allows the respondents freedom in answering questions and enhances the chance to provide in depth responses. In addition, it gives an opportunity to the researcher to ask in between, i.e. the researcher can ask the respondent the reason behind the answer and probe further explanation on the response provided.

Thus, in order to get primary sources of data; face-to-face interviews and questionnaire were conducted with 15 key informants from different concerned bodies, five respondents from Ethiopian Investment Agency, five respondents from Ministry of Agriculture; Investment Agriculture Directorate and as well five respondents from undertaking respective foreign agricultural investing company, Saudi Star Agricultural Development Firm.

1.6.1.3 Methods of Data Analysis

The data that were gathered from different sources have been put together in a logical manner using different data presentation and analyzing techniques. Thus, tables, diagrams and plain textual sentences have been used to present and analyze the data.

1.7 Scope and Limitation of the Study

The research is confined to specifically assessing the challenges and prospects of foreign direct investment only in the agricultural farmland. It does not assess impact of foreign investment on the rest of the sector. Rather it critically focuses on analyzing the potential benefits and attendant risks that could come along foreign agricultural investors. Foreign direct investment in large scale crop farming in particular is the main focus of the study. Further, the study analysis the trends, performances, challenges and as well prospects of foreign investment in agricultural sector of Ethiopia during the year 2005-2010.

The limited time available to accomplish the study may restrict the researcher from consulting many books, empirical studies and relevant similar case studies that have been done in least developed countries. In addition lack of helping tools such as personal computers (laptop) and researcher's limited experience might have an impact on the conclusion of the study. Finally, the small amount of fund apportioned to undertake the research had its own drawback on the study.

1.8 Significance of the Study

The worthiness of this study is multifaceted; on one hand it tries to analyze the impacts and trends of foreign investment in agricultural farmland and performances of our country and at the same time it attempts to examine the major challenges that hamper our country from maximizing the benefits of foreign investors in large scale crop farm while minimizing the critical problems that could come in relation with such investments. Therefore the findings of this study can be used as an input by policy makers, especially in the area of agro investment policy, particularly on issues relating to land deal.

On the other hand, the findings of this study may call for further studies and thus could open the way for researchers.

1.9 Organization of the Thesis

The paper has four chapters. After this brief introduction in chapter one, chapter two provides a review of literature. Definition of FDI in Farmland, Foreign Direct Investment in Africa, Africa's Attempts at Attracting Foreign Direct Investment, The Race for the World's Farmland, The New Farms Race: Roots and Reasons, the Race for farmland in Africa, recent investment trends and patterns in farmland, host country motivations international frameworks concerning FDI in farmland, agricultural farmland acquisitions, the Concern for FDI in farmland, unequal Power Relations, conflicting interpretations of land use, impact of farmland investment on host country in terms of sustainable development agricultural land Policy of Ethiopia, recognition and enforcement of land rights in Ethiopia and the likes has included and as well a brief overview of Ethiopia's FDI has been presented in the chapter. Chapter three deals with data presentation and analysis; here, the data that have been collected from various sources have been put together in a logical order in different forms such as in tables, graphs, diagrams, and as well in textual plain sentences. Finally, chapter four present conclusions and recommendation based on the findings of the study. Bibliography and appendices has followed chapter four.

CHAPTER TWO

2. Review of Related Literature

2.1 Introduction

For the greater part of humanity, primarily in developing countries, agriculture remains at the core of their existence. It provides sustenance, supports peoples' livelihoods and defines their traditions. Moreover, the bounty of agricultural production in many societies the world over, and throughout the ages, has created surplus value that has supported their material basis.

Taking the fundamental importance of agriculture into account most developing economies has started giving utmost concern to it rather than neglecting it as previous days. However, the neglect of agriculture is still prevalent in all over the world especially in least developing nations. This can occur because of a number of factors, including a bias by some countries against agriculture in favor of manufacturing and a lack of finance and other resources. To make matters worse, domestic and regional conflicts in many parts of the world have destroyed agricultural communities, resources and infrastructure leading to less flow of investment into agricultural sector.

The lack of investment in agriculture in particular regions and countries could be one of the factors contributing to poverty and hunger. According to the report of the United Nations Food Aid Organization (FAO), some sixty five countries are in serious danger of food shortages, partly because of rising international food prices in recent years. It thus suggests that increasing investment in agriculture in developing countries is a primary option. But it also forwards possible risks that may arrive on developing host countries (FAO, 2008).

The renewal of interest by transnational companies and foreign governments in the agricultural sector of developing host countries represents an opportunity to raise the level of investment in this critical sector even further. At the same time, there is evidence that developing host countries are reviewing their policy frameworks and legislation to encourage and permit foreign participation in their agricultural sectors. This stance represents a significant change for many

governments, which earlier had considered agriculture to be sacrosanct and open only to domestic interests` (UNCTAD, 2009).

According to Matthias and others, there are many attendant risks that come along the entry of FDI into developing country agriculture. These risks among others include, the possible disruption of traditional farming and loss of livelihood for subsistence farmers or other disadvantaged groups, such as indigenous peoples; the concentration of the industry into fewer hands, with the danger of market power being exercised against farmers and consumers; potential environmental degradation and the wider dangers of dependence on foreign investors, leading to coarse relations between developing host countries and investing foreign country (Matthias et al, 2009:36).

Given these realities, it is the objective of this paper to assess the challenges, prospects and trends of FDI in the agricultural sector and its implications for development in Ethiopia.

2.2 Definition of FDI in Farmland

Foreign investment in farmland is a special form of FDI. But even for general FDI, definitions only exist as guidelines for statistics or as a reference within international agreements: “Foreign investment involves a lasting interest in effective management control over an enterprise. Foreign direct investment can include buying shares of an enterprise in another country, reinvesting earnings of a foreign owned enterprise in the country where it is located, and parent firms extending loans to their foreign affiliates. International Monetary Fund (IMF) guidelines consider an investment to be a foreign direct investment if it accounts for at least 10 percent of the foreign firm’s voting stock of shares” (World Bank glossary) as quoted in Matthias et al, 2009:10).

No specific official definition for FDI in farmland exists so far. According to the above-mentioned general definition of foreign direct investment, FDI in farmland can be characterized as follows: “*FDI in farmland by a foreign company or state is based on a lasting interest in taking control over farmland use rights. The transaction includes either rights of farmland-use or farmland-ownership. The farmland-use rights are generally valid for a limited period and can possibly be extended* (Matthias et al, 2009:10).”

2.3. Foreign Direct Investment in Africa

Over the past two decades, foreign direct investment has become a vital source of economic development for the African continent. FDI has increased from approximately USD 9 billion in 2000 to USD18 billion in 2004 and to USD 88 billion in 2008. However, the share of Africa is only 5 percent compared to the flow of foreign direct investment flowing to industrialized countries and major emerging countries (UNCTAD, 2009:109).

In order to drive both economic and social benefits from foreign investment, many writers suggest that developing host country governments need to create a policy environment that enables them to maximize development returns on investment. Accordingly, African governments should thus develop a set of policies that are not only focused on investment promotion but also address issues such as human capital and infrastructure.

As for the regional distribution of FDI in Africa is concerned, the North, West and South of the continent attract the bulk of foreign investment by showing an increase of USD 24 billion, USD 26 billion, USD 27 billion respectively followed by USD 6 billion by East and USD 4 billion by Central African countries from the year 2007. Much of this investment is driven by these regions' large reservoir of natural resources such as gas and petroleum (UNCTAD WIR 2009:113).

Although the natural resources sector is traditionally a major recipient of FDI flows to Africa, high-value activities in services and manufacturing have recently attracted important investments. The agricultural sector has faced limited investment leading to low productivity in the past. However, the food crisis which has happened world over in the past few years has stimulated foreign investors' interest in Africa's arable land. Thus, the rapid increase in global and domestic demand for food in recent years has undoubtedly increased the inflow of investment in agricultural sector of African countries.

According to the report of African investment policy brief, an important new development in FDI flows to Africa over the past decade is the increase of investment from non OECD countries, especially from Asia and Africa, such as South Africa, Egypt and Morocco (Foreign Direct Investment In Africa, Policy Brief No.4:2009).

Regarding the types of sectors Asian investment companies are undertaking in Africa, agricultural sector comes after energy, telecommunication and real estate sectors respectively. (UNCTAD: Asian foreign direct investment in Africa, 2007). It indicates that a great share of Asian foreign investment in agriculture in Africa is mainly undertaken through sovereign wealth funds, i.e. the agricultural investment contract is mainly signed between the two governments.

Even though it is difficult to predict the FDI outlook for Africa with certainty, it is expected that foreign investment in agriculture continue increasing. First, Africa's inward FDI stock in agriculture accounts for just 7 percent of the total stock in developing countries compared to 78 percent for Asia and Oceania, and 15 percent for Latin America and the Caribbean countries. This clearly illustrates the potential for increasing the investment rate in a sector in which global FDI tripled from USD1 billion to USD 3 billion a year, as a result of rapidly rising demand and prices, land and water shortages in some emerging economies and increasing demand for bio-fuel (UNCTAD World Investment Report 2009, :116).

2.3.1 Africa's Attempts at Attracting Foreign Direct Investment

In an effort to attract more FDI, a number of African countries have over the years undertaken reforms geared primarily at improving their business environment. These reforms have included changes in the legislative and regulatory framework governing investment; the elimination of price controls on a number of products and inputs; the liberalization of producer markets in some cases; the privatization of state-owned enterprises; financial sector reforms; the liberalization of foreign exchange markets; the establishment of export promotion agencies and the establishment or review of investment codes has evidenced (Economic Commission for Africa 2007 and UNCTAD, 2009).

Trade liberalization reforms, which have involved opening up of domestic markets to foreign goods and competition, have been at the center of most reforms in many African countries.

According to Asiedu, liberalization reforms taken by many African countries has stimulated and encouraged foreign investment inflows. The trade reform even has opened up the way for foreign investment companies and as such removed restrictions which was difficult for them to export their products including agricultural product (Asiedu, 2002:111).

2.3.2 Investment Promotion Strategy and Incentive Structure

Investment incentives are FDI policy instruments used to attract foreign investors. These include tax reductions and exemptions, special tax allowances, financial incentives such as low interest loans, subsidies as well as grants. Investment guarantees (e.g. guarantees for repatriation of capital and transfer of profits, and guarantees for provision of foreign currencies) can also be seen as an incentive to attract foreign agricultural investment companies. Bilateral and multilateral investment treaties are also an incentive to increase investment, through creating a predictable investment climate, thereby improving direct foreign investors confidence (Birhanu and Kibre, 2003:34). Even though, investment incentives are necessary to boost the number of foreign investment inflow into countries, the unlimited type of incentives can negatively affect the benefits of the host country. This clearly indicates that the effectiveness of investment incentives depends on its equal favor of the interest of both investing and host countries (UNCTAD, 2008).

In fact investment promotion can create good image of the country, advertise the potential areas of investment and provide adequate and necessary information to respective investors so that it may stimulate them. Investment promotion agencies can help the investment process if they can identify sectors and clusters of activities where comparative advantages exist without affecting the fate of the country.

2.4 The Race for the World's Farmland

The world is experiencing a grain rush. With increasing frequency, wealthy, food-importing countries and private investors are acquiring farmland overseas. These transactions are highly opaque, and few details have been made public. What is known, however, is quite striking; particularly the scale of these activities. The International Food Policy Research Institute (IFPRI) estimates that 15 to 20 million hectares of farmland have been subject to negotiations or transactions over the last few years. According to the Economist, this represents the size of France's agricultural land and a fifth of all the farmland in the European Union (Michael Kugelman, 2009:52)

The most common characterizations of this trend portray capital rich Arab Gulf states and the prosperous countries of East Asia are chasing the world's farmland. According to Michael, it has

estimated that by the end of 2008, China, South Korea, the United Arab Emirates, Japan, and Saudi Arabia controlled over 7.6 million cultivable hectares of farmland overseas; in least developed African countries (ibid).

2.4.1 The New Farms Race: Roots and Reasons

According to the report forwarded by Stephen, in 2008, world food prices have reached its highest levels since the 1970s. The costs of staple grains and edible oils triggered riot across the globe, particularly in poor cities of the developing world, where many people spend up to 75 percent of their incomes on food. Some top food-exporting nations, in efforts to prevent food price spikes and public unrest at home, imposed bans on food exports. Such bans, by taking large amounts of grain supplies off the global market, exacerbated the food insecurity of food-importing nations dependent on such staples (Stephen, 2009).

Even though relative stabilization of staple food price is observed across the world, food prices are still high and made difficult to predict the market commodities supply. Further, other factors such eroding top soil , urbanization displacing farmland, water shortages and the likes has continued challenging the nations and thus enforced their respective governments to invest in agriculture in overseas (Ibid).

Thus it is true that, food security remains an urgent global concern and particularly for agriculturally deficient, water shortage nations that depend on food imports to meet rapidly growing domestic demand. Hence, it can consequently lead to the search of farmland in least developing countries.

Some of these nations have decided to take matters into their own hands. Increasingly, in an effort to avoid the high costs and supply shortages these countries are looking for other option than depending only on world food markets and instead seeking land overseas to use for agriculture. Crops are to be harvested on this land and then sent back home for consumption (Stephen Marks, 2009:37).

Indeed, the chief motivation for farmland seeking nations is simple, i.e. to ensure a stable and steady supply of food for their large, hungry, and often restive populations. Energy security is another impetus; many nations are hunting lands overseas to use for bio-fuels production. To

make the desire for farmland very high, investment bankers has recognized land as a safe investment which can return in high profits; otherwise unstable financial climate may result in loss, and thus hope to take advantage of the food and energy security driven mushrooming demand for agricultural land.

According to Michael Kugelman, far from being coerced into these land deals, many developing-country governments welcome them and even lobby aggressively for them. Pakistan, for example, has staged “farmland road shows” across the Arab Gulf countries to attract investors’ interest, by offering lavish tax incentives and even a 100,000 strong security force to protect investors (Michael Kugelman, 2008:39). Host governments hope that heavy injections of foreign capital will enhance agricultural technology, boost local employment, revitalize weak agricultural sectors, and ultimately improve agricultural yields. They are also influenced by the new roads, bridges, and ports that some farmland investors promise to build. With such exciting incentives, many host-nation governments do not hesitate to sell their farmland to foreign agro-investors.

2.4.1.2 The Race for Farmland in Africa

Though the recent spate of overseas farmland acquisitions is global in nature, Africa may be the biggest hotspot. According to a joint study by the FAO, International Institute for Environment and Development, and International Fund for Agricultural Development, since 2004 there have been nearly 2.5 million hectares worth of “approved land allocations” in just five African countries: Ethiopia, Ghana, Madagascar, Mali, and Sudan (Cotulla et al, 2009:12).

In fact Africa is a logical choice for investors because it possesses fertile land and ample water and the likes. Indeed, Ethiopia’s top leaders state their willingness to cede their land to investors, justifying this strategy as a means of supporting development and ending poverty and hunger. According to Argaw, the Ethiopian government has prepared about, 2.7 million hectares of arable land for foreign agro-investors coming from the Middle East and East Asia (Argaw Ashine, 2009:13).

The economist argues that, many African countries those are handing over their farmland to foreign investors are so acutely food insecure that they depend on aid from the World Food Program (Economist, 2009:10).

Regarding the nature of foreign farmland acquisition and controversial phenomenon of African land, Makunike forwards. “More so perhaps than on any other continent, so many livelihoods, and entire cultural and economic experiences, are directly tied to the land.” These strong ties, he explains, “cause a strong sensibility about land that is poorly understood by many non Africans.” His essay describes these sentiments about land in Africa, and argues that failing to understand them will make successful agribusiness projects in the region unlikely.

For example, if foreign investors target what to them appears to be empty land but is in fact a community’s ancestral burial ground, then “passion and resentment” will arise. Additionally, Makunike describes the large-scale agriculture model as “Africa-dismissive.” Millions of smallholders are seemingly ignored, while capital, expertise, and sometimes even managers and workers are imported from overseas. The “presumption,” according to Makunike, is that other than the land itself, “the African side has nothing to bring to the table.” It is this “dismissive attitude” of foreign investors that not only prompts “worry and resentment” about land deals in Africa, but also “endangers their longevity and ultimate political and social viability.”

Nonetheless, Makunike does not necessarily object to foreign investments in agriculture. On the contrary, he suggests that when local communities “can be shown and convinced” that the commercial use of land “would definitely and significantly improve community well-being,” then the investment is a wise one. Makunike, like Hallam, is cautiously supportive of contract farming. According to Makunike, it offers African smallholders income opportunities while giving them the flexibility to grow their own crops on the side. The biggest question is whether investors would have the patience to offer training and assistance to their smallholder partners given that time pressed investors “are used to having large groups of tightly controlled laborers who are hired and fired at will of foreign investors.” If land deals are done right, concludes Makunike (who helps run a contract-farming-driven tea-exporting venture in Senegal), local communities will see their interests “tied up with the success” of the investment a tremendous benefit for the investor.

In short as can be clearly observed from the above argument what causes difficulty to the African people is not foreign investment in agriculture, rather the type of land deal that does not take into account the basic needs and rights of small holder farmers.

2.5 Recent Investment Trends and Patterns in Farmland

The study which is currently being done by UNCTAD, FAO and World Bank regarding the availability of detailed data on the extent of investments in farmland, provides that, Available foreign direct investment data is not sufficiently detailed to determine just how much investment in agriculture there has been and what forms it takes. It is therefore difficult to say with any precision whether the recent investments are a totally new development or a continuation of existing trends. However, it says there are some information from the investors themselves and from those developing countries receiving inward investment, although not too much detail is revealed, given the sensitivity of the issues surrounding these investments and the need for confidentiality. On the basis of the information available, a number of observations can be made regarding recent trends and patterns.

Accordingly, it forwards that there does appear to have been an increase in international investments in agriculture in developing countries, although the number of actual implemented investments appears to be less than the number being planned, discussed, or reported in the media. In most cases, land under foreign control remains a relatively small proportion of total land areas. The main form of investment is the purchase or long-term leasing of agricultural land for food production. In host countries, it is governments who are engaged in formulating investment deals. Recent investments emphasize the production of basic foods, unlike FDI in agriculture in the past. More traditional FDI continues in horticulture and flowers in East Africa (David Hollam, 2009:30).

Thus, the major activities of recent foreign investment agriculture of developing countries are mainly production of crop that is aimed at exportation to feed their respective citizen. According to the comment of some writers the engagement of foreign huge companies in food production can result in food shortage, soil degradation and many others in host countries if it does not perform properly.

2.6. Host Country Motivations

Lack of investment has been identified as a fundamental cause of the stagnant production and low productivity of developing country agriculture. FAO estimates that in order to double food production by 2050 (a target that must be attained to feed growing populations and to ensure a

basic right to food), developing countries need an additional USD 30 billion per year in investment. Public investment resources are limited by budgetary pressures, and official development assistance to agriculture has been declining over many years.

The private sector in developing countries has tended to have little capacity to fund investment. International investments therefore have a potentially important role to play. At the same time, a number of countries are enthusiastically seeking to attract such investments to exploit “surplus” land that is allegedly unused or underutilized. However, selling, leasing, or providing concessional access to farmland raises questions about how the farmland concerned was previously being utilized, by whom, and on what tenurial basis. In many cases, the situation is unclear due to ill defined property rights (informal land rights are based on tradition and culture). While it is true that much land in sub-Saharan Africa is currently not utilized to its full potential, “surplus” land overall does not necessarily mean land is unused or unoccupied. Its exploitation under new investments involves reconciling different claims. Changes in use and access may involve potentially negative effects on food security and raise complex economic, social, and cultural issues. There is substantial evidence of such negative effects arising in other contexts large-scale bio-fuels feedstock production, for example. Such difficulties demand, at the least, consultation with those with traditional rights to the land in question, and favor alternative arrangements for investments. More generally, issues are raised by the shift in the terms of access to land from traditional and historical to market-based.

One reason land may not be used to its full potential is that the infrastructural investments needed to bring it into production are so immense as to be beyond available national budgetary resources. International investments might bring much-needed infrastructural investments from which all can benefit, but at the same time inadequate infrastructure may deter international investors. The financial benefits of asset transfers to host countries may be small, but international investments are seen as potentially providing a variety of developmental benefits.

Thus it is necessary to take high care while undertaking farmland deals with foreign agro-investment companies. Because, ultimately, the host country can be negatively affected if it does not pay due attention to the rights of its people. Therefore, it is better to look for other alternatives prior to engagement in such land deal.

2.7 International Frameworks Concerning FDI in Farmland

The legal framework for foreign direct investments, which have an impact on investments, encompasses all types of different legal settings from international to domestic law, from public to private commercial law and from explicit investment related law to trade rules. Thereby, the relevant rules may affect both state and private actors. Some specific provisions for FDI in land exist which differ from rules to other FDI.

Despite international frameworks and agreements, Smaller and Mann argues that the domestic law in the target country is the major basis for access of a foreign investor and for treating him once he invested (Smaller and Mann, 2009).

Therefore, the target host country can maximize its benefits by making fair laws that respects the rights of both investing and host country.

Another major issue which many commentators raise is the informal land rights. It is based on tradition and mutual recognition within the rural communities. Lack of recognition of these informal land rights by the state makes it difficult for landholders to enforce their traditional rights. This indicates that the target country plays an active part in weighing domestic interests and has the potential to protect sustainability and food security. But even if such protective aims are followed on paper, very often the enforcement is lacking; the right to compensate domestic owners for expropriation within the target country itself very often is laid down in domestic law. However, it often fails due to missing cadastre systems and property documentation.

So it clear that the failure by developing countries to make cadastre and provide property documentation to their respective small holder has hampered the benefits they should drive from agricultural investment.

2.7.1 Agricultural Farmland Acquisitions

According to the report released by International Food Policy Research Institute (IFPRI), the year 2008 witnessed an extraordinary number of negotiations on the part of governments and private firms looking to sign agreements that would confer ownership of, or long-term leases on land abroad. Proceeding on, the report reads that not all of these deals have resulted in signed contracts, many of them are still under negotiation, while others have fallen apart because of

adverse reactions in the countries where the land is located or because the global financial crisis. Yet the trend continues (IFPRI, 2009).

From this reality, it can be suggested that in most cases developing country small holders are unwilling to let their land to any foreign agro-investment companies. However, the government of these nations continued on selling the land to foreign investors in spite of the local people reaction towards such arrangements.

It is thus due to the seriousness of the issue that many international institutions such as World Bank are issuing guidelines of code of conduct for investment in overseas farmland and the 2009 united nations conference on trade and agricultural development mainly focused on review of land lease and land purchase agreements, access to land and right to food is strictly observed.

2.8 Why the Concern is for FDI in Farmland?

The land-lease and land-purchase agreements raise a number of troubling issues. These include unequal power relations (particularly between the contracting partners and between host-country governments and their people); conflicting interpretations about land use; scarce natural resources; and the potentially negative implications for smallholders and the likes make it so worrying issue.

2.8.1 Unequal Power Relations

Fundamentally, there are significant risks for host countries because of the unbalanced power relationships involved in virtually every one of the proposed deals. Many of the investors are large, well-established transnational firms. Other investors are governments of wealthy countries (including Saudi Arabia, Qatar, Bahrain, South Korea, and China), or corporations acting with a rich state's blessing.

Conversely, most of the host governments are poor, such as Sudan, Ethiopia, Madagascar, Zimbabwe, Pakistan and many others. Additionally, few of these countries government can supervise over strong and independent democratic institutions. This is of course a risk for investing firms or countries, but it also raises questions about the authority of host governments to speak on behalf of the communities directly affected by land sales or leases.

As cited in Carin and his colleagues, a paper released by the International Institute for Sustainable Development puts the push for land purchases and lease agreements into the context of bilateral and regional investment agreements. Continuing on they say that the paper demonstrates how unequal power among parties can play out in creating unfair rules. It favors one side while neglecting the basic right another party. (Carin and Howard, 2009:44).

Within host governments, there are different levels of authority and competing political and policy interests. For example, it is quite possible that several ministries in the host government might be involved in negotiating a contract, while other ministries with an interest are excluded. Ministries that might have an interest include industry, agriculture, land, rural development, trade, finance, energy, and environment and similar interested ministries and government authorities are rarely consulted among themselves on the issue of land deal.

Thus in the absence of coordination and consultation among concerned ministries and authorities, the benefit which is expected from the land deal can not be realistic.

2.8.2 Conflicting Interpretations of Land Use

Sometimes farmland investments are supported because investors acquire the use of marginal or unused land. Yet deciding the best way to use the land is a political issue. What the governments categorize as wasteland might very well be meeting an important share of rural people's household needs particularly in the poorest households, and especially during times of economic shock. Uncultivated land is used for grazing, as a source of wild foods and for access to water.

According to Farhad and other writers, uncultivated land in Bangladesh provides an average of 65 percent of the food and 100 percent of fuel needs of the poorest households to those with no land, and 34 percent and 20 percent respectively for the better households i.e. those with some land of their own (Farhad Mazhar et al, 2007:45).

Andres as quoted in Alexandra forwards that, disputes over land ownership have a long and violent history in much of the developing world, where the legacy of land dispossession carries a powerful political charge relating to national identity, reconciliation, justice, and the legitimacy of the state (Alexandra Spielloch and Sophia Murphy,2009:45).

Hence, as can be inferred from the above justifications land in Africa or in least developing country has many meanings and roles to the local people. Its appropriation to foreign investment companies therefore could bring devastating results at end if the process of the deal does not pay a due attention the local people.

2.8.3 Scarce Natural Resources

According to the findings of research done by the United Nations Development Program, natural resource degradation, particularly of common property resources, are increasing food insecurity and undermining the livelihoods of the poor. The UN reports further says that land degradation could affect more than 900 million people worldwide, and as much as two thirds of the world's agricultural land (UNDP, 2007). The World Bank even estimates that there could be as many as 1.8 billion people who will live in regions facing absolute water scarcity by 2025 (World Bank, 2009:47).

Investment that restores agricultural land to ecological health would be a significant investment in a country's future prosperity and in the well-being of local communities. UNCTAD and the United Nations Environment Program (UNEP) have published a series of case studies on successful experiences with organic agricultural production in East Africa (UNEP and UNCTAD, 2008:70).

However, investment in industrial agriculture, which remains the dominant model for large-scale investment in agriculture, tends to use large amounts of fresh water, depletes the soil of nutrients at unsustainable rates, and depends heavily on fossil fuels (for machinery, fertilizer, pesticides, storage, and transportation), which in most developing countries are an expensive import.

2.9 The Promises of Agricultural Farmland Investment

Von Braun and similar many other commentators argue that the agricultural sector in the developing world requires more investment than is presently allocated. 'Such countries need an entry of capital and technology to stimulate rural economies,' and thus they suggest the large-scale foreign investment as a decisive option to fasten rural development and ultimately eradicate poverty in least developed regions (Von Braun and Meinzen-Dick, 2009: 72). To strengthen the above idea Cotulla says there are many forms of the deals that include provisions of

infrastructures such as roads, bridges, and the likes, which are of interest to host governments and can be regarded as a benefit to the host country as a whole. In addition they put forward that investment in food and agro fuels production in the rural areas of developing countries can have important benefits for their economies, particularly in terms of boosting and modernizing the agricultural sector and reviving rural economies (Cotulla et al, 2008:80).

Derek arguing for large scale investment in farmland of developing country forwards the benefits such as the development of new industries, greater food availability, and farm and off farm employment generation and opportunities for livelihood diversification (Derek Byerlee, 2009:56). Continuing on, investors would bring in new agricultural technologies, which many of the developing countries would not be able to develop or obtain otherwise due to poor spending on the agricultural sector (ibid). In addition to the direct spillovers such as technology transfers, the benefits promised by some investors include the rehabilitation and upgrading of rural infrastructure (such as roads and bridges), the construction of new health facilities and schools, and even local capacity building, all of which could contribute to increased yields and incomes, and thus, long-term poverty reduction. Finally, keeping in mind the recent food price crisis, one could argue that the global economy could also benefit from such agricultural investments, because increased production would result in better world food price stability.

However, such multifaceted benefits can occur if both investing and host country agrees on fundamental rights of local people and respects it correctly.

2.9.1 The Danger Signs of Agricultural Farmland Investment

Despite the potential opportunities that large-scale land acquisitions may present to host countries and rural communities, there are plenty of warnings that they may also be detrimental to the socioeconomic development of these countries. For example, Michel and Jamrat argue that many of the alleged major benefits, especially payments and infrastructure investments, go to the domestic economies at large, and investor companies are often granted general subsidies and tax breaks on such transactions.

Therefore, in order to assess the net benefits or losses for the livelihoods of resource dependent communities, one must consider not only the benefits that may accrue to local people in terms of

employment or increased output prices, but also any losses for people who were deriving their livelihoods from the land being leased or purchased.

In many cases, the question of possible benefits for local populations depends on the security of land tenure. If existing land users have secure land tenure and can negotiate with outside investors, then there is at least some compensation. Even in these cases, however, there are concerns over whether local landowners are adequately informed about fair prices or about the full implications of selling their land (Michel and Jamart, 2009:63).

As some commentators argue the land which is officially designated as state land and its users have only customary rights to it, consequently negotiations are between the government and investors, thus local people may have little say in the deals and little compensation if they are forced off their land. This lack of attention to existing users who do not necessarily have formally recognized claims to land has already resulted in a number of evictions and contributed to landlessness and impoverishment (Haralambous, et al:2009: 55). This has been especially acute in the land acquisitions for agro fuels production. Moreover, the lands often allocated for such use are those designated as “underutilized,” but of crucial importance for mobile populations and agrarians. Without formally recognized rights, these groups face a higher risk of displacement (Cotulla et al, 2009:79).

In addition to unrecognized rights to resources, local resource users have low bargaining power and virtually no presence in the negotiations over land deals. Local consultations are almost absent and deals are made without the informed consent of the land users (ibid).

According to Michel and Clara, the rapid pace at which many of these land deals are being completed does not allow the time necessary to establish sound governance mechanisms (Michel and Clara, 2009:69).

Shifts in climate patterns, demographic changes, and higher agricultural prices have raised the value of arable land everywhere, making the expected returns to land even higher (Von and Meinzen, 2009:83). This has increased both domestic and international competition for land, making it even easier for smallholders to lose their landholdings to more powerful actors.

Those with better access to financial resources, whether large international corporations, foreign governments, or even domestic businessmen, are better able to secure access to land, by easily dislocating the poor's access to land (Haralambous et al, 2009:52).

Explaining the long period of the contract, Michel and other writers say that the land which converted from smallholder production to large scale foreign agricultural company production is unlikely to be transferred back to its former users. The transfer of extensive land areas to large mono-cropping systems therefore has profound and long term implications for the economic and social structures of rural societies, and may significantly reduce the livelihood options of local land users (Michel and Clara, 2009:76).

Regarding the environmental impact of land deal, Byerlee presents his fear by taking the relatively short term orientation of the foreign large scale agricultural companies into account versus the long-term outlook needed in considering the environmental impacts of land uses (Byerlee, 2009:62).

Large-scale intensive agricultural production can threaten biodiversity, carbon stocks, and the availability of land and water resources. Land that is perceived as "unused" is often in long-fallow cultivation cycles because its tropical soils are unsuitable for intensive cultivation (Von and Meinzen-Dick, 2009:87). If the land is already marginal, more cultivation may lead to further degradation (Cotulla et al, 2009). Moreover, irrigating these large plantations may divert water from local users or from environmental flows (Haralambous et al, 2009:55).

Lastly, large-scale farmland acquisitions may have a negative effect on the wider sociopolitical and economic context of the host country. There are documented cases, such as the Daewoo Logistics Corporation's (ultimately unsuccessful) plan to lease 1.3 million hectares of land in Madagascar, where negotiations over deals have contributed to political instability and internal social conflict (Tom and Javier, 2009:47). These deals touch on the already-politically contentious issue of land allocation and land rights, so they carry a possibility of exacerbating existing tensions. Besides, many of these developing countries are already net importers of food and receive large amounts of food aid. For example, the country with the largest World Food Program presence is Sudan. However, Sudan is also the site of some of the larger land deals, and is letting investors export 70 percent of the crops grown in the country (GRAIN, 2008:61).

2.10 Foreign Direct Investment in Ethiopia

Historically Foreign Direct Investment (FDI) started to put its fingerprint in the Ethiopian economy during the imperial era, specifically during the 1950. Relatively an encouragement has extended to foreign investors during imperial regime (Michael, 2003).

The aftermath of the revolution that took place in 1974 however has brought a change of policy that ruled out the role of private sector. Accordingly the state took up the leading figure in economic development. Therefore, the strategy of government targeted at demolishing private investment both domestic and foreign in particular. The outcome was that FDI inflows continuously fell down and even ceased at all in the later years of the regime.

After the downfall of the socialist regime, a liberalized economic policy was adopted by present government. It was aimed at raising the role of private sector. To this effect the Ethiopian government issued a new investment code in 1992, which was a means to robust and build up the private sector participation in the mobilization of resources and formation of capital as part of liberalization process after the end of military years during which the private sector was denounced.

2.10.1 Agricultural land Policy of Ethiopia

The Ethiopian economy is fundamentally rural and relies heavily on the agricultural sector which contributes to nearly half of the GDP, 90 percent of exports and 85 percent of total employment.

Agriculture in Ethiopia is dominated by small-scale farmers who earn their livelihood primarily from subsistence rain-fed agriculture with only limited use of modern inputs. In the highlands of Ethiopia, where the majority of the country's population live, the holding size is very small and highly fragmented, rainfall patterns volatile and levels of productivity very low. As a result, the country has always been suffering from persistent food shortages particularly evident in times of famine.

Investment in and maintenance of yield-enhancing irrigation has been low which has been partly attributed to low levels of perceived tenure security. Even public investment in irrigation may either not be maintained properly or be used to its full potential without clear and secure property rights to land. Large scale investment in more mechanized types of farming can

potentially provide an option in remote regions but will not help create employment or sustainable development in the country's core regions (Tamirat, 2010:5).

The country has undergone major political changes over the past four decades which has been accompanied by major land reforms. Ethiopia moved from a predominantly feudal system that simultaneously recognized kinship, tenancy and private forms of tenure, to a socialist regime that instituted public ownership of land through nationalization and redistribution to peasant households; to the current market oriented economy under which land still remains public property and constitutionally entrenched.

Ethiopia currently has a federal structure that allows for considerable autonomy to the regional states and decentralized decision-making up to the lowest level in political, economic and social spheres including for administration of land.

Since 1991, the main thrust of the agricultural policy of the country has been what is dubbed as the Agricultural Development Led Industrialization (ADLI). The core pillar of ADLI is based on the premise that, in a capital starved country like Ethiopia, labor intensive agriculture is the engine of growth and a mechanism for reducing poverty in the country. In other words, ADLI subscribes to the policy that the development of agriculture is considered as the main engine of industrialization by providing the raw material, capital base, surplus labor and capital accumulation (MoFED, 2002). ADLI has been considered as pro-poor and, as such, the main instrument for alleviating poverty of the majority of small-holder farmers in Ethiopia.

In 2002, the government issued the first Poverty Reduction Strategy Paper (PRSP), known as the "Sustainable Development and Poverty Reduction Program (SDPRP)". After a consultative process involving various stakeholders at both the Federal and Regional levels, the SDPRP was based on the basic tenets of ADLI with its major focus on agricultural and rural development. Its emphasis was mainly directed to stimulating rural growth centered on small-holder agriculture.

The second round of the PRSP process, known as "the Plan for Accelerated and Sustainable Development to End Poverty" (PASDEP), covers the period 2005-2010 and is the current overarching policy framework in Ethiopia. Although the PASDEP builds upon most of the important strategic directions articulated in the former SDPRP, there is a major shift from the

previous policy direction in that it places an emphasis on economic growth with a greater focus on commercialization of agriculture with a strong push from the private sector (MoFED, 2006). The PASDEP aims to accelerate economic growth in the country with the private sector playing a lead role.

It is in light of the current policy framework that aims at promoting private large-scale agricultural investments in Ethiopia by both foreign and domestic investors that the government has, in recent years, been actively engaged in allocating land for large-scale agricultural investments. It is with this in mind, therefore, that there is a need to assess the governance situation of such investments that indicate the strength and weaknesses of the current governance system to serve as an input for all interested stakeholders to build and improve upon on what exists currently.

2.10.2 Recognition and Enforcement of Land Rights in Ethiopia

As the supreme law of Ethiopia, the Federal Constitution lays down the basic legal framework that determines land tenure rights of the country. According to the Federal Constitution, the right to ownership of land including other natural resources is exclusively vested in the State and the peoples of Ethiopia (Proclamation No.1/1995). Moreover, the Constitution provides that land is not subject to “sale or other means of exchange”, which clearly indicates that land cannot in any way be alienated and therefore precludes any form of private or communal “ownership” of land in the absolute sense of the term.

Hence, all other subsidiary laws issued by both the Federal and Regional States recognize use rights either in the form of state, private or communal/group holdings. More specifically, both the Federal and Regional Constitutions as well as the land administration laws issued by the Federal and Regional States provide that peasants and pastoralists have the right to acquire use rights over rural land free of charge and without time limit including the protection against eviction from their land except for public purposes subject to the payment of advance compensation commensurate to the value of the property (Article 40(8) of the Federal Constitution). Apart from this, any private individual or entity may have the right to acquire land on the basis of payment and for a fixed period of time to be determined by regional laws (Article 40(6) of the Federal Constitution)

To date, however, only four regional states constituting around 70% of the rural population of the country, namely, the Amhara, Oromia, Tigray and Southern Nations, Nationalities and Peoples (SNNP) regional states have issued implementation legislation and proceeded with issuing land holding certificates to peasant households formally giving recognition to the rights provided for under the Constitution (Federal Rural Land Administration and Land Use Proclamation No. 456/2005 et al) The other five regional states (Afar, Somali, Benishangul-Gumuz, Gambella and Harari regional states) have not yet issued their own implementation legislation.

Moreover, the transferability of these rights is restricted as per the Constitution as well as the Federal and Regional rural land administration laws. Private individual holding are not subject to sale or other means of exchange. Such holding can only be transferred through inheritance and only to family members residing with the right holder. If private individual holdings can be leased to other farmers or investors, this is subject to legal restrictions on the size and duration of the lease which may vary from one regional state to the other on the basis of legal provisions stipulated in the land administration and use laws of the respective regional states. Furthermore, the laws do not allow peasants to pledge their land use rights as collateral while an investor who leases rural land may present his/her use right as a collateral (Article 8(4) of federal rural land administration and land use right Proclamation 456/2007).

In regard to community landholdings in rural areas, both the Federal and existing regional laws generally define communal holdings of rural land stating that the government may allocate rural land to communities for common grazing, forestry and other social services (Article 2(12) of the Federal Rural Land Administration and Land Use Proclamation No.456/2005). However, the relevant provisions of these laws or other subsidiary legislation do not provide clear provisions that specify the extent of rights of communal landholdings nor do they set the criteria and procedures for legal recognition.

First time registrations of individually held properties in rural areas are to date confined to four regional states (Amhara, Oromia, Tigray and SNNP regional states) and includes the three most populous regional states (Amhara, Oromia and SNNP regional states). Official figures until 2005 and project reports since then show that the first stage registration and certification of rural private holdings have already covered 85 percent of rural households in the four Regional States

representing around 70 percent of the total rural population in the country. Even in such cases, first-time registration did not involve formal delineation and demarcation of land and mapping cadastre (K.Deininger et.al, 2007). On the other hand, even in the four regional states where rural land registration has taken place, there is not little communal land that has been demarcated or mapped/surveyed to date nor have communal holdings been significantly registered.

2.10.3 Restriction on Land Rights and Land Use Planning

The Federal Rural Land Administration and Land Use Proclamation as well as comparable legislations in the Amhara, Tigray, Oromia and SNNP regional states provide some land use restrictions and stipulate the development of a guiding land use master plan by the competent authority. The provisions include restrictions applicable on the use of sloppy, gully and wetlands and indicate that land use types and obligations of the holder are among the elements to be recorded in the land registry and land holding certificate (Article 13 of the Federal Rural Land Administration and Land Use Proclamation 456/2005). In practice, apart from pilot initiatives, the land registration books as well as the land certificates issued in the four regions so far do not contain the land use restrictions applicable to each plot of registered land (K. Deininger, 2008).

2.10.4 Environmental and Social Safeguards

An environmental impact assessment law was issued in 2002 in Ethiopia (Environmental Impact Assessment Proclamation No. 299/2002) According to this law; no person may commence implementation of a project that requires an Environmental Impact Assessment (EIA) without the authorization of the Federal Environmental Protection Authority (EPA) or the respective environmental agencies at the Regional level. The law also provides that any licensing agency empowered by law to issue an investment permit or a trade or operating license shall ensure that the Federal EPA or the relevant regional environmental agency has authorized the implementation of the project prior to the issuance of any permit (Article 3 of Proclamation No. 299/2002) The Proclamation further provides that a directive will be issued that categorizes projects that require EIA and that classifies projects that are likely to have adverse environmental impacts and thus require EIA (Article 5 of Proclamation No. 299/2002).

The Directive was issued in 2008 by the Environmental Council to determine the type of projects that will be subject to EIA (Environmental Council Directive No.1/2008). This directive provides

that irrigation development projects exceeding 3000 hectares; horticulture and floriculture development projects destined for export and investments near protected areas, among others, will be subject to environmental impact assessment. It is not clear why the directive excludes irrigation projects less than 3000 ha or rain fed agriculture or what criteria has been used to exclude other large-scale agricultural projects from the EIA process. Moreover, there is no evidence found that this directive has been implemented to date.

In practice, investors have in large part not been required to conduct EIA during the licensing of such investments or prior to the allocation of land. Equally, although the EIA laws and guidelines require conducting a social impact assessment of projects, they have not been set as a requirement for approval of large scale agricultural investment projects.

2.10.5 Food security

Food insecurity, as a result of persistent drought among other reasons, has been the order of the day for a very long period in Ethiopia. Despite Ethiopia's considerable agricultural resources potentials, the country has been facing chronic food shortages since the early 70s as a result of recurrent drought and high population growth. Even in years of adequate rainfall, the survival of some 4 to 6 million people depends on international food assistance. Thus Ethiopia portrays a very high level of undernourishment.

Even though Ethiopia is doing its level best to curtail the problem of hunger, food insecurity at the household level could still persist despite growth of food and cash crop production at national level.

Besides, the current land deal which is being made by Ethiopian government with foreign agro-investment companies could have its own impact on the food self sufficiency of the country. As various writers comment, investment by foreign companies on large scale farmland could have a devastating impact on the livelihoods of the indigenous local people. Especially the effect could be significant if the country is not strictly look after the undertakings of such companies.

2.11 The Impacts of Foreign Direct Investment in Farmland on Target (Host) Countries in Terms of Sustainable Development

Benefits to the host country are a major concern. The key question involves the extent to which benefits from farmland investments spill over into the host country domestic sector in a way that produces a synergistic relationship with existing smallholder production systems and other key food production players. Benefits should, in theory, arise from capital inflows, technology transfers leading to innovation and productivity increases, infrastructural provisions, the upgrading of domestic production, quality improvement, income and employment creation, export earnings, and possibly an increase in food supplies for the domestic market and for export. Indeed, investments in agriculture should be able to boost food security.

Crucially, these benefits will not materialize if investments result in the creation of an enclave of advanced agriculture in a dualistic system with traditional smallholder agriculture, particularly if the smallholders cannot attain this advanced agriculture. Studies on the effects of FDI on agriculture show that such benefits do not always come about. These studies catalogue concerns over highly mechanized production technologies with limited employment creation effects; a dependence on imported inputs and hence limited domestic multiplier effects; the adverse environmental impacts of production practices such as chemical contamination, land degradation, and depletion of water resources; and limited labor rights and poor working conditions. At the same time, there is also evidence of longer-run benefits in terms of improved technology, product quality and sanitary standards. In considering the question of benefits, it is therefore important to take a dynamic perspective.

Additional political and ethical concerns are raised in cases where the host country is food-insecure. While there is a presumption that investments will increase aggregate food supplies, this does not imply that domestic food availability will increase notably in cases where the food produced is repatriated to the investing country. Food supplies could even decrease in countries where land and water resources are seized by investment projects at the expense of domestic smallholders. Extensive control of land by other countries can also raise questions about political interference and influence.

The impacts of such investments are not necessarily confined to the two parties involved. Third countries may also be impacted through any resulting changes in international trade volume and price variability. Such a scenario could arise when a major importer secures food supplies outside the market.

In spite of the unique economic and political dimensions of land acquisitions, the general FDI experience can provide some guidance not only on the likely benefits and pitfalls of land acquisitions, but also on the pros and cons of different forms of FDI. It is interesting to note that some of the features of the current round of land investments appear to be contrary to trends in FDI more generally, which seem to favor looser contractual arrangements rather than the actual acquisition of major assets.

Whether or not international investments lead to broader developmental benefits for developing countries depends crucially on the terms and conditions of the investment agreements, and on the effectiveness of the policy and legislative frameworks in minimizing risks.

2.11.1 Possible economic impacts of FDI in farmland on rural livelihoods

The recent foreign large-scale investments in farmland have been strongly criticized especially by some non governmental organizations and international development organizations (Grain et al, 2008). Those organizations hint at possible negative impacts for the target countries and especially for the local poor. The expropriation of local landholders and the loss of adequate access to land supposedly result in negative consequences for local food supply (food security) and for the environment. On the other hand, some authors highlight opportunities for economic development and poverty reduction in targeted areas through e.g. job and income creation, technological transfers, know-how spill over effects and infrastructural improvements (Cotulla et al. 2009: 55).

Negative or positive, the consequences of FDI in land for a particular target country and its population strongly depend on the national specific circumstances, both in overall economic and legal terms, the contractual framework and the capability of national institutions in both the investing and target countries to control and assert compliance with the contracts. International rules and institutions may support an effective implementation. Since many of the actual negotiations about farmland deals lack transparency, they are characterized by power

asymmetries and do not encompass code of conducts in favor of the poor (Smaller and Mann, 2009: 63)

In general terms, FDI in farmland can enhance economic development and contribute to poverty reduction by initiating growth in the local economy. On the other hand it can have a negative impact on local economies by detracting access to a production factor that is of outstanding importance for its development.

A multitude of direct and indirect effects can arise from FDI in farmland. Direct positive socio-economic effects according to Smaller Mann and others can be summarized as follows:

- I) Increasing productivity on agricultural land. This can be achieved if FDI in land is connected to better access to agricultural inputs (e.g. seeds, fertilizer and capital) or by applying technologies that raise yields and reduce post-harvest losses and by educating employees and farmers. Investments in irrigation schemes can lead to more efficient use of existing resources.
- II) Valorizing or augmenting of marginal land by melioration measures (i.e. irrigation schemes, dams, terraces, etc.).
- III) Market access for farmers in rural areas of developing countries.
- IV) Generating income by leasehold.
- V) Generating tax income by levy land taxes or land transfer tax, the establishment of new firms, by the increase of employment and by raised consumption.
- VI) Improving infrastructure by building roads, or investing in transportation and communication.
- VII) Increasing agricultural exports due to increasing overall productivity and product quality.

Some of these potential improvements can also easily go in the other direction and depend strongly on the design of FDI: whether exports really grow is determined by the replacement of former export flows. If farmland areas were formerly dedicated to export production then simply a displacing occurs. The tax income may be even lower than before if tax breaks are offered to attract investments. Consumption taxes can collapse if income losses appear due to a loss in rural livelihood.

Indirect positive impacts affect not only the narrow production of agricultural raw material. FDI in farmland can lead to a transfer of know-how and to a better integration of the local economy into added value chains. Additionally, positive effects can occur by spill over impacts for the local economy. On-farm and off-farm business may offer additional revenues, and thus stimulate economic growth. Increased commodity production for exports generates foreign currencies and additional taxes and may expand the scope of national governments to invest in projects that improve living conditions.

Negative effects of FDI in farmland may affect the following areas:

- i) Reduced food security in the target country when food crops are not available for local consumption (e.g. export or replacement with industrial crops). This is of outstanding importance in light of the human right to food. As a matter of fact, some of the relevant target developing countries for FDI in farmland are dependent on food aid (Haralambous et al, 2009:21).
- ii) Biased distribution of benefits in favor of the investor or just some parts of the local population, not alleviating poverty but fueling social conflicts. Additionally, the states' bureaucracy may appear in the bargaining process due to corruption or ineffective governance control mechanisms. This does not only reflect welfare losses, but leads to less acceptance of FDI in farmland.
- iii) Competition in land use for food, animal feed, and agro-fuels with the poor suffering from high prices for land and water resources.
- iv) Increase of local and regional unemployment when applying labor substituting extensive mechanization.
- v) Specific problems may occur if water is a scarce resource and FDI in farmland leads to a change in the availability of it for local farmers.

The above mentioned negative effects may be intensified, if the host country does not take necessary measurements and carefully administer the foreign large scale agro-investment companies.

It is often argued that FDI in farmland is related to land that is marginal, “underutilized” or “abandoned” and, therefore, does not negatively affect the local economy.

2.11.2 Possible Socio-Cultural Impacts of FDI in Farmland on Rural Livelihoods

Socio-cultural impacts of FDI in farmland on rural livelihoods and in terms of sustainable development are closely related to the above-mentioned economic effects.

As positive effects are concerned, Haralambous and other writers suggest the following improvements as possible to be occur:

- i) Improving living conditions and sustainable development by additional income possibilities in rural areas which can be linked to the employment option within the investments project directly or due to an increase in other business options like catering and others. Additionally, living standards may be increased if overall living infrastructures may be improved e.g. by establishing schools or health care organizations.
- ii) Reactivation of abandoned land and value adding of underutilized land leads to income generation in rural areas.
- iii) An increase in working standards is possible if foreign investors apply their domestic standards to the employees which may be higher than those in target countries.
- iv) Better integration of smallholder/family farmers, who may integrate in associations.
- v) An increase in civil safety and political stability can be the outcome of improved living conditions and a better integration of local small-size farmers.

However, they express the occurrence of abovementioned advantages as depending on the specific design, and accordingly if there are following possible negative effects occur, the above mentioned improvements can easily turn into a burden for the target country:

- i) If there is strong competition for remaining land can invoke land conflicts, leading to civil and political instability.
- ii) Reducing access of farmland and marginalization of small-size farmland owners has negative effects on any development geared towards the needs of the poor. Reduced access to land can lead to displacement of indigenous people or the exclusion of rural communities and increase rural poverty, especially for women. Access to use of common lands can be restricted (collecting fuel wood, wild fruits, medicinal plants, etc. or grazing livestock). As a consequence, socio-cultural cohabitation between different

socio-professional groups (e.g. livestock and crop farmers, pastoralists, etc.) can be impeded.

- iii) Emigration of local farmers can increase social tensions and urban poverty. If former landowners lose their livelihood this may induce a migration flow into cities and increase urban burden or poverty. Plus, a loss of inherent cultural habits may occur.
- iv) Immigration of foreign employers can invoke social frictions. Income disparities in local communities may arise from the fact that often highly educated management personnel will be recruited from the investor's countries whereas low-level work will probably be done by local personnel. Especially if the imported employers benefit from better working standards or a firm's better healthcare system, social frictions can increase. Cultural and lingual divergences can also worsen social systems.

2.11.3 Possible Environmental Impacts of FDI in Farmland on Rural Livelihoods

The ecological sustainability in agricultural production is an important subject in the context of large-scale foreign investments. Applying intensive agricultural production has an impact on biodiversity, carbon stocks, and land, soil and water resources.

According to various commentators including Haralambous et al, positive effects of large scale farmland investment can be:

- i) An increase in environmental-friendly production methods can take place if foreign investors import practices which are more sustainable compared to local ones in the target country – due to a higher level of education and better technical capacities. Plus, imported quality standards for food production may have a positive influence.
- ii) A reduction of erosion can be invoked by producing on formerly abandoned land. These positive effects may spread to remaining areas for local producers: Training local farmers in environmentally sound production can strengthen awareness for the underlying problems. In addition, it can have spill-over effects for other farms and lead as a kick-off for a comprehensive natural resource management.

However, negative impacts may be the following:

- I) Increase in erosion and worsen climate change by displacing forest areas and other land use changes, which result in high carbon stock releases. Especially, if fire cleaning takes place.
- II) A loss in water availability and quality (salinity, water logging) may be invoked by large-scale water use and use of pesticides and fertilizer.
- III) A loss in soil quality can be caused as well by an unsustainable use of chemicals.
- IV) A reduction of biodiversity may be caused by large-scale monoculture production systems.
- V) Disruption of the local ecologic systems by introducing plants or species that are not part of the local biodiversity (e.g. eucalyptus, palm trees and rubber in some areas).

Therefore, there are a lot of possible positive and as well negative consequences of FDI in farmland. It can neither be fully condemned nor supported without restrictions.

The actual consequences depend on the design of the individual projects and the conditions in the target countries. Economic, societal and environmental consequences cannot be assessed in general and detached from the individual projects. In addition, it seems to be necessary not to assume a single interest in the target country. Rather, it should be differentiated between the interests of different groups within the society. So FDI may bring development to the region but people originally living here may experience a negative impact on their livelihood at least to some extent.

Chapter Three

3. Data Presentation and Analysis

Introduction

This chapter is based on the primary and secondary data collected from various stakeholders and publications, reports and data found from Ethiopian Investment Agency. Therefore the following part presets the views of respondents on the challenges and prospects of foreign investment in large scale farmland.

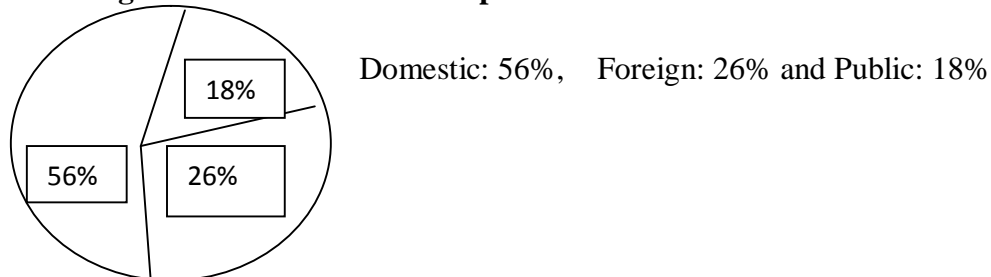
Profile of the Respondents

A total of twenty questionnaires were distributed to respected individuals working in Ethiopian investment agency, investment agriculture directorate, and as well to individuals working in Saudi star agricultural development firm, a foreign agro-investment company. In addition interviews have also made with the same three government officials. Out of the total distributed questionnaires 15 were returned after duly filled. The questionnaire were mainly targeted the chairpersons, division heads, and as well experts in the respected offices. The rationality of selecting these target groups was that they were expected to know more about the current situation of investment in large scale farmland in the country.

3.1 Composition of Investment Capital in Ethiopia by Type of Ownership

Following the policy change in 1992, in Ethiopia the proportion of privately owned businesses has increased in volume compared to publicly owned enterprises. This is mainly due to the investment policy that encourages private investments by attracting investors both from local and domestic sources through different incentive packages.

Fig 1: Percentage Share of Investment Capital as of 2010



Source: Ethiopian Investment Agency (2010)

Domestic investments have its own sources from investments made by Ethiopian nationals while foreign investment is made by foreigners investing in Ethiopia. Public investments are investments made by the government enterprises.

As the above figure shows, the relative proportion of domestic investment constituting 56 percent of the total investment capital in the country. It is a larger than the proportion of capitals invested both by foreign and publicly owned enterprises which comprises of 26 and 18 percents respectively. This is mainly due to the relative ease of fetching investment capital from domestic sources than the foreign sources. This is because raising capital from abroad requires a substantial amount of fund, especially allocated for promotion and building the necessary infrastructures to enable the country becomes an attractive and conducive environment to invest in.

Another interesting fact that can be observed from the figure above is the difference between the relative size of foreign capital and publicly owned capital. The investment made by domestic and foreign investors are respectively 38 and 8 percent higher than the investment capital made by government enterprises showing that there is a significant shift towards privatization and the difference between the capital from foreign source and the publicly owned capital is encouraging and an evidence for the gradual increase of FDI in the country.

3.1.2 The Total National Investment Made

This is a general analysis of the total number of projects, capital inflows and number of employments created by domestic, foreign investment projects and publicly owned companies.

Table 3.1 Total Licensed Vs Operational Investment Projects (1992-2010)

Sector	Total licensed projects				Total operational projects			
	No. of projects	Capital in million birr	Employment		No. of projects	Capital in million birr	employment	
			Perm.	Temp.			Perm.	Temp.
Agriculture and forestry	10,066	187,455,419	769,956	2,919,789	1,354	12,287,624	59,967	594,322
Fishing	4,075	116,915,754	177,138	580,982	180	6,012,108	23,972	26,073
Mining and quarry	2,177	19,217,895	102,113	45,971	317	2,584,444	13,762	4,248
Manufacturing	82	52,910,150	2,146	8,916	9	2,340,397	177	91
Construction	36	270,456	1,323	2,282	3	10,858	543	2
Education	1,043	14,822,419	52,082	22,932	108	550,082	3,830	1,464
Health and social service	4,870	55,010,689	160,601	145,144	301	1,193,117	8,193	3,723
Hotels and restaurant	13,214	297,522,370	788,534	615,478	1,964	17,671,514	93,377	57,090
Electricity, gas steam and water supply	198	3,367,185	8,856	6,375	34	495,298	1,969	439
Real estate, renting and business activity	605	3,627,067	18,362	16,617	22	135,046	816	194
Transport and communications	12,057	134,548,484	303,330	286,774	1,228	6,861,943	18,611	12,408
Whole sale retail trade and repair service	1,657	10,970,142	29,089	19,984	96	3,430,932	8,468	665
Others	1,353	7,678,837	29,091	28,177	104	1,061,206	2,514	5,639
Grand total	51,433	904,316,867	2,442,621	4,699,421	5,720	54,634,569	236,199	706,358

Source: Ethiopian Investment Agency (2010)

The above table 3.1 attempts to give the general picture of the implementation of approved domestic, foreign and public investment projects. The data shows below average rates of success in implementation of projects approved, securing less capital associated with the implementation of the projects and failure to generate the anticipated rate of employment. In general only **5720** projects were materialized out of the approved **51,433** projects which are **11.12** percent when converted to percentage. The investment projects approved were expected to generate about **904,316,867** birr; however, in practice only **54,634,569** birr had been generated. In this aspect, the success has highly fallen and only 6 percent has made out of the total expected hundred percent. By the same token only **236,199** and **706,358** permanent and temporary employments has realized respectively out of the total estimated **2,442,621** and **4,699,421** permanent and temporary employment opportunities respectively. This is equivalent to **9.7** and **15** percent permanent and

temporary employments anticipate have materialized while the rest being mere plan. Failure in attaining goals in these areas implies the weakness from the sides of the government in securing capital and generating employment is very thin and thus a lot needs to be done to raise the success rate. Thus if government does not undertake the necessary measurements the growing rate of failure in both capital and employment generation can have a far reaching negative impact on the socio-economy of the country.

3.1.3 Expected Vs Operational Foreign Projects

It is very important to compare the proportion of foreign licensed projects against operational ones. It can help to have a look into how the Ethiopian government is doing to utilize from foreign investment projects. Thus, table 3.2 below presents the number of foreign investment projects which have been licensed against foreign operational ones.

Table 3.2 Number of Foreign Licensed Projects Vs Operational Foreign Projects (1992-2010)

Sector	Number of Foreign Licensed Projects	Number of Foreign Operational Projects	Percentage of Foreign Operational Projects
Agriculture	2118	185	8.73
Fishing Farming	20	1	5
Manufacturing	2832	472	16.66
Mining	44	8	18.18
Electricity Generation	4		
Construction contracting including water well drilling	363	78	21.48
Health	155	29	18.71
Education	176	33	18.75
Hotels and restaurant	500	63	12.6
Real estate, machinery and equipment rental and consultancy service	1,705	297	17.42
Tour Operation	286	31	10.84
Others	152	40	26.32
Grand Total	8355	1,237	14.81

Source: Ethiopian Investment Agency (2010)

As can be seen from table 3.2 above, there is a significant gap between the number of FDI projects licensed and those became operational. Out of the total 8355 licensed foreign investment projects, only 1273 projects became operational, i.e. about 14.81 percent of the total approved projects has commenced its operation. This poor rate of implementation can emanate

from different factors such as delay in issuing land, policy or procedure conflicts that hinder foreign investors from operating in the country and the bureaucratic procedures that the investors has to go through to facilitate the importation of inputs and production facilities to commence operation. On the other hand it indicates the presence of weakness on the side of foreign investors themselves. For instance they might be granted the investment license while in reality they do not have the necessary capacity to actively undertake their investment activities. These problems further show the neglect on the side of concerned government authority. That is there could be a situation whereby investors are given investment license without being strongly scrutinized by government body to prove their capacity to successfully invest.

3.1.4 Expected Vs Actual Capital Generated

The other merit on which those who have pro FDI view base their argument on is the capacity of foreign investment to generate capitals that boost local economy through the creation of jobs and stimulation of local business. However, success in this regard depends on how well a nation manages to secure the planned amount of capital that can serve the intended purposes of pumping capital into the economy and empowering local firms.

Table 3.3 Expected Vs Actual Capital Generated from foreign projects During the Year (1992-2010)

Sector	Expected capital to be generated in million birr	Actual capital inflow in million birr	Actual percentage of capital inflow
Agriculture	117,671,439	7,501,148	6.3
Fishing Farming	239,975	6,400	2.6
Manufacturing	181,058,264	9,830,706	5.4
Mining	1,878,899	148,903	7.9
Electricity Generation	452,849		
Construction including water well drilling	14,235,192	3,885,742	27.3
Health	6,665,949	152,978	2.3
Education	1,964,807	359,675	18.5
Hotels (including resort hotels and lodges) and restaurant	19,743,304	403,720	2
Real estate, machinery and equipment rental and consultancy service	35,550,730	2,035,717	5.7
Tour Operation	1,079,787	54,773	5
Others	1,691,121	459,647	stmen
Grand Total	382,232,317	24,839,408	6.5

Source: Ethiopian Investment Agency (2010)

As can be inferred from table 3.3 above, there is high discrepancy between expectation and what had actually happened. From expected amount of capital which is 382,232,317 birr, only 24,839,408 birr, which is equivalent to 6.5 percent had actually realized out of the huge number of capitals estimated to be occur as a result of the activities of these foreign investment projects.

Again in this case there is a significant gap between expected capital to be generated through FDI and that is actually happening owing its cause to the factors listed for resulting in poor implementation of licensed projects. Since the numbers of projects becoming operational are directly related to inflow of capital, the factors affecting the implementation of licensed projects also affect capital inflows into the country.

3.1.5 Employment Generation

One of the most wanted outcomes of foreign investment in least developed countries is its ability to absorb the ever increasing labor force dominated by young age groups. This in fact depends on the capacity and viability of the investment projects and the governments' active role in making the projects more benefiting to the country. In order to have a look over this issue, the following table deals with the expected and actual employments created as a result of the undertakings of foreign investment projects.

Table 3.4 Expected Vs Actual Employment Generated by foreign investments (1992-2010)

Sector	Expected employment		Actual employment generated		Percentage of actual employment	
	Perm.	Temp.	Perm.	Temp.	Perm.	Temp.
Agriculture	459,799	919,740	24,824	215,178	5.4	23.5
Fishing Farming	476	1,714	42	2	8.8	0.1
Manufacturing	288,777	221,281	40,004	19,443	13.9	8.8
Mining	2,172	2,745	402	95	18.5	3.5
Electricity Generation	215	435				
Construction contracting including water well drilling	34,686	59,645	12,600	20,225	36.3	33.9
Health	13,134	4,209	1,234	218	9.4	5.2
Education	7,418	5,063	2,143	693	28.9	13.7
Hotels and restaurant	21,969	17,441	2,079	835	9.5	4.8
Real estate, machinery and equipment rental and consultancy service	82,980	90,640	7,364	7,093	8.9	7.8
Tour Operation	3,618	4,516	553	270	15.3	6
Others	5,543	7,496	1,247	4,987	22.5	66.5
Grand Total	920,787	1,334,925	92,492	269,039	10	20.2

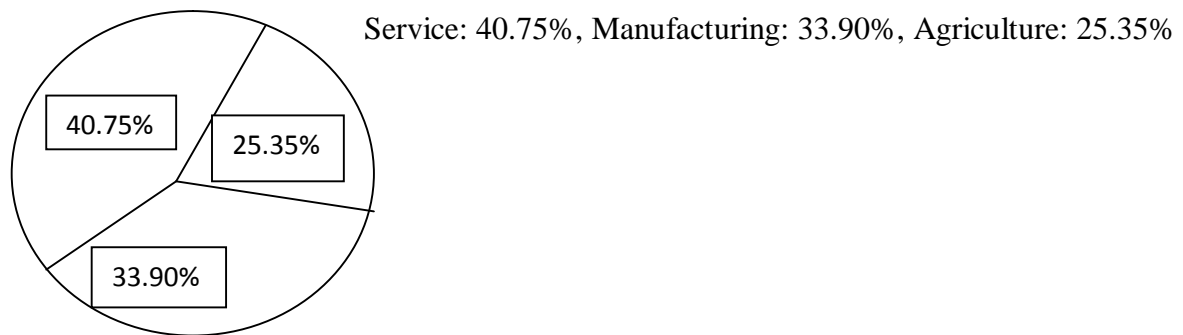
Source: Ethiopian Investment Agency (2010)

In comparing the level of employment expected to be generated through foreign investment projects with actually created employment opportunities, there is a high gap as can be observed from table 3.4 above. This can be seen through the realization of only 10 percent and 20.2 percent of the expected permanent and temporary employments are actually created. This can be explained in terms of the level of implementation of investment projects and the resulting capital. Poor implementation results in poor capital inflows which in turn have its own bearing on the level of employment created be it temporary or permanent. This discrepancy between anticipated and actual employment creation from foreign direct investment is an indication of the fact that things are not going smoothly as expected.

3.1.6 Percentage Share of Foreign Direct Investment projects in the Agricultural Sector

It is useful to compare the number of foreign investment projects engaged in agricultural sector with the rest of the other sectors. Because it enables to know whether agricultural sector is receiving high or low number of foreign projects. To this end the following fig 2 presents the percentage of foreign investment projects went into the three main sectors, namely, service sector, manufacturing sector and agricultural sector.

Fig .2 Percentage Shares of Foreign Investment Projects Went Into the Three Sectors



Source: Ethiopian investment Agency (2010)

As can be seen from fig.2 above, the numbers of foreign investment projects engaged in agricultural sector are very few when compared to the rest of the other sectors. It is obvious that agriculture is the main stay of Ethiopian economy which generates about half GDP and creates about 85 percent of job opportunities and 90 percent of foreign exchange from exportation. Even though agriculture plays a great role in the overall economic development of the country, it received fewer amounts of foreign investment projects and hence attracted the attention of few

investors. The main reason why agriculture received only 25.35 percent out of the total investment projects licensed can be mainly due to the less attention paid by the government in opening its door to foreign investors to invest in agriculture. It was in recent years that agriculture was made open for foreign investors. During the previous regimes agriculture was sacrosanct to foreign investors. Therefore, this policy of the government had its own effect for the current less investment attained in the agricultural sector.

3.1.7 Trends of Foreign Investment in Agricultural Farmland

Foreign investment in agricultural farmland of Ethiopia is continuously increasing. It shows dramatically change specially since the year 2005. Table 3.5 below indicates the trends of foreign investment in farmland.

Table 3.5 Trends of Foreign Investment in Agricultural Farmland

Years of Investment	No of approved Projects	Capital	Status			Employment	Land in hectare
			Pre. imp	Implementation	Operation		
1994	3	38,495.1	2	1	0	1144	10.8
1995	1	5,225.2	0	0	1	34	1,000
1996	5	18,408.2	3	1	1	425	730
1997	4	104,411.5	1	1	2	417	57
1998	7	102,332.1	0	1	6	5227	5,706
1999	7	29,303	1	1	5	281	474
2000	19	396,920.9	11	3	5	7467	45,315
2001	19	496,860.6	7	4	8	4531	4741
2002	14	144,213.6	12	2	0	644	4061
2003	40	1,511,979.53	15	7	18	15576	62,478
2004	117	2,801,548.36	46	17	54	49899	151,001
2005	162	6,459,126.88	117	12	33	87020	160,517
2006	188	2,342,850,571	162	9	17	69351	173,952
2007	300	15,574,838.27	270	11	19	343446	747,640
2008	373	33,631,711.98	342	14	17	404704	2,205,400
2009	336	11,653,710	316	15	5	262979	1,384,859
2010	363	22,861,905.9	353	10	0	179517	1,259,442.88
Total	1958	2438681562	1658	109	191	1432662	6207384.68

Source: Ethiopian Investment Agency (2010)

As can be observed from the table 3.5 above the number of foreign agro-investment projects have been increasing from time to time. It has reached its peak in the year 2008 by registering 373 projects followed by 363 and 336 projects during the year 2010 and 2009 respectively. By the same token during the year 2008 the largest amount of farmland has given to foreign investment companies. That is about 2,205,400 hectares of land has been offered to foreign agricultural companies. The years 2010 and 2009 also indicates the high number of farmlands that have been given to foreign investors. The main possible reasons why large amount of farmland was given to foreign investing companies in the year 2008 can be the financial and economic crisis that has happened in all over the world during the year 2007/2008 and thus resulted in investment in agriculture in overseas. That is the increase in the price of food across the globe, enforced especially the food importing wealthy countries to invest in overseas agriculture and thus has increased investment in farmland in developing countries like Ethiopia.

3.1.6 Expected Vs Operational Foreign Agricultural farmland Investment Projects

It is necessary to compare the approved foreign agricultural investment projects against operational ones. Because it helps to know how many of the licensed foreign agro-projects are in operation and thus meeting the desired objectives of creating employment opportunity, capital inflow and as well technology transfer. Table 3.6 below shows the number of projects in operation, capital in flowed and employments created as a result of the start up of the activities of foreign agricultural investment companies.

Table 3.6 Total Licensed Vs Operational Foreign Agricultural farmland Investment Projects (1994-2010)

Fiscal year of investment	Total Licensed Foreign Agricultural Projects				Total Foreign Agricultural Operational Projects			
	No. of projects	Capital in Million Birr	Employment		No. of projects	Capital in Million Birr	Employment	
			Perm	Temp			Perm.	Temp.
1994	3	38495	359	785	0			
1995	1	5225	10	24	1	5000	5	13
1996	5	18408	193	232	1	3681	19	46
1997	4	104411	167	250	2	52206	83	125
1998	7	102332	2476	2751	6	87713	231	254
1999	7	29303	93	188	5	22682	63	97
2000	19	396920	3249	4218	5	104452	1265	2412
2001	19	496860	2123	2408	8	209204	1316	1548
2002	14	144213	210	434	1	10,300	17	25
2003	40	1,511,979	2,359	13,217	18	755,989	1,531	64,527
2004	117	2,801,548	18,523	31,376	54	1,293,022	10,502	13,679
2005	162	6,459,126	15,655	71,365	33	1,315,747	4,318	16,836
2006	188	2,342,850,571	22,031	47,320	17	211,853,509	9,673	11,921
2007	300	15,574,838	64,029	279,417	19	986,406	3,753	10,527
2008	373	33,631,711	33,348	371,356	17	1,532,812	10,189	13,628
2009	336	11,653,710	34,069	228,910	5	173,418	5341	7297
2010	363	22,861,905	31,592	163,721	0			
Total*	1722	2,433,031,861	200,724	1,162,089	91	215,686,192	33,238	60,209
Total	1,958	2,438,651,555	230,486	1,233,768	192	218,405,941	48,306	142,935

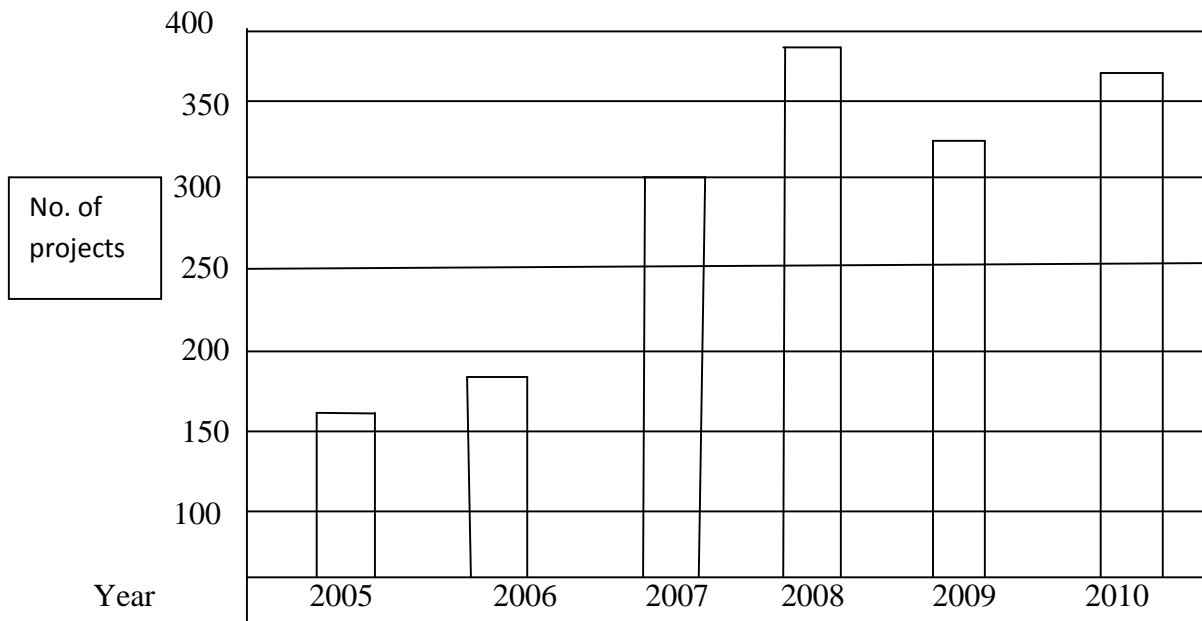
Source: Ethiopian Investment Agency (2010)

As can be observed from table 3.6 above, the numbers of foreign agricultural investment projects are showing increment over the periods 2005-2010. The number of projects reached highest peak in the year 2008 by registering 373 projects. In the years 2010 and 2009 also the numbers of approved foreign agricultural projects were high when compared to the rest of the other years. The main reasons for such increase of foreign agro-investment projects among others could be the greater motive of the investing foreign country to meet the food requirements of its respective citizens. Besides, the relative political stability in Ethiopia, availability of fertile farmland, abundant and cheap workforce and the incentives offered to foreign investors by the government can be mentioned as major factors. However, the numbers of operational foreign agricultural projects are very few when compared to the number of licensed projects. This can happen because of various reasons. For instance, some of the projects can be in the implementation stage while many others could be in pre-implementation stage, where as the rest of the projects can be yet in the process. The other main possible reason that can be the factor for

the high discrepancy between the licensed and operational projects can be the weak capacity of foreign agro-investment companies.

As regard to the employment opportunity, it was expected to create a permanent and temporary job opportunity for about 230,486 and 1,233,768 people as a whole. However, it ends up by creating permanent and temporary jobs for about 48,306 and 142,935 people respectively. This high decline of expected job opportunity had happened because of various factors among which the less number of projects realized, less capital appropriated for the projects has ultimately resulted in creation of job opportunity only for limited number of people. The years 2005-2010 witnesses the highest inflow of foreign agricultural projects. Only within the five years mentioned in the range above, about 1722 foreign agricultural projects were licensed and expected to open the vacant post for some 200,724 and 1,162,089 people on permanent and temporary bases respectively. Unfortunately, the number of operational agricultural projects and amount of employment opportunity they created so far is by far less than the expected result. The reason why such events have occurred can be similar with the factors mention earlier. In addition, government’s failure to strictly assess the capacity of the foreign agro-investment companies prior to granting investment license can be another factor.

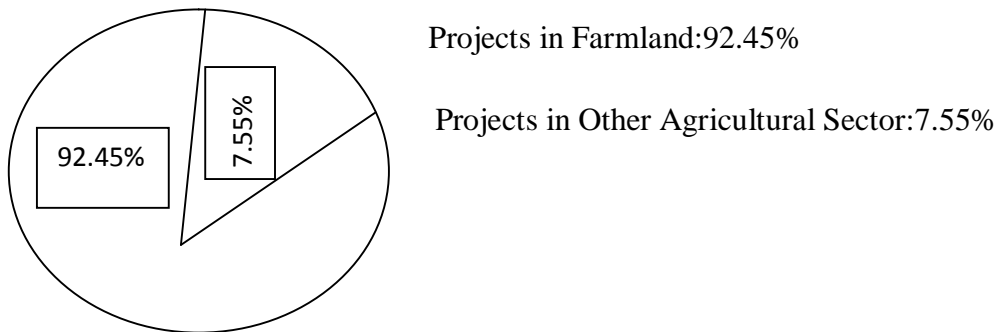
Fig.3 Trends of Foreign Investment Projects in Agricultural Farmland



Source: Own Calculation Based on Sources from Ethiopian Investment Agency

The above fig. 3 shows the trend of foreign agro-investment in farmland. As can be seen from this figure, the year 2008 registered the highest number of projects following by the years 2010 and 2009 respectively. Thus, as a whole the inflow of foreign agro-investment projects is increasing. The main reasons for the increase of these projects can be the promotion of investments by the government of Ethiopia besides the main aim of foreign investing counties.

Fig.4 Percentage Share of Foreign Investment Projects in Agricultural Farmland vs. Total Foreign Investment Projects made in agricultural sector



Source: Own Calculation Based on Sources from Ethiopian Investment Agency

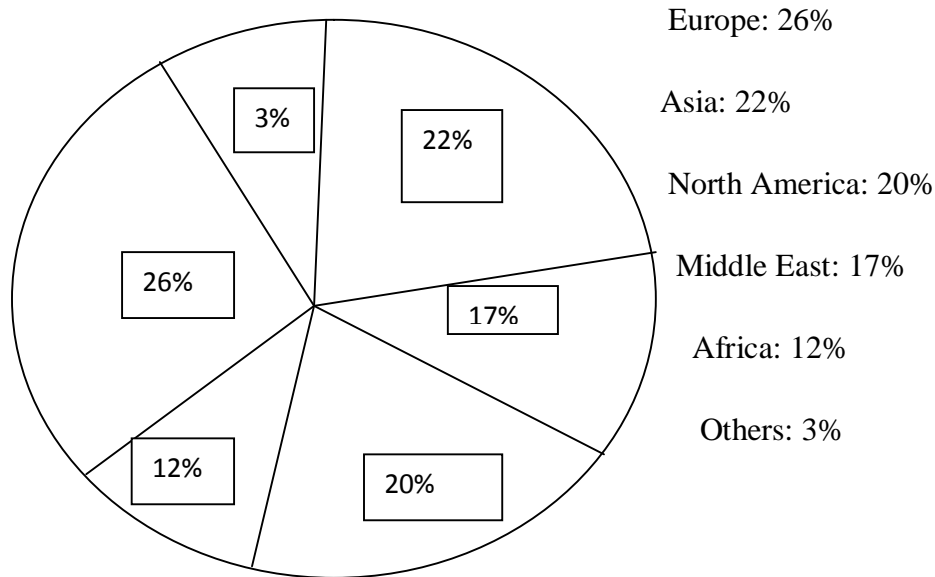
As can be evidenced from fig 4 above the number of foreign projects licensed to invest in farmland is very high. It shares about 92.45 percent of the total projects went into the agricultural sector. The main reasons why many foreign investors interested in investing in farmland may be their greater need of supplying food to their respective country, besides gaining high profit from exportation of crops produced on the farmland. In addition, the special incentives provided to such investors by Ethiopian government can have its own effect on the decision of the investors to invest in this sector.

3.1.7 The Main Sources of Foreign Investments in Ethiopia

In order to drive both economic and social benefits from foreign investment, Ethiopia has been working its level best to attract investors from across the globe. To attain these objectives Ethiopia has revised its investment policies. For instance it has provided high investment incentives to foreign investors and it is actively undertaking investment promotion in the rest of the world. Knowing the sources of foreign investment in Ethiopia helps for various purposes. For example it can enable one to know whether advanced countries or less developed countries are

investing in Ethiopia. Therefore the following fig.5 presents the percentage share of foreign sources of investment in Ethiopia.

Fig.5 Percentage Share of Foreign Sources of Investments in Ethiopia



Source: Ethiopian Investment Agency (2010)

As can be seen from fig.5 above, foreign investors are mainly from Europe, Asia and North America. But surprisingly the share of Middle East country is relatively high when compared to the continents as a whole. The reasons for the relative high share of Middle East among others can be their greater need of substituting food importation by investing in large scale farmlands on which they can produce high amount of crop productions.

3.2 Government Officials' Responses Regarding Foreign Investment in Large Scale Farmland in Ethiopia

Besides the secondary sources of data the researcher has gathered first hand data from key government officials. The research has aimed at collecting primary sources of information from twenty respected government officials, but, unfortunately it ended up by gathering primary sources of data from only ten public officials. Therefore the entire analysis that follows is based on the responses of these ten government officials.

Table 3.7 Responses of Government Officials on Why Ethiopia Is Entered Into Large Scale Farmland Deal with Foreign Investors

Question	Responses	Total Number of Respondents	Percentage of Respondents
		10	
Why Ethiopia Is Involved In Large Scale Farmland Deal?	Creating wide job opportunity	10	100%
	Capital accumulation	3	30%
	Technology transfer	5	50%
	To increase agricultural production and productivity	2	20%
	Proper Utilization of Resource	4	40%
	Poverty eradication	1	10%

The main reasons for the involvement of Ethiopia in large scale farmland deal with foreign investors among many reasons are to create wide job opportunity, capital accumulation, technology transfer, increase agricultural production and productivity, proper utilization of resources and poverty eradication.

Thus, as can be observed from the responses of the key respondents in table 3.7 above, it is clear that Ethiopia is very much eager and opened its doors for foreign investors almost in all sectors including the agricultural large scale farmland which was sacrosanct during the previous regimes. Out of the total respondents 100 percent of them respond that the deal helps to create jobs, while 50 percent and 40 percent of them suggest that the foreign investment in farmland can bring technology transfer and utilization of available farmland resources properly. Where as 30 percent and 20 percent of them believe that the investment of foreign investors in farmland can bring about capital inflows into the county and enhance agricultural production and productivity. Therefore, as can be inferred from this table the very aim of Ethiopia's involvement in the farmland deal is to create wide job opportunity to abundant workforces and utilization of farmland resources of the country.

In fact the economic liberalization of the country also supports the idea under discussion. The Agricultural Development Led Industrialization (ADLI) policy which believes in the efficiency and effectiveness of increased agricultural production and productivity can only led to growth and economic development supports the idea of large commercial farming. This first begins by the establishment of small and medium agro-processing industries. This can be realized by the efforts of the agrarian community. However, it is difficult to reach on this industrialization level easily by using backward farming technology which Ethiopia is still attached to. In addition dependency of farmers on rain which varies every year and limited capacity of the Ethiopian government and agrarian community to scale up the irrigation practice has retarded the development of small and medium agro-processing industries that will step by step lead to the creation and development of heavy industries.

Thus, it seems that it is due to this necessity that currently Ethiopian government is engaged on large scale agricultural land deal with foreign agro-investors. This shows that Ethiopian government decided to attract foreign agro-investors in order to harness and realize the objectives of creating small and medium agro-processing industries which can only be achieved by the existence of productive and advanced agricultural production technologies hoping that the foreign agricultural companies equipped with the necessary and modern agricultural machineries can highly increase agricultural product and thus benefit the country in many ways.

3.2.1 The Previous Use and Types of Land Contracted to Foreign Agro-Investors

According to various sources of data, so far Ethiopia has leased about 1.2 million hectares of arable land to different foreign agro-investment companies (fortune, 21, 2009). However, the official report of Ethiopian investment agency shows that only about half a million hectares of arable land has been given to feign companies from the days of the country's economic liberalization.

Table 3.8 Previous Use and Types of Farmland Leased to Foreign Agro-Investors

Question	Response	Total number of respondents	Percentage
		10	100%
What were the previous uses and types of these farmlands prior to being leased to foreign agro-investors?	Unutilized farmland and free from settlement	6	60%
	Owned by state's agricultural enterprise	1	10%
	Covered by forests		
	Used commonly by local farmers	2	20%
	Occupied and Used by local farmers	1	10%

Regarding the types and previous uses of the land which has been leased to foreign agricultural investors is concerned, as can be observed from table 3.8 above, 60 percent of the respondents provide that these farmlands were unutilized and free lands which were free from settlements and forests, while 20 percent of the respondents reply that parts of these lands were previously commonly owned by local farmers and used to be utilized for various purposes by the local people. Whereas 10 percent of the respondents witness that these farmlands were occupied and has been harvesting on by the local farmers.

From this response, when critically looked into, it gives an impression that these lands have been occupied and being used on by the local people directly or indirectly. And it is inevitable that in some regions that the appropriation of these lands to foreign agro-investors have resulted in evacuation and displacement of that specific local farmers. This again can result in loss of pasture land and reduce the sufficient availability and access of other resources in connection with the land. For instance water could be mentioned as a major resource that could be taken away with the land. Thus such happenings can negatively put impact on the local farmers if not properly and equitably arranged to benefit both the local people and the investing company.

3.2.2 The Extent of Transparency and Consultation of Concerned Government Authority with Local People

As dictated in the literature part, the profitability of foreign agricultural investment mainly depends on the free will and voluntary cooperation of the local farmers. That is if there is a smooth relation between the local farmers and investing foreign agro-companies, there could be the creation and attainment of various prospects which benefit the investing company and the local farmers in particular and the country in general. In order to create and arrive on positive attitude with local farmers towards foreign agro-investment companies; the role of government is very decisive. Because, it is duty of the government to presents the main advantages of foreign agro-investment companies to the local farmers, create awareness among them, convince and persuade the local community and finally arrive on common consensus with the local farmers before deciding to lease the farmland to foreign investors. Therefore, in this aspect the following question was posed to concerned government officials.

Table 3.9 the Extent of Consultation of Concerned Government Authority with Local Farmers

Question	Responses	Total Number of Respondents	Percentage
		10	100
To what extent did the consultations made with the concerned local farmers prior to leasing farmlands to foreign investors?	All most in all cases the consultation and discussion has made with all concerned bodies including the local farmers	7	70%
	There are few cases where consultation and discussions didn't made with local farmers	3	30%

As can be evidenced from table 3.10 above, 70 percent of the respondents answer that the activities of discussion and consultation has made with the regional states, zones, districts and as well with concerned local farmers prior to the appropriation of the farmland to foreign agro-investors. Yet, the remaining 30 percent of the respondents say that there were no consultations

made with concerned local farmers in few cases. Explaining their response, the respondents say that the overlooking of consultations which has to be made with local farmers has happened because of various reasons among which the remoteness of farmlands from the areas where local farmers live has made the consultation so difficult and thus could be overlooked.

It is evident from this response that there is gap of transparency among concerned bodies regarding the extents of consultation to be made with each other. This indicates a situation where by the farmland is contracted to foreign investors without the well aware and agreement of local farmers on the land deal issue.

3.2.3 The Recognition of Farmers Right and Compensation Made to Local Farmers

Among various factors that can enhance the overall benefit of foreign investment to the host country, the prominent role of the recipient country's government active performance to protect and uplift the due benefits of its respective citizen from the workings of foreign agro-investment companies is the major one. This can be expressed by the activities of the government in recognizing the due rights of local people on the farmlands surrounding their area and giving sufficient compensation to the local farmers in cases they lost their previous farmlands and thus livelihoods as a result of the farmland lease to foreign investors. Consequently, the following question was forwarded to respected government officials to know how the government is addressing possible problems that may arrive on the local farmers in cases they dislocated from their farmland.

Table 3.10 Type of farmlands for which Compensation has Made to Local Farmers

Question	Response	Total Number of Respondents (10)	Percentage
For What type of farmland did compensation were made to local farmers?	It has made for those farmlands owned by individual local farmers	10	100%
	It has made for all commonly used farmlands	4	40%
	It has hardly made for commonly used farmlands	2	20%

As can be observed from table 3.11 above, all the respondents agree that compensations has made for the local farmers for their privately owned farmlands which they have now lost for foreign agro-investors. In addition 40 percent of the respondents further say that the compensation has even made for local farmers for the farmland which they use commonly for various purposes. However, 20 percent of the respondents argue that there was hardly any compensation made to local farmers for farmland which they use in common. This implies the local indigenous farmers who used to make their livelihoods from this farmland under customary tenure could be neglected without payment of sufficient and reasonable compensation. In such cases where less or no compensation is made for local farmers on lands which they commonly own, it has a far reaching effect on the profitability of foreign agro-companies. Because, the perception and reaction of the local farmers towards these agro-companies can be negative. They can think that they loss their farmlands and livelihoods without payment of sufficient compensation. On the other hand this situation can hamper the productivity of the foreign agricultural investment companies and thus consequently reduce the benefit the country should drive from such investments. It can create coarse interaction between investing company and rural farmers and hence can obstacle the objective of technology transfers and know how.

In addition, the general county's low rental price of the farmland, which ranges between fourteen birr to one hundred thirty five per hectare per year will inevitably result in low or small amount of compensation to the local farmers, so the local farmers may end up by receiving less money which is bellow their previous income from that respective land and this may result in the becoming of the local people the laborer of these huge foreign agricultural companies which can be hired and fired at the will of the foreign agricultural investment company(Ethiopian Investment Guide, 2009).

3.2.4 The Type and Period of the Large Scale Farmland Contract

Examining the type of contract has many uses. For example it enables one to know whether the government of Ethiopia can have a full right over the undertakings of the foreign agro-investment companies. That is whether the government can control the activities of foreign agro-investment companies. It shows the power relations that exist between the country and investing firm. By the same token the period of contract also do have its own effect on the benefits that

may emerge from foreign agricultural investments. In this regard the following responses were gathered from government officials.

Table 3.11 the Period of Farmland Contract to Foreign Agro-Investors

Question	Response	Total Number of Respondents	Percentage
For how long did the farmlands contacted to foreign agro-investment companies?	25-45 years	2	20%
	25-50 years	8	80%

Concerning the period of contract, as the above table presents, 80 percent of the respondents forward that the farmlands has delivered to foreign agro-investors for a period of twenty five to fifty years. Whereas 20 percent of the respondents reply that the farmland has contracted with foreign investors for a period of twenty five to forty five years. However, the information leaked by other sources indicates that the foreigners leased the virgin farmlands of Ethiopia for more than fifty years. For instance Addis Fortune says that Ethiopia has leased its fertile farmlands to foreign agricultural companies for a period ninety-nine years (Addis Fortune, 21 February 2010).

As can be witnessed from the above responses the period of agreement is relatively long, i.e. almost all the farmlands have been leased for a period of fifty years. In some cases there might be contract that lasts for almost half life of one generation. Therefore the impact of such contract and activities of these foreign agro-companies without doubt can put an impact on the socio-economic condition of the country.

Table 3.12 Type of Contract Made With Foreign Agro-Investors

Question	Responses	Total Number of Respondents	Percentage
		10	
On what type of rights did the farmlands leased to foreign agro-investors?	Farmland use right	10	100%
	Farmland ownership right		

As can be seen from the above table 3.12, regarding the type of contract, almost all the respondents agree that all the farmlands were leased only on farmland use rights. Since the contract offers a farmland use right, the foreign agro-investment companies can use the farmland for various agricultural purposes. They even can transfer it to third party after they have developed the farmland for about seventy five percents; far as full development of such large scale farmland requires huge capital. Offering of only the farmland use right to foreign investors enables the Ethiopian government to exercise the ownership right over the farmlands. The remaining of ownership right of farmland in the hands of Ethiopia has many advantages. It can enable the Ethiopian government to question the foreign firms incases they looked over implementing the necessary terms of agreement they agreed on. In fact the Ethiopian government can do its level best using its ownership right so that the foreign investors can perform accordingly. Farther, since Ethiopia is member of International Centre for Settlements of Investment Dispute (ICSID) between states and nationals of other states and as well member of Multilateral Investment Guarantee Agency (MIGA) it may able to easily settle possible risks that may happen because of the weaknesses of foreign agro-investment companies. However, the power relation is by far not a balance one, i.e. it could be difficult for Ethiopia to present such huge foreign agro-companies before the international court in cases disagreements occur.

Table 3.13 the Separate Dispute Resolving Institutions

Question	Response	Total Number of Respondents	Percentage
		10	
Are there any special institutions that protect the interests of local farmers and resolve possible disputes between the local farmers and investing foreign companies at the local levels?	Yes	3	30%
	No	7	70%

As can be evidenced from table 3.13 above, 70 percent of the respondents reply that so far there are no institutions established to defend the interests of local farmers and easily handle the possible disputes that might occur between the investors and local people. However, 30 percent of the respondents suggest that the federal agricultural investment directorate in collaboration

with regional and woreda administration facilitates the problems that might occur and actively performs to enhance the interests of both local people and investing company. It is clearly understandable from this response that there is absence of such necessary separate institution other than the usual government tiers to solve the possible disputes. Therefore, the full comply of these companies to each and every rule and terms of agreement of the contract could be difficult. This on the other hand reduces the benefits that should go to the country in general and to local farmers in particular.

3.2.5 The Amount of Capital Required to Get Investment License

Assessing the capital capacity of foreign investors is very important for various reasons. Because, it is only if the investor is capitally sound that he/she can fully develop the farmland and successfully make profits for him self/her self and consequently benefits the country in many ways. Therefore carefully examining the capital status of the foreign investors becomes the duty of the concerned government authority, so that it harnesses the development of farmland in few periods of time. To this end the following question was posed to the concerned government authorities.

Table 3.14 Capital Required By Foreign Agro Investors to Get Investment License

Question	Response	Total number of respondents	Percentage
What is the minimum capital required from foreign agro-investors to obtain investment license?	The investment license is granted if he/she able to provide the 30 percent of the total capital required to fully develop the farmland and proved by Development Bank of Ethiopia	8	80%
	The investment license is granted if he/she able to provide the 50 percent of the total capital required to fully develop the farmland and proved by Development Bank of Ethiopia	2	20%

As can be evidenced from table 3.14 above, 80 percent of the respondents answer that any legal foreign agro-investor can get investment license if he /she could provide 30 percent of the total amount of capital required to fully develop the farmland he/she requested and its credibility is

proved by the development bank of Ethiopia. Whereas 20 percent of the respondents answer that the investment license is granted only if the investor could provide 50 percent of the total capital required to fully develop the amount of farmland the investor requested.

The provision of such small percent of initial capital as minimum requirement by government of Ethiopia can attract and increase the inflow of foreign agro-investors. However, using the small amount of initial capital requirement as an opportunity, there could be some foreign agro investors that attempts to acquire large scale of farmland while in reality they cannot exhaustively invest on the land. This situation on the other hand indicates a possibility whereby incapable foreign agro-investors obtain the large scale farmland while they cannot do well on it and consequently earn low or no profit and thus avoid the due benefits that the country should get. That is since some of the companies do not fully and properly utilize the farmland, they may harm the country in many ways, and for instance it could reduce foreign exchange that the country gets as far as the company exports its agricultural commercial products to international markets.

In addition to the small amount of initial capital required from foreign investors, according to the interview made with some of the respondents, the foreign investors can also transfer or sell the farmland after it has developed to the predetermined level of seventy five percent. This provision in fact may benefit the investors. However, in the other side, it may reduce the productivity and production of the foreign agro-companies on the farmland. Because the availability of transfer option can influence the investors to quickly decide to transfer the farmland at its early years or mid-years of the contract period. If this practice spreads and continues on without doubt the country may lose the expected benefits.

3.2.6 Special Terms of Contract

As different writers testify and in fact mentioned in the literature part, the benefit of foreign investment to the host country is dependent on the type of agreements made between the investing firm and recipient country. Because, both the investors and host country have legal duty to oblige by the terms of agreements made during the commencement of the contract. Thus, to see whether there are any kinds of special agreement between the government of Ethiopia and

the foreign investing firms in favor of local farmers, the following question were forwarded to respective respondents.

Table 3.15 Special Terms of Agreement That Favors the Interests of Local Farmers

Question	Response	Total number of respondents	Percentage
		10	
In the contract are there any promising terms that enforces the investing foreign firms to offer services such as contract farming, out growing, and offering trainings to the nearby farmers?	Yes	3	30%
	No	7	70%

As can be observed from the above table 3.15, 30 percent of the respondents reply that the terms of contract as well seeks the foreign investors to provide the services mentioned in the question. Where as 70 percent of the respondents answer that the contract does not directly enforce the foreign agro-investors to provide these services. They rather say that the provision of such services are rather depends up on the free will of the investing foreign agro-companies. As it is known the prime objective of any business companies is generating high profits. Therefore, while there are no any strong agreements that as such enforces them to offer the above mentioned services and trainings to the local farmers; it is less likely that these foreign agro-companies will provide the necessary services and trainings or other types of assistance to the nearby farmers who live adjacent to their large scale farmland area at their own initiative and even if there is the case it may not continue regularly for long period. Due to this fact one can deduce that since the foreign agro-companies according to the contract are not strongly obliged to offer such services, the country in general and the local farmers in particular could not drive the full benefits from the operation of these companies.

Thus, from this reality one can ask how Ethiopia is going to internalize the advanced and best agricultural technology and consequently arrive on high agricultural production and productivity while the contract does not pressure the agro-companies to transfer their best practice to the local farmers. This means on the other hand, the spillover that is expected to take place as a result of the engagements of these huge companies in agricultural sector is relatively few.

3.2.7 The Impact of the Large Scale Farmland Contract on the Food Security

Many commentators have raised concerns that foreign investment in agriculture, in particular large-scale land acquisitions, could have an adverse impact on food security in the host country. Most of the FDI projects are in many cases feared to provide less access to natural resources and the majority of investors aimed at exporting the output to their home countries or other markets. Thus, regarding the food security of the country, again the respondents were asked whether the contract have certain influences on the market plan of investing foreign agro-companies.

Table 3.16 the Influence of the Contract Agreement on the Market Plan of Foreign Investors

Question	Response	Total Number of Respondents	Percentage
Does the contact agreement have an influence on the market plan of the foreign agro-investors?	Yes it allows them to sell 30 and 70 percent of their agricultural products to domestic and international markets respectively	6	60%
	Yes it allows them to sell 50 and 50 percent of their agricultural products to domestic and international market respectively	1	10%
	It gives them full freedom as regards to where to sell their products	5	50%
	It highly encourages them to export their agricultural products	8	80%

As can be observed from table 3.16 above, 80 percent of the respondents reply that the contract strongly encourages the investors to export their agricultural products. Explaining their responses the respondents say that the government even provides incentives to strengthen the investors to export their products in order to get foreign exchanges from exportation of products. Similarly sixty percent of the respondents also reply that the contact supports exportation of agricultural products but by the same token it also makes the investors to supply on maximum 30 percent of their products to the local markets. Whereas some fifty percent of the respondents forward that the contact gives freedom to the investors regarding where to sell their product. That is it gives them a freedom. Thus they can sell or export all or part of their agricultural products to international market or directly send it to their respective country.

Thus, if critically scrutinized the contract grants complete right to the foreign agro-companies as where to sell their agricultural products. However, this could have its own impact on the price and availability of food in the local market where the products are harvested. Because it is evident that at least some part of these large scale farmlands were being used and harvested on by the local small holding farmers and used to help them for their household consumption and supply it to local market. Thus, it is inevitable that the fully exporting activities of agricultural products produced on these farmlands can result in food supply shortage and hence can put the food security of that respective region in danger especially during period of drought. In short the provision and encouragement of such freedom to foreign agro-investment companies can complicate and endanger the food security of any host countries, especially like country of us which is under chronic hunger and dependent on food aid to feed its needy citizens. To make the matter more worse the foreign agricultural companies are not required to or impeded to provide any special privileges to the nearby agrarian communities other than the expected seasonal job creation to limited number of people.

3.2.8 The Impact of Foreign Investment in Large Scale Farmland on Environment

According to various commentators including Haralambous et al, The ecological sustainability in agricultural production is an important subject in the context of large-scale foreign investments. Applying intensive agricultural production has an impact on biodiversity, carbon stocks, and land, soil and water resources. Therefore giving due attention to environmental issue is mandatory. Thus, in this respect the following response were gathered from respected government officials through detailed interviews and questionnaires and as well from other sources.

Table 3.17 Impact of Large Scale Farmland Investment on Environment

Question	Response	Total Number of Respondents	Percentage
Does environmental impact assessment is made for every farmland prior to leasing to foreign agro-investors?	Yes, almost in many cases; especially for those farmlands which is developed by irrigation	6	60%
	Yes for every farmlands above 3000 hectare	4	40%

Regarding the possible ecological and environmental impacts of foreign agro-companies' project, as can be understood from table 3.17 above 60 percent of the respondents answer that in most cases the environmental impact assessment is made before letting the farmlands to the foreign investors especially for the lands which is going to be harvested on through irrigation. The remaining 40 percent of the respondents say that environmental impact assessment is done mainly for farmlands above three thousand hectares in many cases.

The undertakings of environmental impact assessment prior to the start up of the project activity are encouraging. However, as can be understood from the above responses, if critically observed, the environmental impact assessment does not made for each and every such large scale farmland projects especially for farmland below three thousand hectares. In some cases since there is no strong coalition among concerned authorities and limited capacity of the respective government bodies the concern for environment can be looked over. Absence of strict attention towards the impact of such activities on the environment can ultimately wipe away the benefits that the country should earn from the workings of such investments. It even has a devastating effect on the future productivity of the farmland and takes many years and efforts to re-fertilize the farmland. And thus could put the overall biodiversity and ecology of the country in question if the issue of environmental impact assessment is not strengthened and left aside.

3.2.9 Impact of the Large Scale Farmland Contract on the Revenue of the Country

In order to attract foreign agricultural investors the country has revised its previous policies and made many incentives to encourage the inflow of investors into the country in general and in the agricultural sector in particular. Among many incentives made effective some of them are customs duty exemption, income tax holidays, investment guarantees and the likes are the major ones.

According to Ethiopian investment guide (2008), foreign agro-investors are allowed to import its machineries and equipments free of any charge. They are also given tax holidays which depends up on the profitability of the agricultural profits that is going to be earned by the investors. That is they are given a grace period before they are obliged to pay any type of tax to the government of Ethiopia. According to some secondary sources of data there are situations whereby investors are given tax holidays for a period of two years, five and seven years based on their exporting

capacity of agricultural products to international markets. That is the more they export the commercial agricultural products the long tax holidays period granted to them. In addition they are also permitted to employ expatriates if there is a need to do so. Farther, these non Ethiopian citizens can remit their salaries, benefits and allowances to their respective countries.

The provision of such kinds of incentives and encouragements could in fact attract foreign investors to invest in Ethiopia; however the highly extended incentives can reduce the benefits the country should get. Farther the employment opportunity which is also given to the agro-company to employ foreigners if not limited to necessary and definite number could reduce job opportunity of local people. Moreover, the unknown period of tax holidays, that depends up on the performance and profitability of the foreign agro-companies may create a space for maladministration whereby the few individuals decide the time at which the agro-company must begin paying taxes to the government or extend periods as per their wish. Above all, it reduces the amount of the revenue that the country should earn.

3.2.10 Impact of the Large Scale Farmland Contract on the Land Tenure Arrangement

Regarding the farmland tenure arrangements, the secondary sources of data gives information that in Ethiopia both rural and urban land belongs to the state and thus cannot be sold or transferred to any groups or individuals. It is a common property of the citizens of the nation. That is the ownership of the land by no means does not grant or transferred to any third parties. Its ownership belongs only to the state of Ethiopia. However, it is possible that one can use or acquire the farmland on the bases of contract lease which enables individuals or foreign agro-companies to acquire the farmland use right for a determined period. To safe guard the rights of local farmers, recently the government of Ethiopia are giving a farmland use-right certificate to its respective farmers. But, the process is not yet finalized in all regional states. It even didn't begin in most regional states other than four regional states namely Oromia, Amhara, Tigray and Southern Nation Nationalities and Peoples Region (SNNPR). In addition the process does not identify the use right of all the lands available in the regions. It mainly focused on certifying the use-right to the local farmers over small plot of land which was previously also have been used by them. That is the process of giving land use right certificate is not a full fledged one, it does not grant the use right certificate for all the lands available, this means there are lands whose its use right is not given to anybody other than commonly used by the local farmers.

The start up of giving use right certificate to the rural agrarian communities is in fact encouraging as far as it safeguards them against unnecessary displacement in cases their lands are needed for various investment activities. It strengthens the local farmers' right and claim over the farmland. Finally it could initiate the farmers to strongly work on their farmland without fear of losing their land because of various purposes, for instance, like that of investment activities. However, still the government can offer these certified farmers' lands to other third party or various public purposes if it became necessary and sound. That is if profitability of the land seems high when it is used for public and investment purposes then the government can take away the lands which was certified to individual local farmers. On the other hand the lands which have been commonly used by local farmers didn't certify for any one. It rather left over and considered implicitly as public land which the government can utilize it for different purposes. Thus, there are situations whereby large public lands are offered to foreign agro-investment companies without consultation with local farmers and consequently without paying any type of compensation to them. To make the issue more worse, currently large scale agricultural farmland which is being given to foreign agro-investment companies are mainly found in Gambella, Benishangul-Gumuz, Somali and Afar Regional States. That is in the regional states where the process of land use right certificate didn't start yet. Thus, it is plain truth that, the apportioning of large scale agricultural farmland to foreign agro-investment companies could directly or indirectly affect the agrarian farmers those live in these respective regions.

According to the constitution of the country the use and governance of both rural and urban lands belong to the respective regional states. The federal government does not interfere into it unless requested by regional states or in cases the disputes occurred between the regional states. Therefore, accordingly, the mandate of giving large scale agricultural farmland to foreign agricultural investment companies rests in the hands of regional states. However, recently the activity of contracting large scale agricultural farmland to foreign agricultural investment companies became the work of federal government. Any investor whether it domestic or foreigners who needs to acquire five thousand hectares or more have to submit its proposal to ministry of agriculture, more specifically to office of agricultural investment directorate. Such an arrangement could have its own benefits, for example it can reduce the time and many other costs that the investors may face. However, as regards to the benefits of local farmers it may

have its difficulties in cases the conflicts and disputes occurred between foreign agro-investment companies and local people. Because, according to the responses gathered from key informants, so far, other than the agricultural investment directorate which was established to look after the activities of foreign agro-investment companies, there are no such other authorities found in regional states and localities. Thus, there could be events where the local farmers confused as where to present their grievances in cases it happened.

3.3 Responses of Respected Individuals from the Assessed Foreign Agro-Investment Company

In order to provide more evidence and strengthen the data gathered from respective government authorities and secondary sources; the research also has included pertinent information gathered from a foreign agricultural investment company called Saudi Star Agricultural Development firm, a Saudi-Arabian based company.

3.3.1 Economic benefit of foreign agricultural investment

The benefits of investment by foreign agro-investment companies on agricultural production at the microeconomic level in the host country can be divided into Pull and Push factors: Pull factors lead to the involvement of semi commercial farmers into the business of transnational companies, which in turn contribute to employment opportunities and markets for smallholder farmers. Push factors include technology transfer, training and knowledge sharing along with the enforcement of production standards

Accordingly, Saudi Star Agricultural Development Company has engaged in the activities of cultivating maize, rice, soya bean, palm oil tree, sugarcane and other commercial crops by receiving about ten thousand hectares of farmland on lease bases. It has contracted the farmland for a period of fifty years on lease bases that offers it a farmland use rights. It has begun its activities during the year 2008. Therefore, at this point asking the following question will enable one to know the benefits and threats that are being arrived on the country in general and on the local farmers in particular.

3.3.2 Market Plan of the Company

As various commentators suggests regarding the benefit of foreign large scale agro-investors, the market plan of the company do have its own role in benefitting or threatening the food security of the country. Thus, at this point asking the following question is mandatory if in reality one wants to understand the overall effect of the company on the country.

Table 3.18 Market Plan of Saudi Star Agricultural Development Company

Question	Response	Total Number of Respondents	Percentage
		5	
What is the percentage share of domestic and export market plan of your company's agricultural product?	Fifty-Fifty, i.e. supplying 50% of the agricultural products to local market and as well exporting the remaining 50 % of the product to international market	5	100%
	Thirty-Seventy, 30% of the total agricultural product to domestic market and exporting 70% to abroad		
	Twenty-Eighty		

As can be observed from table 3.17 above, the responses of the respondents regarding market plan of the company, all of the respondents suggests that the market plan of the company is fifty-fifty percent. That is it planed to sell half of its products to local market while exporting the rest of its agricultural products to abroad market. The company's market plan in fact looks encouraging and benefitting to the country if in reality it does so. However, according to the responses gathered from officials in agricultural investment directorate, the agro-investment companies which export its agricultural products are highly encouraged and given more tax holiday periods than those companies which supply and sell its agricultural products in inland markets. Even though the company plans to sell half percentage of its products in Ethiopia, it has not yet set or planed to directly supply and sell its agricultural products to the local people surrounding the farmland area.

From these responses it is evident that other than the plan to sell their products in the country, the company so far didn't plan to sell some percentage of its products to the local people who are

residing adjacent to the company’s farmland. This indicates, the company instead of chasing its profit, it is not giving much attention to the food security of the local people surrounding it.

3.3.3 Incentive Packages Influenced the Investor to Engage In Agricultural Sector

Regarding which types of incentives have influenced and encouraged the company to invest in agricultural sector in Ethiopia, the responses of the company manager suggest that the provision of customs duty free, tax holidays, availability of fertile farmland, abundant labor force, low wage costs and the likes have highly encouraged the company to engage in large scale crop farming activity in Ethiopia. Further, he suggests that relatively easy process and less amount of initial capital required to get investment license has also attracted the company.

From these responses one can observe how the government of Ethiopia is striving to attract foreign agro-investors first by curtailing cumbersome, routine and bureaucratic process which was boring and time consuming one. In addition the provision of various facilities and incentives has also contributed much for the increasing inflow of foreign agro-investment companies.

3.3.4 Employment Generation

Among main benefits expected from foreign ago-investment companies, the creation of job opportunity for many people is the major one. Thus, in connection with this, the following necessary question was forwarded to the respected respondents to know whether the company is providing this benefit to the local people.

Table 3.19 Employment Creation of the Company to the Local People

Question	Response	Total Number of Respondents	Percentage
Had there been created promising and wide job opportunities to local people as a result of your company’s undertaking in the locality?	Yes partly	2	40%
	Not yet, but hope to create in near future when the company fully engages into its various agricultural activities	3	60%

As can be seen from table 3.18 above, 60 percent of the respondents indicate that so far there is no as such promising and significant job opportunities created for the local people. While the

remaining 40 percent of the respondents testify that there are some jobs created to local people even though it is not as much as expected. They add that at a time the company arrives on its full capacity or when it become full-fledged it can creates many job opportunities to the local abundant workforces

However, other than promising wide employment creation which is even varies seasonally, there are no as such convincing benefits that the surrounding farmers got from this company so far.

3.3.5 Technology Transfer

In view of the increasing human pressure on limited natural resources such as land and water, technological innovation and progress are vital for agricultural development. Technology transfer is often presented as an important potential benefit of foreign agricultural investment. Foreign agro-investment companies can indeed play a fundamental role in filling knowledge gaps, both by transferring technology and by engaging in research and development activities in developing countries. However, the literature shows conflicting findings. For example, UNCTAD's World Development Report (2009) argues that overall, the concrete technological contributions of foreign agro-investment companies have been limited. Often, technologies are not suitable to developing countries, as their use is constrained by climatic or geographical conditions. Significant technological spillovers have been observed in the production of certain cash crops, but less so in the cultivation of staple foods such as potatoes, wheat, maize and rice. However, as the new investors currently target these crops, it can also be expected that they will benefit from more technological transfer in the future

So in this aspect, the issue of technology transfer and provision of training to the respective local farmers seems given less attention and more time taking activity which the company may provide at its free will.

This indicates that the contract agreement does not strongly pressure the foreign agro-investment companies to provide the above mentioned services to the country in general and to the local people in particular.

The promising and encouraging aspects of the company according to the responses respected individuals of the company, in near future the company shall open many additional job

opportunities so it may employ many people and thus benefit them. As regard to the provision of training the company has offered it for some two months. Concerning the technology transfer and know how of new technologies that can equip them with the knowledge of increasing production and productivity of the local farmers the company has planed to offer consecutive training to the people.

Even though this is the case, the employment capacity of the company is by far less than the abundant work force that prevails in the locality. Further, wage which is paid to the daily laborers is also not as such attractive. As per the responses of the respected respondents, the daily laborers are paid between twenty five to thirty birr per day.

3.3.6 Environmental effect of the foreign agro-investment company

The effect of foreign agro-investment companies' activities on the environment is a significant aspect of their overall results on sustainable development in host countries. Farming has contributed to creating and maintaining a variety of semi-natural habitats over the centuries. However, production activities in agriculture, as in other industries, may as well harm the environment through their damaging effects on water, soil, air and biodiversity if they are not managed in a sustainable manner.

Thus, as far as the environmental issue is concerned, the respondents testify that in the first place the company is using environmental friendly technology that does not affect ecology, biodiversity and climate of the locality. However, they believe that there could be a micro-climate change as far as the company is employing an irrigation system for part of its project activities.

Thus in general from these responses it can be inferred that there is a high need for environmental concerns which must be given a due attention both by the government and the investing company. If the issue does not addressed on a time bases, the problem could be complicated and ultimately reduce the benefits that goes to the country and the investing company as well.

3.3.7 Displacement of Indigenous People and Loss of Income Opportunities

In Ethiopia, it is obvious that more than eighty five percent of the population lives in rural areas by basing their livelihoods on agriculture. It is believed that many of the rural lands are held under customary tenure, i.e. formally held as government land but used by communities, often for generations. Among the most negative impacts of FDI projects in agriculture, it results in the loss of farmlands which is currently being used by the local population for various purposes. For instance they can use the farmland for dry farming and cattle rearing.

In this respect, the responses of the respected individuals of the company suggest that the government has facilitated the issue and the company received the empty land which didn't occupy by people and forests as well. But they testify that there are many peoples residing in near vicinity of the large scale farmland or around the company's investment area.

If critically looked into, the response gives a possibility whereby local farmers might have displaced from the farmland which is currently leased to the company. Thus from this reality, it is evident that the involvement of the company has resulted in dislocation of certain farmers from their farmlands. This, directly or indirectly can lead to loss of previous income which used to be generated from these lands by the local people. Therefore, if special care is not made to the local people, for instance devising other means of income to the local people prior to the allocation of large scale farmland to the foreign agro-investment companies; other wise the neglect and or insufficient compensation to the local people may highly put the income and the livelihoods of the nearby community in danger and could consequently raise agitations against the foreign agricultural companies.

3.8 Summary of Main Findings

- High investments in the agricultural sector are basically necessary for a sustainable development but only if a comprehensive policy framework is in place
- The trends of foreign investment in large scale farmland in Ethiopia is increasing
- There is high discrepancy between the number of foreign licensed investment projects and the number of foreign projects actually in operation
- Only few people found job opportunity as the result of the operation of foreign agricultural investment projects

- In most cases the large scale farmlands that were leased to foreign agro-investors were free from settlements, unutilized and free from forest coverage, i.e. it were communal farmlands which have been used commonly by local farmers and rural communities
- There are cases whereby the large scale farmlands were leased to foreign investors without making any kind of environmental impact assessment prior to or after transfer of the farmlands
- Other than the usual government authorities like that of investment agriculture directorate, investment agency and regional investment commission so far there are no any institutions established to follow up the workings of foreign agro-investment companies on one hand and protects the rights of local farmers on the other hand
- The government of Ethiopia has offered a very lavish incentives to foreign agricultural investors and accordingly exempted them from taxes and custom duties for some period of time
- So far About 5 percent of arable farmlands have been deemed to be leased to foreign agro investors
- Many of foreign large scale farmland projects are found in least developed regions of the country
- Almost all of the foreign large scale farmland investors are engaged in crop farming, especially on cash crop like that of palm oil, sugar cane, soya bean, rice, wheat and the likes
- The government highly encourages foreign agro-investors to export their agricultural products to international markets

Chapter Four

Conclusions and Recommendations

4.1 Conclusions

4.1.2 Trends of Foreign Investment in Farmland

As has been observed in the analysis part, the inflow of foreign investors is steadily increasing in the agricultural farmland. There are various factors which have contributed for the inflow of foreign investors in the agricultural farmland among which availability of fertile farmland, existence of cheap and abundant labor force, attractive incentive packages and the investors desire to invest in farmland are the major ones.

Even though foreign agricultural projects are inflowing into the country in large number, the numbers of foreign operational projects are by far less than the number of licensed foreign agro-investment projects. That is other than acquiring investment permit; many of the projects are not actually engaged and fully started their investment activities. The failure of foreign investors to wholly commence its development of farmland on the other hand becomes the great challenge for the country to realize its predetermined objects of using its natural resource (farmland) properly and drive numerous benefits from the operation of the foreign investment projects.

The major possible reasons for the slow or half engagement of foreign investors into the farmland development among many others are because of the weak capacity of the capacity of the investors and lose follow up of concerned government authority. In addition, the possibility of getting investment license on the bases of the ability of providing the minimum capital requirement, which is 30 percent of the total capital required to fully develop the farmland requested by the investors had also enabled many incapable foreign investors to get the land. This consequently resulted in few numbers of operational projects out of the bulk of foreign licensed investment projects.

Among various benefits expected from foreign agro-investment companies, employment generation is the immediate and major one. In this aspect the viability of only few projects ultimately ends up by creating fewer amounts of job opportunities for limited number of people.

Thus narrowing the high discrepancy between the expected huge number of job opportunity and the actual less jobs created is another critical challenge for the county.

4.1.3 Previous Use and Types of Farmland Leased to Foreign Agro-Investors

The study shows that in most cases the farmlands that were leased to foreign agro-investors were unutilized, free from settlements and forest coverage. It was commonly used and publicly owned lands. However, there were cases whereby farmlands which are privately owned by local farmers also became part of large scale farmlands of foreign agro-investors. Therefore, there are some situations in which small holders lose their farmland and thus livelihood as the result of expropriation of their farmland to foreign agro-investors. The local farmers can use the commonly owned farmlands for different purposes. For instance they can use it for grazing and crop farming. So when these lands are contracted to foreign investors; it is inevitable that local farmers lose their previous income which they used to get from these apportioned farmlands. The problem could even worse in cases where compensation is not paid or insufficient. In this regard, the study implies that there are a number of situation whereby compensation were looked-over for communally/publicly used and owned farmland. To make the issue more challenging, the process of providing land use right certificate to local farmers is not yet finalized; so that it may clearly address the land belongingness and ownership right and consequently reduce the claim that may arise from local farmers over publicly owned farmlands. On the other hand the study indicates the rental prices of farmland is very low and thus it ultimately made the amount of compensation that is due to local farmers so insignificant.

4.1.4 Environmental Concern

It is obvious that the undertakings of foreign investment in large scale farmland can have its effect on the environmental circumstances of a given locality. Such investment can negatively impact the environment if it does not carefully and properly operates with the environment. In this regard the study shows that to some extent the environmental impact assessments has done prior to the start up of the development of farmlands by investors. However, there are some cases whereby farmlands are invested on by the foreign agro-investors without the undertaking of a necessary environmental impact assessment before or after the projects commenced their

operations on the farmland. Therefore absences of environmental impact assessment in some cases are thus other challenges for the country.

4.1.5 Institutional Concern

Regarding the availability of an institutions that strictly follow up the workings of foreign agro-investment companies; the study indicates that other than the usual institutions, like that of federal investment directorate, Ethiopian investment agency and regional investment commissions, so far there are no any other institutions set up to protect the rights and interests of local farmers and as well strictly follow up the activities of foreign agro-investment companies. Thus, in the absence of such necessary institution the profitability of foreign agro-investment to the country can be limited and even wiped away.

4.1.6 Incentive Concern

The study found that the government of Ethiopia has offered extensive incentives to foreign agro-investment projects. On one hand this looks good because it helps to attract many foreign investors interest and helps to increase the inflow of foreign agro-investors. However, on the other hand the highly extensiveness of such incentives can negatively harm the country. Because it can reduce the amount of revenues that the country should get from the rent of the farmland or various machineries and equipments the foreign companies import free of any customs duty or free charge.

Finally the data gathered from the assessed foreign investment company suggests that so far the company didn't arrive on its full-fledged capacity. Thus it has opened some job opportunities only for few people. Its market plan looks average, i.e. supplying equal percentage of their products to domestic and abroad markets. Thus, it seems that it does not put the food security of local people in danger. As regards to environmental concern the company is believed to take much amount of water away from local people far as it employs irrigation system and consequently it can bring micro-climatic change on the environment. As to technology transfer the company has a plan to give training to nearby farmers and increase the knowledge sharing with local farmers through outgrowing practices. Other the plan, in practice the company has not offered the above mentioned services to the local farmers yet.

4.2 Recommendations

As have been observed in this paper, foreign investors are engaged in large scale farmland investments. The ultimate goal of the government of Ethiopia is also gaining benefits from the workings of these foreign agricultural projects. However, as this study suggests there are many challenges that hindered the government of Ethiopia from driving all the desired benefits from foreign agro-investment projects. Therefore, the following pertinent suggestions are provided based on the findings of this study.

4.2.1 Establishing an Institution That Follow Up and Monitor Foreign Agro-Investment Companies

As have been discussed in the study, so far there is no any institution that strictly follows up and control the activities of foreign investment projects other than the usual institutions such as Ethiopian investment agency, federal agricultural investment directorate and regional investment commissions whose role is mainly facilitating the investment processes and doing investment promotion. Therefore, establishing an institution whose sole mandate and mission is monitoring foreign agro-investment projects is very much useful. In addition the establishment of such institution can address the problems that might occur at the local level and consequently protects the rights and interests of local farmers.

4.2.2 Detail and Careful Examining of the Capacity of Foreign Agro-Investors

The study found that there is high discrepancy between the number of licensed foreign agro-investors and the number of projects those actually become operational. This event can result in misuse of natural resources, insignificant inflows of foreign capital, limited job opportunities and the likes. This failure of many foreign projects in becoming operational is partly occurred because of the minimum investment capital requirement. The minimum capital requirement can open a chance for incapable foreign investors and thus paves the way for acquiring the large scale farmland which they cannot fully develop it. Therefore, properly examining the capital soundness of foreign agro-investors can enable to narrow the observed discrepancies and consequently help to solve other related problems, for instance creating many jobs. Besides increasing the minimum capital requirement to get the farmland can also help to address the challenge.

4.2.3 Strengthening Environmental and Social Impact Assessment

The study shows that there are some cases whereby the concern for environment and social is jumped over, especially for farmlands below three thousand hectares. The farmland is transferred to foreign investors before making and examining the impact of investment in large scale farmland. The continuation of the large scale farmland deal without performing necessary environmental and social impact assessment, at the end can result in devastating effect on the country in general and on local farmers in particular.

4.2.4 Clearly Defining the Communal Farmland

As indicated in this paper, most of the farmlands that were leased to foreign agro-investors are communal lands, i.e. used by local communities together. Thus the expropriation of this land directly or indirectly affects the livelihoods of local people. As a result the local people can claim the ownership right over these farmlands and thus can challenge the easy transfer of the farmlands to foreign investors. Therefore, at this critical point the government needs to clearly define what communal land is and state what rights the local people have over such farmlands.

4.2.5 Strengthening the Rural Land Ownership Certificate and Completing the Process As Soon As Possible

The start up of rural land ownership certificate has many uses to facilitate and enhance the benefit that should be earned from foreign agro-investors. This process in the first place helps to reduce possible local people's agitations against foreign agro-investment projects. It helps to safeguard the rights of local communities, because during the process each and every plot of land which is there in the rural area shall be clearly defined and entitled to whom it belongs. Thus, it can uplift the compensation rights of local farmers and communities. However, this process is not yet finalized and even didn't start in some regional states where there are many foreign agro-investment projects. Therefore, immediately implementing this process is a decisive solution to address multidimensional challenges and problems.

4.2.6 Put in Place the Benefit Sharing Mechanisms

Other than the expected indirect benefits the government has not yet devised benefit sharing mechanisms with foreign agro-investors. This mechanism can strengthen the monitoring of

government over the projects. Therefore, the government has to make concrete benefit sharing mechanism and thus get a due benefit from the profits of foreign agro-investors.

4.2.7 Making the Incentive More Balanced or Benefiting both Government and Investors

The study implied that the government has offered various extensive incentives to attract foreign agro-investors. There are situations whereby the investors are exempted from paying even the farmland rental fees and import a number of necessary equipments and machineries free of any charge or customs duty. This provision in deed can attract many foreign agro-investors; however, on the other hand, such lavish tax exemption without doubt can reduce the revenue of the country that it should get from foreign agro-investors. Therefore, balancing the benefit of incentive helps the country to earn due revenue and at the same time it helps to attract foreign agro-investors.

4.2.8 Strengthening Transparency and Consultation with Concerned Farmers and Communities

The study found that there are situations in which large scale farmlands are given to foreign agro-investors without informing and consulting with concerned people. This on the other hand indicates the neglect of local farmers and communities right over the farmland. The absence of transparency and consultation with concerned local people can create negative attitudes by the local farmers towards foreign agro-investment projects. Therefore, making discussion and arriving on common consensus has many advantages and enhances the profitability of foreign agro-investment projects and thus consequently eases different challenges that could prevent the country from gaining multifaceted benefits from the undertakings of foreign agro-investment projects.

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Annex A.1

The Potential Benefits of Foreign Direct Investment

- ***Employment generation and growth***: by providing additional capital to the host country, FDI can create new employment opportunities resulting in higher growth. It can also increase employment indirectly through increased linkages with domestic firms. More specifically, the location of foreign firm in the host country generally leads to the establishment of domestic firms that provide inputs to it thereby increasing the demand for labor.
- ***Supplementing domestic savings***: African countries have low savings rate thereby making it difficult to finance investment projects needed for accelerated growth and development. FDI can fill this resource gap between domestic savings and investment requirements.
- ***Integration into the global economy***: openness to FDI enhances international trade thereby contributing to the integration of the host country into the world economy (Morrisset, 2000).
- ***Raising skills of local manpower***: through training of workers and learning by doing, FDI raises the skills of local manpower thereby increases their productivity level. The idea that FDI enhances the productivity of labor forces supported by empirical evidence suggesting that workers in foreign owned enterprises are more productive than those in domestic enterprises (Harrison, 1996).
- ***Transfer of modern technologies***: foreign firms typically make significant investment in research and development. Consequently they tend to have superior technology relative to firms in developing countries. It gives developing country cheap access to new technologies and skills thereby enhancing local technological capabilities to compete on the world markets.
- **Enhances efficiency**: opening up of economy to foreign firms' increases the degree of competition in product markets thereby forcing domestic firms to allocate and use resources more efficiently (Dupasquier et al, 2005).

Annex A.2

Six Myths about the Benefits of Foreign Investment, the Pretensions of Neoliberalism (by James Bond)

Myth #1. Foreign investment creates new enterprises, gains or expands markets and stimulates new research and development of local technological “know how”

Myth# 2. Foreign investment increases the export competitiveness of an industry, and stimulates the local economy via secondary and tertiary purchases and sales.

Myth # 3. Foreign investment provides tax revenue to bolster the local treasury and hard currency earnings to finance imports.

Myth # 4. Maintaining debt payment is essential to securing financial good standing in international markets and maintaining the integrity of the financial system

Myth# 5. Most third world countries depend on foreign investment to provide needed capital for development since local sources are not available or inadequate.

Myth # 6. The proponents of foreign investment argue that its entry serves as an anchor for attracting further investment and serves as ‘a pillar of development’

Annex B

The Questionnaire of the Study

Part One: Questioners to Be Filled By Respected Persons from Ethiopian Investment Agency and Agricultural Investment Directorate

Current Land Use

1. Would you please explain the main reason why Ethiopia involved it self in agricultural land deals with foreign investors?

2. For what purpose was the land used before contracting to the foreign agro-investor?
 - A) Agricultural production
 - B) Pasture
 - C) Biodiversity conservation
 - D) Fallow
3. Who were the land users before contracting to the foreign agro-investors?
 - A) Local communities in common
 - B) Individual Small Holders
 - C) Government
4. What other vital resources are being used in conjunction with the land?
 - A) Water
 - B) forest
 - C) Mineral
 - D) Grass

Land Tenure Arrangements

1. Are these individuals or communities rights recognized by the state and foreign agro-investors?
 - A) Yes
 - B) Partially
 - C) No
2. If your answer to question “1” above is ‘B’ or ‘C’ would you please elaborate why the case is so;

3. Are there any indigenous groups using the land under customary tenure?
 - A) Yes
 - B) NO

4. If you answer to question “3” above is ‘A’, then what are their livelihood sources after the land expropriation to foreign agro investors? _____

Proposed Land Use and Livelihoods

1. Are there any important agreements that promise to create opportunities for the small holders for instance through small holder contract farming and or sharing improved technologies with local farmers?
- A) Yes B) No
2. If your answer to question ”1” above is ‘B’, would you please suggest what government is doing/ have do to bring such opportunities to local farmers;
- _____
3. Do you think the new land uses (after given to foreign agro-investors) has generated more production?
- _____
4. Had there been any improvements and better livelihoods observed in local farmers after the land is apportioned to foreign agro-investors?
- A) Yes B) No
5. If your answer to question “4” above is ‘A’, which one of the following were observed?
- A) employment, B) Contract farming C) Increased local agricultural out put
- D) prices reduction in agricultural output E) Technology transfer
- E) all of them has been observed in the vicinity
6. Do you believe that the local farmers have generated more income than the income from previous sources?
- A) Yes B) No C) Indifferent
7. If your answer to question “6” above is ‘B’ or ‘C’ would you please elaborate why the case is so;
- _____

Food Security

1. Is there any promising agreement that safeguard the food security of the country?
A) Yes B) No
2. What kind of market policy does the agreement highly encourages?
A) The food produced on the land be totally exported to the investors home country
B) The food produced on the land be partially sold in the host country
C) The food produced on the land totally be sold in the host country
D) The food produced on the land be partially sold only if there is danger/sign of food shortage/less production by the local farmers
3. If your answer to question “2” above is ‘A’ would you please state what measurements government has planned to take if there are food shortages in the host country, and especially in the food-producing region?

4. In the deal, are there any special privileges secured for the food producing region?
A) Yes B) No
5. If your answer to question “4” above is ‘A’, would you please explain what the privilege is;

Ecological Conditions

1. Why lands under the possession of local farmers do not giving high productivity?

2. What are the production constraints?

3. How realistic is it that the injection of capital and knowledge that the foreign agro-investors use will bring sustainable production increases?

4. Will there be land degradation over time, as a result of cutting forests for cultivation?

5. If irrigation is provided does that take water away from local communities?
A) Yes B) No

6. If your answer to question “5” above is ‘A’, would you please elaborate how government is addressing such issues;

7. As a whole do you believe that the farming practices being practiced by the foreign agro-investors is reducing biodiversity?

A) Yes B) No

8. If your answer to question “7” above is ‘A’, would you please explain what government is currently doing to solve the problem;

Transparency

1. To what extent the local farmers were informed and involved in the negotiations over the landdeal?_____

2. What type of compensations or share of benefits the local farmers were given? Explain

Enforceability

1. What enforcement provisions are included in the contract?

2. Who will monitor compliance and enforcement of the rules?

3. What measures will be used as enforcement mechanisms (fines, etc.)?

4 . Is there an arbitration or conflict management institution accessible to local people (who often lack the resources to challenge large companies in court)?

5. Is there any international code of conduct in the deal which can facilitate the possible risks?

A) Yes B) No

6 . If your answer to question “5” above is ‘Yes’, do you believe that our country is actively applying it and as well the foreign agro-investors too performing their activities accordingly?

A) Yes B) No

7. If your answer to question “6” above is ‘yes’, would you please explain why you think so;

Thank you very much

Survey Guide: Regarding the Current Farmland Deal with foreign agro investors in Ethiopia

1. How many hectares of arable land since 2005 until now have been contracted to foreign agro investors?
2. How many of them are operational as of today?
3. How many hectares of arable land so far has made ready for the incoming foreign agro investors?
4. What is the minimum capital required for foreign agro investors to begin their project of agricultural production?
5. In which regional state are these large scale of agricultural land contracted to foreign agro investors found?
6. Why the foreign investors prefer or directed the specific regional state?
7. How does the process of land deal takes place between the federal and regional governments?
8. What major positive and negative impacts observed so far?
9. What does the inflow of foreign direct investment in general and in agricultural sector in particular looks like since 2005?

Terms of Agreement

1. Is the land sold or leased to foreign agro-investors and for how long did it leased?
2. Are there any related infrastructural developments to be built by the foreign agro-investors in the agreement?
3. What revenues do the regional states receive from sales or rentals of such large scale-land deals?
4. What tax relief or other incentives are offered to these foreign agro-investors?

Part Two: Questionnaire to Be Filled By Foreign Farmland Investors

This questionnaire is designed with the intention of gathering information about the actual performance of foreign direct investors in farmland in Ethiopia. The information that you will be provided by you will only be used for academic purpose and confidential. Therefore, do not hesitate to provide credible and valid information.

A. Background of Investor/Investors

1. Name of the company : _____
2. Home country of the company : _____
3. Address(office) in Ethiopia: _____
4. Location of the company's farmland in Ethiopia : _____
5. Size/m2or hectare of farmland in that specific region: _____

B. Origin and Purpose of The Company/Project (Tick✓ for the appropriate figure)

1. How long did it take you to get the investment license?
Weeks: _____ Months _____ Years: _____
2. What type of farmland did you receive from government of Ethiopia?
Marginal: _____ Underutilized: _____ Used: _____ Abandoned: _____ Currently being used: _____
3. For how many years did you make a contract/lease with the government of Ethiopia?
(Tick✓ the appropriate figure)
10 years 20 years 30 years 40 years 50 years above fifty years
4. What type of contract it is? Farmland use: _____ farmland ownership: _____
5. Brief description of the company:

6. Products produced or proposed to be produced:

A) : _____

B) : _____

C) : _____

D) : _____

7. Amount/ percentage of your market plan

A) Export : _____ (%)

B) Inland sale _____ (%)

8. Amount/percentage of your production to be sold to that specific local community:

_____ (%)

C. Forms of The Protection or Incentives You Received from The Government of Ethiopia (Put a right mark \checkmark)

1. Imposition of tariff to hinder imports of products : _____

2. Imposition of import quotas or other devices: _____

3. Import tariff reduction on equipments: _____

4. Tax holidays: _____

5. Accelerated depreciation allowance: _____

6. Needed infrastructure to be provided by Ethiopia: _____

7. If there are any incentives other than these which you think that has to be provided by the government of Ethiopia please forward:

8. To what extent did the following national policies and conditions influence your decision to enter Ethiopia (put a right mark √)

Item of national policies/conditions	Highly encouraged me	Highly discouraged me	No effect on my decision
Fear of political instability			
Fear of host country currency devaluation			
Prevailing or expected restriction on repatriations of profits			
Restriction on foreign ownership			
Absence of domestic insurance against expropriation			
Tariff free entry of equipments			
Tax holidays allowance			
Availability of fertile farmland			
Abundance of labor force			
Low wage costs			
Absence of adequate infrastructure			
Proximity to international market			
Absence of capital market in Ethiopia			

9. Please provide details on which and why any of the above factor/s prevented you from making your decision to enter Ethiopia.

10. Please provide details on which and why any of the above factor/s has highly encouraged you to make your decision to enter Ethiopia:_____

D. Benefits To The Host Country

1. Do you think your investment has benefited Ethiopia?

- A) Yes B) No C) Indifferent

2. If your answer is “A” to question “1” above would you please list the type of benefits that so far your investment created

A) : _____

B) : _____

C) : _____

D) : _____

3. If your answer to question “1” above is ‘B’ or ‘C’ would you please forward your suggestion why such things happened.

4. Is there any local business or activities that were created as a result of your investment in that specific region/locality?

- A) Yes _____ B) No

5. If your answer to question “4” above is ‘A’ would you please explain what type of business or activity it is.

6. Have you offered or planned to offer any training to the local small farmers so as to transfer your production technology?

- A) Yes: _____ B) No: _____

7. If your answer to question “6” above is ‘A’ for how long did you provide it and what does its result look like?

8. As a whole how many people are currently working in your company?

9. What percentage of the total workforce is from the local community?

_____ (%)

10. What is your general wage policy for local nationals?

i) For management and professionals ii) For blue collar workers

A) Pay above going wage rate:_____ Pay above going wage rate:_____

B) Pay equal with going wage rate :____ Pay equal with going wage rate :____

C) Pay below going wage rate:_____ Pay below going wage rate:_____

11. What is the minimum wage you pay for the blue collar workers per day?

A) Birr:_____

B) Dollar:_____

12. How do the local farmers perceive your company?

13. Is there any price change in the agricultural products in the locality after your entry?

A)Yes:_____

B) NO

14. If your answer to question “13” above is ‘A’ did the price of agricultural product A)

A) increased

B) Decreased

15. Do you think the agricultural products price changes occurred in that specific locality is because of your high export policy?

A) Yes:_____

B) No:_____

16. If your answer to question “15” above is ‘A’ what have you planned to do?

A) Reduce the percentage of export or B) Designed to increase the wage and

C) Avail the agricultural products in affordable price by the buying capacity of those specific localities

D) Other (please specify):_____

17. Is there any government body that carefully monitors your activity and addresses or facilitates the problem that may arise between you and the local community?

A) Yes: _____ B) No :_____

18. If your answer to question “17” above is ‘Yes’ which particular government authority performs so?

19. Has there been any reaction agitation you by the local farmers?

A) Yes:_____ B) No:_____

20. If your answer to question”19” above is ‘Yes’ what was their quest and how did you address it?

21. In general what positive impacts do you think your investment brought to the local community?

i) Socio-cultural positive aspects of your investment:

ii) Environmental and climate positive aspects of your investment in the area:

Thank you

Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and all the sources of materials used for the thesis have been duly acknowledged.

Declared by:

Name: Mustafa Aman

Date: April,

Signature _____

Confirmed by Advisor:

Name: Prof. Chakradhar Dash

Date: April

Signature _____