Foreign investment as the engine of the agricultural transformation to attain food security in the ‘liberalising’ Ethiopian state

The effects of Ethiopia’s interference in the economy’s foreign investment and food security

This policy analysis addresses the current paradox in Ethiopia that, on the one hand, seems to liberalise and privatise its economy in order to become an African lion while its government, on the other hand, aims to control both the political and economic practices. By taking as a case study, the attainment of food security through foreign investment, as prescribed by the ADLI strategy, this paper questions the current liberalisation of international policies in Ethiopia due to the traditional interference of the government in all political and economic affairs. This is in line with Bayart’s embedded state theory, which argues that self-interest and the pursuit of hegemony prevail. The argument is that policies are not (fully) liberalised, which deters potential foreign investors from investing in Ethiopia and prevents them from contributing to food security and economic growth. This argument is based on interviews with previous investors in Ethiopia, showing that, for instance, the foreign exchange policy merely benefits the ruling government while being detrimental to economic growth. As a consequence, the structural balance of payments deficit will persist, jeopardising national food security because Ethiopia is a net food import-dependent country.

Maryn Kleingeld
Esdoornstraat 99
2565 HP the Hague
the Netherlands

11-01-2014

1723448

marynkleingeld@gmail.com
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<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADLI</td>
<td>Agricultural Development-Led Industrialisation</td>
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<tr>
<td>CAADP</td>
<td>Comprehensive African Agricultural Development Programme</td>
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<tr>
<td>CSA</td>
<td>Central Statistical Agency</td>
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<tr>
<td>EIA</td>
<td>Ethiopian Investment Agency</td>
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<tr>
<td>EPRDF</td>
<td>Ethiopian People’s Revolutionary Democratic Front</td>
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<td>ERCA</td>
<td>Ethiopian Revenue and Customs Authority</td>
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<td>FAO</td>
<td>Food and Agricultural Organisation</td>
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<td>FSP</td>
<td>Food Security Program</td>
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<td>FYGTP</td>
<td>Five-Year Growth and Transformation Plan</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HS</td>
<td>Harmonised Commodity Description and Coding System</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<td>MoARD</td>
<td>Ministry of Agriculture and Rural Development</td>
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<td>MoFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>MoU</td>
<td>Memorandum of Understanding</td>
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<td>NBE</td>
<td>National Bank of Ethiopia</td>
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<td>NTB</td>
<td>Non-Tariff Barrier</td>
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<tr>
<td>PASPED</td>
<td>Plan for Accelerated and Sustained Development to End Poverty</td>
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<tr>
<td>OCHA</td>
<td>United Nations Office of Humanitarian Affairs</td>
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<td>PIF</td>
<td>Policy and Investment Framework</td>
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<td>PSNP</td>
<td>Productive Safety Net Programme</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>SO</td>
<td>Strategic Objectives</td>
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<td>TPLF</td>
<td>Tigray’s People Liberation Front</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>USTR</td>
<td>Office of the United States Trade Representative</td>
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<tr>
<td>WFP</td>
<td>World Food Programme</td>
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<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
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Introduction:

Many of the recently published reports and figures on African economies show Africa’s impressive economic performance in terms of its gross domestic product’s (GDP) annual average growth. Over the past decade (with the exception of 2010), six of the world’s ten fastest growing economies were African (The Economist 2011). Analyses by the International Monetary Fund (IMF) and the Economist forecast that this number will rise to seven by the end of 2015 thanks to the emergence of the Federal Democratic Republic of Ethiopia, which is ranked highest of all African countries with an average GDP growth rate of 8.1% from 2011-2015 (see table 1). Moreover, the IMF estimates that the African economy will outpace its Asian counterpart. It is, therefore, understandable that several economists and researchers compare the emergence of the Asian tigers during the 1990s with the current rise of the so-called African lions¹ (Berendsen et al. 2013; Blanke and Ko 2013; Chauvin 2012).

Table 1: World’s ten fastest-growing economies

<table>
<thead>
<tr>
<th></th>
<th>2001-2010f</th>
<th>2011-2015f</th>
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<tbody>
<tr>
<td>Angola</td>
<td>11.1</td>
<td>9.5</td>
</tr>
<tr>
<td>China</td>
<td>10.5</td>
<td>8.2</td>
</tr>
<tr>
<td>Myanmar</td>
<td>10.3</td>
<td>8.1</td>
</tr>
<tr>
<td>Nigeria</td>
<td>8.9</td>
<td>7.7</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>8.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>8.2</td>
<td></td>
</tr>
<tr>
<td>Chad</td>
<td>7.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>7.9</td>
<td>7.0</td>
</tr>
<tr>
<td>Cambodia</td>
<td>7.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Rwanda</td>
<td>7.5</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Sources: The Economist, IMF

¹Excluding countries with less than 10m population and Iraq and Afghanistan. f2011 estimate. f2015 forecast.

Unlike Asian economies, however, African economies have always lacked the structural transformation needed to create a sustainable economy (Chauvin 2012, Berendsen et al. 2013, 110). The actual upward trajectory, therefore, must be the result of commodity price increases, new natural resource discoveries, or an increase in foreign assistance rather than sustainable economic growth (Chauvin 2012). For instance, African governments have not been successful in raising the per capita GDP, transforming the economy, reducing poverty, or ensuring sufficient food supplies. In order to become an enduring African lion, governments need to transform their economies into non-commodity based economies, which is the next stage of economic development in Rostowian terms.

This economic transformation includes increased investment in infrastructure, a diversification of exports, increased trade and competitiveness, a strategy towards import substituted industrialisation, and the enhancement of regional integration (Rostow 1959, 4-5; Chauvin 2012, Blanke and Ko 2013).
Indeed, analysis of the progress and potential of African countries shows that Africa’s current growth is a transformative economic take-off and not a onetime event (Roxburgh 2010, 19-26). Unless poor government policies or wars disrupt economic growth, new reforms favouring structural transformation in the majority of African countries are expected to be strong and long lasting. From 2002-2007, only a quarter of the GDP was generated by the natural resource sector. This suggests that a range of other sectors also contribute to growth, although the exportation of natural resources has always been the economic engine of African developing countries. According to previous research, the key reasons behind the growth are political and neoliberal macroeconomic stability and microeconomic reforms (Roxburgh 2010, 12). Firstly, political stability fosters economic growth because it increases trust and decreases risk leading to more investment and start-ups. Macroeconomic stability usually results in lower inflation, shrinking budget deficits, and falling foreign debt. Secondly, microeconomic reforms privatising state-owned firms are likely to reduce trade barriers and change tax regulations, improving the business environment for the private sector.

Not all African economies are identical or experience similar economic growth. For example, while the Republic of Mali focuses on agricultural growth, while the Republic of Botswana relies completely on its mining industry. Individual African economies can be distinguished among oil-exporting countries, diversified economy countries, transition countries, and countries in the pre-transition stage, each group having its own characteristics (Roxburgh 2010, 9). Consequently, African governments implement a tailor-made, long-term development strategy in order to become an African lion.

As previously mentioned, Ethiopia has the best economic prospects in terms of GDP growth per annum, although African statistics often contain government bias (Jerven 2013, 25-28). At first glance the Ethiopian economy seems to be a classic example of a government working to transform its economy into an African lion. The Ethiopian government is struggling, however, to cope with food security problems. In the mid-1980s, Ethiopian rural society experienced severe food shortages, causing a national famine that resulted in one million deaths due to starvation (Rahmato 2014, 28). Food supplies have never been sufficient to feed the continuously growing Ethiopian population, which is expected to reach 129 million people by 2030 (Demissie 2008, 524). In its journey to become an African lion, the government must transform the economy and ensure food security. The ruling party has, therefore, implemented the neo-liberal Agricultural Development-Led Industrialisation (ADLI) strategy, which is the central pillar of Ethiopia’s economy today (ADLI 1.i; Lefort 2012, 681).

ADLI aims to increase agricultural production, the acceleration of economic growth, and the achievement of national food security (Spielman et al. 2010, 187; Lefort 2012, 682; Lavers 2012, 206). Initially the government tried to achieve these goals by encouraging the self-sufficiency of smallholders in rural areas. Food insecurity issues were the most evident in the smallholder sector, which is relied upon by more than seven million chronically food-insecure people (Lavers 2012, 800).
The short-term results of the ADLI strategy were meagre, and with the awareness that one drought or crop failure would leave millions of people in a life-threatening situation, the Ethiopian government adapted the ADLI strategy by replacing national self-sufficiency with a trade-based strategy (Lavers 2012, 106-121).

Since then, Ethiopia has been incorporated into the sphere of neoliberalism, drawing on the intellectual roots of Friedrich Hayek and Milton Friedman. In a nutshell, the new Ethiopian economic model recognizes the primacy of the market and reduces the role of the state (Lefort 2012, 683; Hibou 2000, 5; Demissie 2008, 506). The government has also accepted other basic tenets of neoliberalism including the abolishment of state monopolies, privatisation of state-owned companies, reduction of corporate taxes, free convertibility of currency, intensification of competition, deregulation and promotion of international trade, and opening up the Ethiopian market to foreign investors (Clapham 2009, 182; Demissie 2008, 507). Empirical results from a number of studies show that these neoliberal policies increase a country’s attractiveness for the inflow of foreign investment (Simons and Elkins 2004, 187; Büthe and Milner 2008, 743; Bénassy-Quéré et al. 2001, 196; Morissel and Pirnia 2000, 5-10). For instance, Morissel and Pirnia’s statistical analysis shows that domestic tax policy and free convertibility of foreign currency increase a country’s attractiveness for foreign investment.

Although privatisation and liberalisation reforms offer the impression that a government is reducing its role in the domestic economy, previous studies have questioned, however, whether the Ethiopian government really has reduced its role in the domestic economy, particularly, in the agricultural sector (Abbink 2011, 516; Lefort 2012, 702; Becker and Wittmeyer 2013, 768; Halderman 2004, viii; Lavers 2012, 799, Maasho). State interference is not a problem, as such, because most national governments some influence on the national mixed market economy. Nonetheless, the Ethiopian government seems to retain a crucial role in attracting foreign investors, facilitating transactions for land leases, and waving tariffs.

Indeed, René Lefort argues that the Ethiopian authorities are attempting to preserve the façade of progressive governance by pursuing a free market economy strategy while, in effect, intending to control the economy and maintain hegemony and power (Lefort 2012, 702). This argument, which is the central pillar of this paper, is built on Jean-François Bayart’s socialist theory of the embedded state. Bayart’s theory states that elite dominance in African states, the elite’s pursuit of hegemony, and its privileged access to sites of accumulation are all embedded in the African state (Becker and Wittmeyer 2013, 757; Bayart 2010, 110). The key argument of the embedded state thesis is the mutual interconnectedness of the domestic and global economies and the embeddedness of politics in society (Becker and Wittmeyer 2013, 757). Moreover, governmental dominance in the embedded state seems to be inherited from the Marxist-Leninist ideas of the current ruling party, which adopted a capitalist economic model after the fall of the Derg regime, but maintained some Marxist features, such as the
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implementation of the Five Year Growth Transformation Plan (FYGTP) (Clapham 2009, 183; Kebede 2011). It must, therefore, be asked if and how the Ethiopian state still fulfils its role in investment attraction, and to what extent the government interferes with foreign activities in Ethiopia.

In the first chapter, a closer look at Bayart’s theory of the embedded state offers a better understanding of African politics, derived from its culture and past trajectories. This theory, therefore, sheds a different light on Ethiopian politics providing an understanding of the Ethiopian government’s behaviour on both a national and international scale. Embedded state theory could explain the Ethiopian government’s prominent role in the overall economy, and in the agricultural sector, through interference with investment and trade. It is, therefore, worth examining the government’s exact role in the national economy and its interaction with private and public foreign actors. The underlying question in this research, therefore, is not whether the government plays a role in the economy. The question is, rather, how the government uses its power in a liberalising country that attracts many new foreign actors in order to achieve its development goals, of which food security is high on the national agenda (ADLI, Otera et al. 264). At the end of the day, an analysis of the respondents will demonstrate how the Ethiopian government fulfils its role in the mixed market economy and whether the authorities succeed in achieving their development goals and food security.

The engines behind economic growth are private and public foreign actors that make large investments in the Ethiopian agricultural sector. Currently, 3.8 million hectares of arable land have been formally leased to foreign investors (Becker and Wittmeyer 755; Abbink 2011, 517), and the government is seeking to lease another 7.4 million acres within the next few years (Parulkar 2011, 106; Abbink, 2011, 517). This emergence of massive land-leasing projectsii, or so-called ‘land-grabbing’ programmes, and the government’s export policy is leading to an outflow of agricultural produce (Abbink 2011, 514). It seems unusual for a chronically food-insecure country to implement a trade-based policy that encourages foreign actors to lease cultivable land in order to increase agricultural production. It is important to ask what the government’s incentive for formulate this policy was? The power, competencies, and constraints of the foreign agricultural investors, who are considered the driving force of structural development and food security, are extremely relevant and worth examining. This raises the central question of this research: What effects do Ethiopia’s liberalisation policies, involving the attraction of foreign actors in a state-controlled environment, have on food security?

Much of the literature on foreign agricultural investment in different African states, and particularly Ethiopia, have thus far focuses more on ethical issues than on the (Ethiopian) political economy of food security as a result of foreign investment (Abbink 2011, 214; Rahmato 2014, 28; Parulkar 2011, 105; Vermeulen and Cotula 2010, 910-913; Vidal 2010). Little research has been done on the
feasibility of ensuring food security through the effects of attracting foreign investors, who are the new economic players in Ethiopia (Lavers 2012, 816; Abbink 2011, 513).

This paper, therefore, indirectly contributes to the existing literature by examining the result of Ethiopia’s development strategy on national food security and directly by studying the interconnectedness between foreign private parties and the government directly. A closer look at Ethiopia’s policies and policy tools provides a better understanding of how investment and trade patterns are shaped and influenced in Ethiopia. This, in turn, greatly influences the national economy, and market and food security. In addition, foreign investors’ experiences will reveal new information about Ethiopia’s liberal trade practices, investment, and monetary policies, as well as the purposes of these policies. This interaction should, therefore, be taken into account when analysing the direct results, indirect results and risks of the ADLI strategy that will demonstrate whether the government is on its way to achieving food security and economic growth, and hence to become an African lion.

The following analysis draws on information obtained from interviews with foreign agricultural investors operating in Ethiopia, governmental representatives, and semi-governmental agencies, such as the Ethiopian Investment Agency. Furthermore, previous research has been used to analyse results on investment and trade. This paper has also been supplemented by a rich body of secondary sources that provide additional information about certain investment projects, Ethiopian politics, and economic data.

Following this introduction, Chapter One outlines the position of the Ethiopian government within the embedded state and will be explained in terms of Bayart’s embedded state theory. Chapter Two provides an overview of the agricultural policy and strategy on food security since the collapse of the Derg regime. Chapter Three explains the paradox between an export-based agricultural strategy and the concurrent achievement of national food security. It also explains, in macroeconomic terms, how the government is attempting to achieve this. Chapter Four and Chapter Five present the results and information obtained from investors about their investment, produce, and market, as well as the Ethiopian government’s role in investment and trade. Chapter Six shares information about how much constraint is displayed by foreign actors and presents acquired results concerning trade. This chapter also analyses the political economy of investment and trade patterns and relations on the Ethiopia’s food security. The conclusion sums up the main arguments in this paper.

**Theoretical framework**

**Embedded state thesis**

The central concern of this paper is the role that the Ethiopian government plays in achieving national food security by increasing foreign investment and trade with the implementation of the ADLI strategy. The key to this analysis is the premise that the ruling party’s enhancement of political power
forms the basis of its policy; its influence on all national domains will be explained in the first chapter (Abbin 2011, 516; Rahmato 2014, 26). As a result, the government plays an extraordinary interventionist role in attracting foreign investment and trade. These findings based on Bayart’s embedded state thesis, will be highlighted in this paper in order to explain the government’s behaviour.

The core of the embedded state thesis is that the state is embedded in its domestic and international societal context; this implies that the processes and structures that maintain and create the state unavoidably interact with those of the international system (Bayart 2010, 74). The international political order and national political system necessarily interact and affect one another, thereby influencing, maintaining, or strengthening the elite’s position. From the domestic perspective, the embedded state can be characterised in terms of clientelism and patron client relations (Becker and Wittmeyer 2013, 761).

Within this framework, the money flowing from foreign resources, such as donors, international institutions and non-governmental organisations (NGOs), are distributed within the clientelist network, which are often party-owned businesses. Ultimately, this means that the pursuit of hegemony is accomplished through, what Bayart calls, a conservative modernisation wherein the pre-established dominant group maintains its power (Bayart 2010, 119). The other method of attaining hegemony is through social revolution. This results in the downfall of the dominant elite and the rise of subordinate groups. In short, the embedded state thesis explains how and why elites and ruling parties behave the way they do. This will be further clarified in the analysis section of this paper.

**Neoliberalism**

According to both multilateral organisations and the Ethiopian government, ADLI is based on core neoliberalist thoughts. Neoliberal beliefs form the framework within which the relationship between the government and foreign private parties needs to be examined and measured. What is the role of the authorities in a privatising agricultural sector and what crucial influence do they have? To what extent do foreign investors have entrepreneurial freedom in Ethiopia? What trade and investment policies has the state adopted? How does the government cope with strong, independent foreign economic actors? Neoliberal policies, including privatisation such as ADLI, enable the inflow of foreign investors, but how neoliberal is the Ethiopian agricultural development strategy? Although neoliberalism has become a widespread ‘catchphrase’ in political and economic debates, there is a lack of agreement on the definition of neoliberalism (Thorsen and Lie 9; Boas and Gans-Morse 2009, 137). It is therefore necessary to briefly clarify and explain briefly this concept in order to avoid confusion.

Overall, Thorson and Lie reason that “neoliberalism becomes a loose set of ideas how the relationship between state and its external environment ought to be organised …” (Thorson and Lie 15: emphasis added). The level of interaction between government agencies and the economy is the core of the
debate among neoliberalism proponents. Whereas the neoliberalse state interventionism camp emphasised the importance of state intervention, the proponents of the laissez-faire policy supported the invisible hand doctrine, the primacy of the market, free competition and an impartial market (Hülsmann).

In this paper, we accept Boas and Gans-Morse’s findings on neoliberalism. In their study of 148 journal articles they observed that the common contemporary use of the term neoliberalism refers to economic policies that reduce the role of the government agencies, remove trade barriers such as tariffs and quotas, eliminate price controls, privatise state-owned companies, and commercialise the markets (Boas and Gans-Morse 2009, 137-161). Research has shown that today’s neoliberalism is perceived as the ideological belief that the organisation of the economy should occur with little state interference.

When considering the degree of state interference, the extent to which the ADLI policy fits within contemporary neoliberal thinking is questionable. The entire debate on the government’s power and influence in the economy and on foreign entrepreneurial freedom derives from the belief that governmental economic interference should be reduced. Further examination will determine the degree to which this applies to the Ethiopian economy.

Methodology

How do we seek to identify the patterns and regularities in the Ethiopian agricultural political economy? This paper relies heavily on knowledge and data generated by sensual perception such as observation and direct experience. This scientific project is aimed at producing general knowledge on the relations between foreign actors and African governments in international relations and their impact on food security, using Ethiopia as a case study. As John Dewey points out, induction will lead to the ability to generate natural law (Dewey 1910). Thus, this paper seeks to induce general claims on the basis of the Ethiopian empirical case.

Carl Hempel elaborated on Dewey’s argument that invoking a universal law includes a description of the relevant conditions under which the law is valid. These premise is the so-called explanans, which forms an explanatory statement, the explanandum (Hempel 1942, 43). In this paper, the explanans consists of both premises of the Ethiopian case: 1) a government structure following Bayart’s embedded state thesis, and 2) developing and transforming the economy into an African lion in a neoliberal manner. The explanandum is the result of the Ethiopian mixed market economy in terms of food security through foreign investment and trade. The basis of the answer to the main question will be derived from the explanandum.
Although this Ethiopian case study aims to obtain general knowledge about the development strategy and food security, the context of the country and the sector must be taken into account. The first chapters will, therefore, shed light on Ethiopia’s political and economic environment, as well as its agricultural sector. Next, this paper determines the indicators for measuring the success of the ADLI strategy thus far and the indicators for measuring the degree of policy liberalisation that, in turn, supports the attraction of investors and contributes to continuing food security. Developing these indicators is essential because they are the tools for the measurements that result in empirical data.

The empirical facts are primarily based on first-hand information obtained through interviews with foreign agricultural investors and government agency representatives. The interviews carried out for this research posed a number of questions about foreign investors’ experiences with the investment incentives offered by the national authorities, the influence of the government on investment and trade by means of various policy tools and, in particular, capital controls, crops production, the market of distribution, and tax regulations. The ten respondents are Dutch representatives of large transnational corporations and smaller previously foreign-owned firms.

The interviews with the government agencies’ representatives are likely to emphasise the Ethiopian agricultural policy, their expectations of and incentives for foreign investors. Nonetheless, the interviews with the Ethiopian Investment Agency and the Ethiopian Agricultural Transformation Agency offer the opportunity for in-depth information about their vision and current development strategy achievements.

Additionally, to measure the indicators and to provide additional information about certain investment projects, Ethiopian politics and economic data, this paper has been supplemented with a rich body of secondary sources. Ample relevant macroeconomic data on Ethiopian trade, investment, and trade balance can be derived from sources such as the Food and Agricultural Organization (FAO), World Trade Organisation (WTO), United Nations Conference on Trade And Development (UNCTAD), and the World Bank. This macroeconomic data will be used to analyse the current progress towards the attainment of food security.

Chapter 1: The Ethiopian embedded state - the position of the government within the state and its ideology

A brief overview of some of the Ethiopian political environment’s features is necessary for placing the following analysis in the right context, in particular when in terms of Ethiopia’s ambiguous transition during the past decades. The Ethiopia’s official name is the Federal Democratic Republic of Ethiopia, because the country has a decentralised federal system and is a democratic republic. The country is highly decentralized because it has been carved into nine regional states (kili) based on ethnicity and
linguistics, as well as two administrative cities (PIF 8; Demissie 2008, 514). This allows each kilil to maintain its language and cultural identity, and to remain fiscal independent. In fact, regional autonomy enables the kilils to govern their own provinces (Clapham 2009, 187). All nine regions are further subdivided into 62 districts (woredas) and 534 lower administrative units (kebeles) (PIF 8; Demissie 2008, 514). The key government institutions are the national-level ministries and the regional bureaus.

The Ethiopian military government, better known as the Derg regime, has been in power for seventeen years. Since 1974 it has attempted to build a socialist state in order to improve the economic and social situation for the population that was exploited during the preceding Imperial Era. The Derg government can be characterised by its three major Marxist-Leninist transformative programmes: putting all enterprises under state control10, nationalising all rural land, and confiscating all urban land (Spielman et al. 2010, 187; Abbink 2011, 514, Lavers 2012, 798; Mengistu and Vogel 2009, 684).

The government has placed banks, industries, and commercial firms under state control. In the first year, only 87 companies were nationalised, while up to 159 enterprises had been nationalised by 1983 (Selvam 2007, 68). A classic example is the successful sugar producing Handelsvereniging Amsterdam Ethiopia (HVA), which experienced a downturn when the Derg nationalised this company (Sluyterman 2013, 172). At the time, HVA was by far the biggest foreign investor in Ethiopia and provided employment for over 7000 people. Within the agricultural sector, the influence of the Derg regime has been noticeable for every single farm since the state-led Agricultural Marketing Corporation forced peasants to produce and to sell its quota of certain crops in return for low prices (Abbink 2011; Demissie 2008, 512). Due to the bureaucratic controls and the destructive secessionist wars, the per capita incomes were the lowest globally in 1991 (Demissie 2008, 510).

Internal pressures were heightened by declining food supplies, rising unemployment, limited access to water and sanitation, and poor housing conditions. The fall and implosion of other socialist states, such as the Soviet Union and other Eastern European nations, fuelled the rapid demise of the Derg regime, notwithstanding the March 1990 events aiming to reform the economic system towards market orientation (Demissie 2008, 512). The Ethiopian People's Revolutionary Democratic Front (EPRDF)15, a classic example of Bayart’s reciprocal assimilation of elites in of pursuit hegemonic power, gained power in 1991, switched to a market economy in an ambivalent transformation and abandoned its socialist policy (Crewett and Korf 2011, 203; Mengistu and Vogel 2009, 684; Bayart 2010, 151). The new government adopted several market-oriented strategies to reconstruct the economy by implementing structural adjustment programmes provided by the World Bank and the IMF. In sum, while the Derg-regime nationalised firms and land ownership, the EPRDF government sought to transform the economy towards a capitalist market-oriented lion by adopting a neoliberal development
strategy with the intention of liberalising and commercialising all aspects of economic life (Lefort 2012, 681).

However, this political swing may, in practice, not be that clear-cut as it seems. Although the EPRDF adopted a capitalist economic model, the party was still imbued with Marxist thinking (Demissie 2008, 525; Lavers 2012, 798). First, while the military regime sought to build a socialist country in which social equality would lead to national unity, the EPRDF government continued, and even accorded more prominence to, nation-building following Stalin’s theory of nationality (Clapham 2009, 182). Secondly, Ethiopia’s president, Meles Zenawi, characterised the political internal structure in Leninist terms, yet his party recognised elements of the capitalist economy and global liberalism. Thirdly, due to reduced political oppression, the country was, in effect, a one-party state with the political power concentrated at the top, leading to greater elite influence and state hegemony (Rahmato 2014, 35). The ruling party and its affiliates won 99% of the votes in the 2010 federal and 2008 local elections and the EPRDF governs all levels of government (Lavers 2012; 799). It can be argued that there are very few ideological differences between the Derg and EPRDF regimes within the political field (Crewett and Korf 2011, 205).

Ethiopia’s institutional framework and political developments can be explained in terms of Bayart’s embedded state thesis. His theory allows a thorough understanding of politics in Africa and, particularly, how the Ethiopian government has positioned itself in relation to the domestic and global economy. In brief, Bayart argues that African elites seek to: 1) dominate politics and society, 2) pursue and attain hegemony on power, and 3) have a privileged access to sites of accumulation. Central to Bayart’s vision is the embeddedness of the state in the domestic and international societal context, which are mutually connected and preserve each other (Bayart 2010, 110; Becker and Wittmeyer 2013, 757).

In Ethiopia’s case, Bayart’s reciprocal assimilation of elite, literally the fusion of elites, explains the incentives behind the formation of the EPRDF (Bayart 2010, 151). The party was formed after the Derg-regime’s demise and consists of four different elite groups: The Oromo Peoples’ Democratic Organisation, the South Ethiopian Democratic Front, the Amhara National Democratic Movement, and the Tigray’s People Liberation Front (TPLF) (Lavers 2012, 108; Clapham 2009, 185; Demissie 2008, 525). The EPRDF is the commonly used name for the ruling party, although the TPLF is the dominant party within the EPRDF. As a result, the ruling party no longer faces any oppression, conveniently allowing them monopolise power, the second feature of Bayart’s theory. The ruling party uses two methods to pursue the hegemony on power – directly through neo-patrimonial relations and indirectly by preventing the emergence of political competition (Bayart 2010, 110).

Firstly, according to earlier research, neo-patronage is a daily reality across the country (Hansson 2004, 32). Neo-Patrimonialism, the equivalent of prebendalism, is a modern-day concept used to
describe the relationship between power and accumulation in African politics; it is a modified form of Max Weber’s patrimonialism, which consists of putting the interest of one’s own party before everything else (Bayart 2010, 42, 74, 80; Joseph 1996, 195; Englebert 2000, 13). In other words, government officials and members of the ethnic groups are regarded as prebends with a right to their share of the group’s revenue, which is that is used for personal benefits and for their constituencies. The ethnic bias leads the officials to implement inefficient policies aimed at redistributing the state’s resources for the good of the group (Englebert 2000, 5-7; Mengistu and Vogel 2009, 684).

For instance, there are widespread concerns about the privatisation of state-owned business in favour of the ruling party’s ethnic lines (Mengistu and Vogel 2009, 685). In fact, several researchers and organisations observed the transfer of state wealth to private, party-affiliated parties (Englebert 2000, 71-72; 2014 National Trade Estimate Report on Foreign Trade Barriers; Mengistu and Vogel 2009, 683). Moreover, ruling party enterprises enjoy ample fiscal and economic advantages over other private firms (2014 National Trade Estimate Report on Foreign Trade Barriers).

Secondly, the prevention of emerging political competition to keep a monopoly on power is an indirect method because it heavily relies on power. Using this method, the EPRDF refuses to sell and lease land to domestic private parties in order to prevent the emergence of an agrarian class that might convert economic power into political power (Abbink 2011, 513; Lavers 2012, 799). State control and the policy of redistribution have been frequently used by the EPRDF as a divide-and-conquer policy in order to prevent the emergence of any large concentrations of power that might threaten government control (Clapham 2009, 205). These methods, in turn, favour the ruling party’s aim to preserve hegemonic power, causing a feedback loop. Abbink underlines that domestic investors, in particular, pose a threat to government authority. Foreign investors and companies, in contrast, are not such a danger. It should be examined, however, how are they treated by the state and whether they can transform economic power into political power.

In addition to the prevention of private emergence, the government also retains control of the federal kilils, preventing any public regional emergence. Federalism and regional autonomy, therefore, seems to be a façade in Ethiopia (Clapham 2009, 187; Feyissa 2011, 19). The kilils obtain most of their revenue from the national government. This symmetry leads to a neo-patrimonial relationship whereby the EPRDF affiliated parties’ interests are looked after. In fact, the entire institutional framework is subordinated to the ruling party.

Bayart’s theory clearly demonstrates how the elite and the party retain political control. With the EPRDF governing the country the party is able to steer the economy through the adoption and implementation of economic policies. Overall, it has been argued that the current government retains close control over the economy, despite reforms favouring a capitalist free-market economy (Lavers 2012, 798; Vaughan and Tronvoll 2003, 113-114). However, if and how the government will retain
economic control in a liberalising economy attracting international actors remains to be seen, as does the influence of government control on the attraction of foreign investors and, in turn, food security. It is clear, for instance, that the Derg regime forced the farmers to produce a quota of certain crops, but it is unknown how the EPRDF approaches this issue (Demissie 2008, 512). The next chapter outlines the government’s incentives and rationale for the ADLI strategy.

Chapter 2: Ethiopian agricultural policy - ADLI

Since the EPRDF ascension to power in 1991, the government has implemented the ADLI strategy. The neoliberal ADLI strategy is the central pillar of the economy, emphasising all opportunities in the agricultural sector that need to be seized (Lefort 2012, 681; PIF 4). This distinguishes Ethiopia a special case in Africa, because nearly all other African states show a general trend towards the diminishing importance of agricultural produce (Rakotoarisoa et al. 2011, 16). Africa’s richer countries show that it is feasible to achieve food security by developing non-food and non-agricultural export patterns instead, which utilises incoming foreign currency for the purchase of foreign food supplies (Rakotoarisoa et al. 2011, 62). What is the Ethiopian government’s rationale for using agriculture as the engine of growth?

In his classic modernisation theory, Rostow demonstrates the need for a technological revolution in agriculture as a precondition for economic take-off (Rostow 1959, 5). Technological improvements simply yield more food, which is necessary for the increasing population. However, the government agencies do not only stimulate technological progress in the agricultural sector, but also aim to increase the agricultural scale by attracting foreign investors (Lavers 2012, 795; Spielman et al. 2009, 188; Parulkar 2011, 110; Becker and Wittmeyer 2013, 764). The choice of placing the agricultural sector at the heart of the Ethiopian economy is two-fold. On the one hand, as the local population uses agricultural output for self-consumption, it results directly in increased food supplies and decreased food insecurity. On the other hand, greater agricultural yield allows greater agricultural export, leading to increased foreign currency. Both perspectives play an important role in Ethiopian policy-making. Prior to the illustration of these models, the following facts and figures explain the necessities and opportunities of agriculture-focused growth.

Concerning the necessities, Ethiopia is the fifth hungriest nation in the world according to the Hunger Global Index, (Parulkar 2011, 106). The most striking example is the great famine of 1983-85, which caused more than 400,000 deaths (Rahmato 2014; 28). Therefore, increasing agricultural yield is number one on the national agenda. Moreover, the current population is estimated at 85-90 million and is expected to reach 129 million by 2030 (Demissie 2008, 524). Figure 1 shows that, in 2011, 85% of the total labour force was active in the agricultural sector. According to the famous Heckscher-Ohlin
model, this makes Ethiopia a labour-abundant country that will invest in labour-intensive products in order to export them to capital-abundant countries (Pugel 2009, 63).

Figure 1: Employment per sector, 2011.

![Figure 1: Employment per sector, 2011.](image)

Source: Respondent 1

Furthermore, Ethiopia has 51.3 hectares of arable land, but only 11.3 hectares had been cultivated by 2010, leaving considerable opportunities for the increase of agricultural production (PIF 2010, 3; Lavers 2012, 803; Rahmato 2014, 35; Vidal 2010). Some researchers, however, observe that these ‘unused lands’ are actually used by local people as pastures for livestock (Lavers 2012, 803; Vidal 2010). In addition to the available land, the Ethiopian Investment Agency (EIA) has explicitly mentioned a variety of agricultural investment opportunities in their investment policy, including horticulture, vegetables, herbs, fruits, vineyards, fibre crops, rubber tree plantation, sugarcane plantation, cattle raising and dairy development, as well as agro-processing industry opportunities like wineries, animal-feed processing, slaughtering, and processing of horticulture (respondent 1). In Chapter Six this paper offers an in-depth study of the state’s presentation of potential investment areas and the incentives for such investment.

As indicated, there are tremendous unexploited opportunities in Ethiopian agriculture. Moreover, the ADLI strategy asserts that labour-abundant agriculture needs to be implemented alongside new technologies such as fertilizers and irrigation that improve yields without replacing labour (Lavers 2012, 109). ADLI, therefore, still forms the basis for subsequent development policies such as the Plan for Accelerated and Sustainable Development to End Poverty (PASPED), the Five-Year Growth and Transformation Plan (FYGTP), the Food Security Program (FSP), and the Productive Safety Net Programme (PSNP). All these policies are incorporated within an umbrella framework: Ethiopia’s Agriculture Sector Policy and Investment Framework (PIF), which is a ten-year road map ending 2020. The main objective of the PIF is to contribute to Ethiopia’s achievement of middle-income status by 2020, and to increase rural incomes and national food security on a sustainable basis (PIF 16). In order to achieve this goal, the Ministry of Agriculture and Rural Development (MoARD) has...
defined four strategic sub-objectives in the PIF, ranging from an increase in crop productivity to food security.

More specifically, ADLI’s objective of is to secure Ethiopia’s food supplies and to monitor agricultural development (Spielman et al. 2010, 187; Abbink 2011, 516; Lavers 2012, 106; Ethiopian Government Portal). Indeed, on its website, the Ethiopian government states that ADLI is a two-pronged strategy. Firstly, this long-term development strategy aims to develop the agricultural sector in order to supply commodities for export, domestic food supply, and industrial output (Ethiopian Government Portal, Spielman et al. 2010, 187; Abbink 2011, 516; Lavers 2012, 106; Becker and Wittmeyer 2013, 766). Secondly, it seeks to expand markets for domestic manufacturing.

Initially, the EPRDF focused on achieving these objectives by providing smallholders with security and encouraging labour-intensive agriculture to increase productivity (Lavers 2012, 106). Increased agriculture productivity should lead to food security and stimulate the industry by increasing the supply of inputs and the demand for consumption goods, as shown by the circle in figure 2. Self-subsistence is the main argument for placing agricultural development at the heart of economic development.

In practice, the result of ADLI’s focus on internal production linkages turned out to be highly inefficient. The EPRDF government has continued the Derg’s land tenure policy preventing land privatisation even though the adoption of a capitalist agricultural economy could have created increased commercial export opportunities (Lavers 2012, 109; Crewett and Korf 2011, 205). Table 2 shows that this policy caused no change in terms of surplus yields for export or industrial input, as the majority of the crops are used for self-consumption (Lavers 2012, 110). Moreover, the agricultural sector remained reliant on fertilizer imports. In short, the ADLI strategy did not reach its targets. Moreover, this policy had counterproductive results as the persistent food insecurity made Ethiopia dependent upon foreign food aid.

<table>
<thead>
<tr>
<th>Production (in qL)</th>
<th>Percentage self-consumption</th>
<th>Percentage of crops sold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cereals</td>
<td>155.342.280</td>
<td>66</td>
</tr>
<tr>
<td>Pulses</td>
<td>18.980.473</td>
<td>62</td>
</tr>
<tr>
<td>Vegetables</td>
<td>5.573.568</td>
<td>80</td>
</tr>
<tr>
<td>Root crops</td>
<td>18.063.778</td>
<td>72</td>
</tr>
</tbody>
</table>

Source: CSA (2010); Lavers 2012, 110 (own calculation)
Apart from the limited success of ADLI, other factors convinced the government to shift the ADLI strategy towards a more neoliberal trade-oriented approach. Firstly, Ethiopia experienced a substantial trade deficit. Increasing domestic exports is necessary for establishing foreign exchange, which improve the balance of trade. Secondly, international organisations have pressured the government to liberalise and commercialise the agricultural sector. The World Bank imposes so-called conditionalities in exchange for a loan, and requires governments to issue public tenders for government procurement (Gray et al. 1998, 4). These two factors led the ruling party to attempt to resolve the problems by achieving its objectives with a more trade-oriented development strategy (Lavers 2012, 121; Becker and Wittmeyer 2013, 765).

Although the ADLI strategy has always focused on smallholder development and security, it left space for a policy in favour of increasing exports through large-scale, land-leasing projects. These projects must stimulate the total export in order to earn foreign exchange, thereby enabling the purchase of imports that cannot be produced locally with labour-intensive processes that accelerate industrialisation. Creating new export opportunities for local production is, therefore, the second reason why the development of the agricultural sector is Ethiopia’s point of focus.

Government officials expect an inflow of agricultural investment in order to expand crop yields for domestic food supplies, export, and industrial output, while also providing employment, the exchange of knowledge, and the transfer of technology (Lavers 2012, 112). These investments are likely to be foreign, rather than domestic, enterprises as the embedded state thesis has previously proven that large-scale domestic agricultural firms may result in the emergence of new elites, threatening the power-maintaining party.
Consequently, government officials are eager to transform the economy along the lines of the development strategy. Although agricultural opportunities tend to prevail in discourse about foreign investment in Ethiopia, critics take note of the social and environmental externalities, and emphasise that the EPRDF alone bears the consequences of its conduct and policy. The readiness with which the Ethiopian government has leased a high number of projects to foreign investors against low lease rates and without local consultation, generates much concern and dissatisfaction among the local population who has the feeling to be sold-out and smallholders who were forced to dislocate (Abbink 2011 515; Vidal 2010; Rahmato 2008, 313-323; Bahiru 17). According to the Ministry of Finance and Economic Development (MoFED), these foreign investors are given unused land that smallholders are unable to exploit due to a lack of technology and financial assets (MoFED 12). Opponents of foreign investment highlight that displacement of smallholders and leasing of land used by pastoralists endangers the subsistence of local people and risks price volatility. Therefore many researchers are sceptic about this policy, naming it ‘land-grabbing’, ‘neo-colonialism’ and ‘a new scramble for Africa’ (Abbink 2011, 516).

Moreover, environmental advocacy groups express concerns regarding negative externalities of the land-leasing projects. Deals are made without any environmental impact assessment of possible soil degradation, erosion, deforestation, pollution, and high nitrate concentration (Spielman et al. 2010, 191; Abbink 2011, 520; Rahmato 2014, 36). In fact, there is little empirical research about the social, economic, and environmental consequences resulting from the land-leasing projects, not to mention their impact on food security. The current emphasis lies on the impact of land-leading projects on macroeconomics and the feasibility of achieving food security through foreign agricultural investment.
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Figure 3: The new export-based development strategy of the ADLI

Source: Abbink (2011); Lavers (2012, Lefort (2012)

The adjustment of the ADLI strategy towards a trade-oriented development strategy constitutes an essential step towards the neoliberal model. This highlights the importance of producers’ integration in the global market economy, enabling them to implement their comparative advantage (Lavers 2012, 121). The commercialisation and privatisation of the Ethiopian agricultural sector should enhance the FDI’s attraction and increase agricultural exports to improve the nation’s trade balance in the long run. ADLI’s change of strategy creates a paradoxical contradiction, however. It now focuses on increasing agricultural exports while simultaneously securing domestic food supplies. It should be asked whether these processes can feasibly coincide.

Chapter 3: Food policy - The paradox of emphasising food export in order to import food

ADLI’s development strategy change, which reduced the emphasis on production for self-consumption as the means of addressing food security and, instead, increased the importance of trade-based food security strategy (Lavers 2012, 122). This adjustment has not replace the initial development strategy that focuses on the smallholders, but has added large-scale agricultural projects, which policy-makers aim to achieve through foreign investors. As shown in figure 3, this policy
intends to increase agricultural exports in order to stimulate foreign exchange, thereby enabling the purchase of food for consumption and imports that cannot be produced domestically. Moreover, this process allows domestic farmers to gain knowledge from foreign expertise. The government believes that this policy will mitigate Ethiopia’s chronic food insecurity, although this approach does not seem to align with either mainstream views about securing access to food, or the examples set by Africa’s richest countries. In short, Ethiopia aims to secure food by exporting food rather than other commodities and manufactured products.

**Food classification**

In order to assess the agricultural developing strategy’s impact on food security, it is necessary to classification different types of food products. Many narrow definitions of food are being questioned, however, because of possible substitutes. In scientific literature and in newspapers, authors use terms such as agricultural output, food output, and crop yield interchangeably when discussing food security (Lefort 2012, 702; Rakotoarisoa et al. 2011, 10; Crewett and Kord 2008, 206). Although these terms are often used in a broad sense, interchangeability needs to be prevented during indicator measurements as specific terms are more accurate and, in turn, will lead to correct results. For instance, while tomatoes are part of agricultural output, food output, and crop yield, cattle can only be included in agricultural and food output measurements and not in crop yield analyses. Similarly, roses from the horticultural industry are included in agricultural output but are not part of food output and are, therefore, less relevant in terms of food security.

The term agricultural product is not correct, however, when addressing the mitigation of food shortages, because cotton, for example, is an agricultural product but cannot be used as food. There is a distinction between nourishment and all other agricultural products. Furthermore, tropical foodstuff, such as coffee, tea, and spices, are not substitutes for basic foods, such as cereals and meat and are, therefore, differentiated from basic food products.

To examine Ethiopia’s food security situation, Francis Ng and M. Ataman Aksoy’s classification will be used in this research to distinguish between: 1) raw foods and 2) cash crop feeds (Ng and Aksoy 1985, 4). Raw food includes all types of basic food such as meat, dairy products, grain, cereals, vegetables, and fruit. Cash crops and feeds include, among others foods, nuts, tropical products, and processed food. The combination of these two types of food is considered ‘all agriculture’ by Ng and Aksoy, and will be discarded in this examination because it may lead to confusion. This classification enables us to analyse Ethiopia’s export and import data from the past decade in order to discover the extent of food export compared to food import.
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**Rising food demand leading to export to import**

Manitra Rakotoarisoa et al., researchers at the FAO, have analysed the general trends in food trade and sought explanations for why Africa has become a net food importer. They found that African states have become dependent upon food-import because the food-trade balance have worsened per year due to the faster rise of food imports than agricultural food exports (Rakotoarisoa et al. 2011, 10). This is an unavoidable consequence of a rising domestic demand for food, which exceeds the domestic supply.

Four trends that explain the growing food demand. Firstly, the increasing population needs more food to survive. Secondly, due to urbanisation and globalisation, people change their dietary patterns, leading to higher per capita food consumption. Thirdly, an increase in per capita income leads to a growing demand for food. Although Engel’s law states that the demand for food is income inelastic, African households spend a large amount of their income on food supplies. Lastly, international price instability results in a growing demand for food. A low international price creates high demand. Conversely, a high international food price also generates high demand, because food scarcity encourages people to stockpile the available supplies.

Since most African states reached the status of net food importer, domestic food supplies have not been able to keep pace with the growing food demand. For instance, uncertainty about endowments such as land-ownership, low productivity (due to water constraints, poor infrastructure, lack of fertilizers, and little technology), natural disasters, and armed conflicts all contribute to an unstable and insufficient food supply (Rakotoarisoa et al. 2011, 40). Consequently, the net food importer status offers the impression that import dependency is a structural problem for further economic development (Otero et al. 2013, 264; Abbink 2011, 523). Dependency theorists such as Andre Gunder Frank and Hans Singer are sceptical about international dependencies due to deteriorating trade terms for developing countries in comparison ones that are developed (Frank 1966, 17-24; Tansey and Hyman 1994, 28-29). Therefore, they argue that import-substitution growth is the best development strategy, and should be implemented instead of trade-based strategies.

However, food-import dependency does not jeopardise economic growth and food supplies when the following two conditions are met (Rakotoarisoa et al. 2011, 16; Otero et al. 2013, 268). Firstly, achieving national food security is not problem in countries where foreign exchange sources other than food exports can cover the cost of food imports. Ethiopia’s food-trade balance is, therefore, an important indicator for measuring whether the country conducts sufficient foreign exchange in order to import the food that it needs.

Secondly, in terms of comparative advantage, being a net food importer could be an efficient solution that the exploitation and manufacturing of other commodities in exchange for food supplies, as in
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richer African countries do (Otero et al. 2013, 268). On the one hand, in an open free-trade world based on comparative advantage, countries will specialise their production to have a comparative advantage. Comparative advantage enables all parties to specialise and to produce output in the least costly and most efficient way, ensuring a positive-sum game.

This is not the case, however, in a neoliberal food regime that is based on competitive advantage. Food import dependency worsens a country’s position when transnational agricultural corporations gain Michael Porter’s competitive advantage and eliminate the benefits of comparative advantage to the detriment of local smallholders (Otero et al. 2013, 268). Competitive advantage exists when a corporation is able to perform at a higher level than its competitors in the same industry. This ability often arises out of new techniques or the benefit of economies of scale, which enables the corporation to outperform smaller competitors. Consequently, competitive advantage results in a zero-sum game between different parties in the same sector, as foreign investing corporations gain monopolise the sector thanks to their technologically favourable positions.

The Food Uniformity Index (FUI) has been developed by Gerardo Otero to indicate if, and to what extent, economies are diversifying, in order to assess whether comparative advantage or competitive advantage prevails in Ethiopian agriculture. The Food Uniformity Index (Otero et al. 2013, 276) represents the percentage that the top-five food sources occupy within the total food production. An analysis of the FUI in Ethiopia will result in a conclusive answer about the diversification process. This, in turn, reveals information on the comparative/competitive advantage debate, which is relevant for understanding the nature of the agricultural market in Ethiopia and its influence on policy outcomes.

Furthermore, increased dependence on agricultural exports and integration into the world economy internalizes the world price within the domestic market (Otero et al. 2013, 276). A higher world price, and thus the internal price, of basic food affects the local population disproportionately, as the food-price elasticity is much higher in developing countries. This is disastrous for the domestic food import and supply. The internalisation of the world price is, therefore, one of the consequences that should further examined as it might affect the local population’s purchasing power.

In sum, in the ADLI strategy, the Ethiopian government underlines the importance of increasing agricultural exports that lead to an inflow of foreign exchange with which necessary imports, including food imports, can be purchased. Ethiopia’s ‘food-export-to-import-food’ policy is currently ambiguous because authorities aim to export cash crops for foreign currency to enable the import of basic foods as nutrition for the local population. Food-import dependency is not, as such, deteriorating the domestic economy and food security situation. The following three indicators will be used to examine the potential perils of food-import dependency: 1) the balance of payments and, in
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particular, the food trade balance, 2) the FUI, and 3) internalisation of the world price for food products.

In the next chapter, additional indicators will be gathered and further developed in order to examine the success of the ADLI strategy and to assess to degree of liberalisation and state interference in Ethiopian policies for attracting foreign investors. Subsequently, measurement of this information will reveal new information concerning ADLI achievements, Ethiopian trade and investment policies, and the consequences of food-import dependency in Ethiopia.

Chapter 4: Indicators for measurement and assessment

Prior to measurement, indicators need to be developed, primarily in order to measure the midterm results of the ADLI strategy and to assess the liberalising policies that ought to facilitate foreign investment. These indicators provide the right tools for assessing the long-term feasibility of the current Ethiopian developing strategy’s objective. The development objective aims to sustainably increase rural incomes and national food security by transforming the agricultural sector through foreign investment (PIF, 2010 16). Firstly, in order to measure and analyse the feasibility of achieving food security, indicators will be derived from the PIF and the ADLI model. The PIF already includes various specific milestones for measuring agricultural and economic development within the process of becoming a food-secure country. General development indicators can be derived from the ADLI model.

Secondly, because foreign private investors are considered to be oil that is necessary for the economic engine to run, it is essential to closely examine how Ethiopian authorities incentivise invest in the local economy and what favorable policies they offer regarding tax, trade and foreign exchange. This paper, therefore, focuses on how companies experience these state investment policy tools, and assesses how foreign investment contributes to long-term food security and economic development. All incentives for foreign investors to invest in Ethiopia can be traced back to neoliberal ideas on how to transition an economy from a pre-launch stage to a mature and sustainable economy. Ethiopia’s current privatisation and liberalisation wave will result in liberal policies and incentives, including the reduction of trade barriers and the disclosure of Ethiopia’s monetary system, that are interesting for external entrepreneurs. Respondents answers about the investment climate and the practice of state-phrased liberal policies will offer an insight into government interference with economic issues and into the purposes of different policies. The latter will be explained in terms of Bayart’s pursuit of hegemony.

Indicators for agricultural growth

The Ministry of Agricultural and Rural Development (MoARD) has set out different milestones in the
PIF that provide an indication of whether the ADLI is making progress towards its goal of attaining food security and agricultural development. As the trade-based development strategy has been explicitly implemented in the PIF, and because the government has been attracting foreign investors for already more than a decade, the milestones are good indicators for measuring these achievements.

The MoARD lists four strategic objectives (SO) in the PIF, including milestones for measuring progress towards achieving the objectives. These four SOs are:

1) sustainable increase in agricultural productivity;
2) accelerate agricultural commercialisation;
3) sustainable conservation of natural resources; and
4) achievement of universal food security (PIF 2010, 16).

Strategic objective number three will not be examined as this paper focus mainly on agricultural development and food security. The exploitation of natural resources and the ecological consequences of development strategies are leading or may lead to serious problems in the field of food security, economic growth and political stability in the near future. This study focuses on mapping economic results, however, because they provide policymakers with correct information, which is needed to make a well-considered decision concerning this topic.

Strategic objective 1 aims to increase the production of food, cash crops, and livestock, as well as agricultural productivity over the ten-year life of the PIF. The MoARD, therefore, developed several milestone indicators, of which the following is the most important:

- At least 8% increase in annual crop and livestock production (PIF 2010, 18)

Strategic objective 2 aims to help farmers transition from self-subsistence farming towards commercial farming. The following relevant milestones indicators for progress towards these outcomes include:

- 12% increase in annual level of agribusiness investment; and
- 10% annual increase in agricultural export earning as a percentage of value added in the agricultural sector (PIF 2010, 19).

Finally, strategic objective 4 aims to achieve universal food security and to protect vulnerable households from natural disasters by reducing the number of chronically food-insecure households and by reducing the import of food aid. The MoARD developed the following indicators:

- Any decline of food aid imports;
- 20% increase of food reserve stocks; and
- Any decline in the number of households experiencing food gaps of three months or more (PIF 2010, 21).
In short, the PIF includes several of indicators for measuring the progress of Ethiopia’s development strategy. These indicators will provide an overview of internal agricultural development and change in food insecurity thus far.

**Indicators for renewed export-based ADLI strategy**

The PIF, however, lacks specific indicators to measure the success of the ADLI through external factors, such as foreign direct investment and international trade. The previous chapters the development of indicators for the measurement of the ADLI policy, illustrated by means of a schematic survey in figure 3, and included three indicators for assessing whether or not food-import dependency will contribute to food security in Ethiopia. The grey steps of the renewed export-based ADLI strategy form the basis of the agricultural transformation and achievement of food security from which the following indicators have been derived. The following steps are, therefore, essential for the ADLI strategy to yield more results than the previous development strategies.

- Any increase of foreign investment in the agricultural sector;
- increase of (agricultural) exports;
- achievement of food balance equilibrium (Otero et al. 2013, 268); and
- graduation from trade balance deficit to trade balance surplus (Lavers 2012, 121; Becker and Wittmeyer 2013, 722; Rahmato 2014, 28; Spielman et al. 2010, 187).
- Food Uniformity Index; and
- internalisation of the world price.

In the next chapter, macro-economic data will be used to gain information about recent changes in, for example, crop production and trade, in order to measure the progress of the ADLI strategy’s the direction. Data provided by de Central Statistical Agency (CSA) in Ethiopia, FAO, UNCTAD, and the National Bank of Ethiopia (NBE) will reveal the results thus far of steps taken by the ADLI model in terms of exports, imports, and trade balance so far. In addition, data will also be used to assess the jeopardy and benefits of food-import dependency. The results will indicate the extent to which the developing strategy is sustainable and feasible.

**Indicators for foreign investment attraction**

Since the indicators for measuring the development strategy’s success in achieving economic development and food security have been defined, foreign investment, the main driver behind this policy, must be examined. Both the national government and foreign investors play a prominent role in this strategy, with the policy results show the government’s function as the policymaker aiming to prompt foreign investment in Ethiopia. It was argued in Chapter One that the EPRDF government retains vigilant control over the political arena. It is assumed that the state also retains control of the
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economy despite neoliberal reforms that have, or should have, led to the country opening up for foreign actors and to economic privatisation and commercialization, particularly within the agricultural sector (Lavers 2012, 798; Vaughan and Tronvoll 2003, 116-123; Becker and Wittmeyer 2013, 765).

Indeed, several studies argue that the government retains control of the national economy and still retains its principal position in providing privileged access to foreign investors by lifting a diverse range of taxes and other obligations (Becker and Wittmeyer 2013, 768; Lefort 2012, 702). Moreover, sources state that Ethiopian and foreign companies alike complain about the preferential treatment of businesses owned by EPRDF associates (USTR 2014, 1). This leads to unequal competition in the Ethiopian agricultural market between large transnational corporations and local smallholders. Although there are clear regulations and policies for foreign investment and international trade, it is not certain to what extent the government applies these regulations. It remains, therefore, the question if, and when, the government exerts influence over the domestic agricultural economy and investment through government policies and tools for incentivising foreign investors (Demissie 2008, 514; USTR 2014, 1).

With the Ethiopian vote for a neoliberal government, several features this neoliberal paradigm need to be observed in order to determine its impact on the entrepreneurial freedom of foreign investors and on governmental interference or constraints. Boas and Gans-Morse have observed that neoliberal policies entail a reduced government role, the removal of trade barriers, the privatisation and commercialisation of the markets, and the integration of the domestic economy within the international economy with the transparency and convertibility of exchanges (Boas and Gans-Morse 2009, 137-161). In addition, other studies have found that the adoption of these liberal policies increase foreign investment (Simons and Elkins 2004, 187; Büthe and Milner 2008, 743; Bénassy-Quéré et al. 2001, 19; Morissel and Pirnia 2000, 5-10).

This paper does not aim to make a judgment about the Ethiopian government’s policy and limited interference in the economy. In fact, governments play a prominent role in the national economy, even in liberal mixed market economies (Mengistu and Vogel 2009, 683; Becker and Wittmeyer 2013, 768). Karl Polanyi, for instance, challenges the idea that the market should be completely free from government interference (Otero et al. 2013, 272). He argues that government action is not some kind of interference in the autonomous economy, but that the state creates institutions and rules upon which the economy has been built. The government drafts up economic policies and execute the policies voted for by the Ethiopian democracy (Lefort 2012, 683).

Instead, this paper attempts to discover to what extent and how the government is involved in attracting foreign investors, including its involvement with economic policies that affect Ethiopia’s attractiveness for investors, which in turn contribute to national food security. What is the state’s
policy regarding import and export bans? Are there any trade and investment barriers that may deter foreign investors? The analysis and assessment will show whether and how the government achieves its development goals through the ADLI strategy and, thus, foreign investment.

Consequently, the following points of interest require specific attention in order to evaluate all investment incentives and to measure the national government’s involvement in foreign private activities.

- Public procurement and its conditions;
- reducing trade bans, tariffs and other barriers;
- adopting favoured tax policy;
- free convertibility of currency and capital control; and
- lobby opportunities.

An explanation is needed to justify why these points of attention are being further assessed in this paper. First of all, the national government has the task of attracting foreign investors and companies that are interested in investing in Ethiopia. The national government needs to attract the foreign private sector via public procurement; this is also known as public tendering. The World Bank often imposes public procurement in exchange for a loan, aiding the avoidance of bribes and extraversion (Gray et al. 1998, 4). Additionally, in Ethiopia, public procurement is regulated by the Procurement Law, which was enacted in 2005 by Financial Regulation No. 17/1997. The 2005 Public Procurement Directive includes regulations concerning six distinct procurement methods, the appointment of the Tender Committee, and evaluation procedures. This directive is applicable to all public procurement processes. The Public Procurement and Property Administration Agency (PPPAA) is the executing state agency that coordinates and monitors all public tenders.

As a result of privatisation, there are many tenders for previously state-owned companies. This paper aims to develop an in-depth understanding of the government’s role herein and, more importantly, to provide empirical information about how investors viewed their procurement and the requirements that have come about. As public tendering is the first step towards entering the Ethiopian market, it is essential to have a clear understanding of this process.

Other points of interest, which encompass trade, investment, taxes, and exchange rate policy, are all macro-economic policies, regulations, and tools that can be adopted or imposed by authorities to influence international investment, international trade, and national monetary fluxes (USTR 2014, 1). Evidence has shown that the adoption of liberal economic practices is followed by an increase in foreign investment (Simons and Zachany 2004, 172). In particular, an analysis among 122 countries shows that developing countries with an open trade system that lacks barriers and restrictions experience greater foreign investment inflows than otherwise (Büthe and Milner 2008, 760). Joining
international trade organisations also allows African countries to attract more foreign investment. Similarly, both a favourable tax policy for investors and a favourable exchange rate regime that includes free convertibility affect decisions of some investors (Morissel and Pirnia 2000, 5).

These policy tools offer the government the possibility of guiding and maintaining the development process to target food security. Government agencies and officials highlight the large amount of incentives and opportunities for foreign actors to invest in Ethiopia, and although the Ethiopian government is, to some extent, voluntarily bounded by international and domestic regulations and guidelines on this matter, the domestic policies have not yet been examined. (Becker and Wittmeyer 2013, 770; respondent 1).

In addition to these indicators, this paper also aims to investigate diverse lobbying opportunities for foreign investors that own a company in Ethiopia. Lobbying enables private parties to influence public agenda-setting and decision-making in their favour, such as favourable tax laws and export regularities. The extent to which private companies have access to hear from and to be heard by government officials is an additional indicator for examining government interference in foreign investment.

These points of interest will be examined in Chapter Six with empirical information that reveals additional information and knowledge about the day-to-day experiences of foreign investors in light of these domestic policies. This will be compared to the prescribed government policies and to interviews with government officials in order to analyse the degree of liberalisation in domestic policies targeted at attracting foreign investors and, thereby, food security.

**Chapter 5: Measurement of PIF and ADLI indicators**

After having developed all the indicators needed to measure the feasibility of the Ethiopian development strategy, a zero measurement will indicated whether Ethiopia is on the path towards achieving the PIF’s strategic objectives. The mid-term results of these sub-goals will offer an adequate indication of whether or the country is improving the food security situation for its entire population.

**Agricultural growth**

| Table 3: Annual increase of the production of major crops based on the estimation in the Meher season (in %) |
|-------------------------------------------------|-----------------------------------------------|
| Annual crop increase (in %)                      |
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<table>
<thead>
<tr>
<th>Year</th>
<th>Inward FDI (in mn US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013/14</td>
<td>8.54</td>
</tr>
<tr>
<td>2012/13</td>
<td>7.41</td>
</tr>
<tr>
<td>2011/12</td>
<td>7.41</td>
</tr>
</tbody>
</table>


The government aims at an 8% increase in annual crop and livestock production levels and a 4% annual change in total value productivity per crop and livestock unit in order to achieve SO 1 (PIF 2010, 18). The state-led CSA conducts yearly agricultural sample surveys on the area and volume of the major crops. The empirical data set out in table 3 shows that the annual crop increase is, indeed, around 8% higher in relation to the previous year (CSA 2012; 2013; 2014). Pedro Martins, researcher at the World Bank, found that the productivity in the agricultural sector increased by an average of 7.4% over the period of 2005-2011, from 5.2 thousand birr per worker in 2005 to 8 thousand birr in 2011 (Martins 2014, 15). Nevertheless, the output per worker remains lowest in the agricultural sector.

In sum, Ethiopia is on track achieving SO 1.

Figure 4: Inward FDI 2007-2013 in million US $

Source: UNCTAD; Assefa et al. 2013 (own calculation)

A 12% increase in annual level of foreign agribusiness investment is necessary to accelerate agricultural commercialisation and agro-industrial development (PIF 2010, 19). The graph above shows that inward Foreign Direct Investment (FDI) has only increased 6% per annum, which is far less than the government aim. The milestone indicators for SO 2 demonstrate that the commercialisation process and agri-development are making progress, but not at the pace that the government hoped for.
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The last strategic objective, and its end goal, is the achievement of universal food security. In order to achieve this, the number of chronically food insecure households needs to be reduced, the amount of food aid imports must decline, and the food reserve stock needs to grow by 20% (PIF 2010, 21). The PSNP is one of the largest social programmes under the PIF-umbrella that deals with food security issues. Its goal is to tackle the food shortage challenge and to break with Ethiopia’s dependent position on food aid (Sabates-Wheeler and Devereaux 2010, 275; PIF 2010, 14).

Although there is no clear data about the number of chronically food insecure households in Ethiopia, nearly 10% of population remains chronically vulnerable to food insecurity (OCHA). Moreover, there are numbers that provide an overview of the prevalence of undernourishment in Ethiopia. Figure 5 depicts the percentage of population whose food intake is insufficient to meet dietary energy requirements. The percentage of undernourished people was lowered from 44% of the population in 2007 to 36% percent in 2013, and is still decreasing. Moreover, as the Ethiopian population is continually increasing, this means that the number of people with access to sufficient food supplies is rising each year.

The term ‘food aid imports’ is rather confusing as food aid means gifts provided by programmes, projects, and emergency assistance. Import entails the purchase of foreign products for primarily commercial purposes. PIF’s context reveals that the MoARD refers to foreign food aid provided by foreign donors for various purposes. The World Food Programme (WFP) registers all food aid that has been sent to Ethiopia. The graph in figure 6 shows that the EPRDF government did not yet manage to stabilize or decrease the food imports on a structural basis. In 2008, Ethiopia was a victim of severe droughts, inflation, and an international food price crisis that resulted in an extreme food shortage. This demonstrates that Ethiopian agriculture is dramatically vulnerable for internal and external shocks. Despite the country reliance on foreign food aid, however, the latest years’ results offer some hope.
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Figure 5: Prevalence of undernourishment in Ethiopia 2007-2013.

![Prevalence of undernourishment in Ethiopia](image)

Source: World Bank (own calculation)

In an attempt to address the food security issues, data proves that the situation in Ethiopia is improving but has not yet stabilized. Both productivity and the FDI are increasing, while food aid and the percentage of undernourished people are declining. All relevant PIF indicators for measuring agricultural development have been positive thus far, with the exception of Ethiopia’s trade balance. In the next section, this paper concentrates on an in-depth analysis of the trade and food balance and its consequences.

Figure 6: Food aid 2006-2012

![Food aid](image)

Source: World Food Programme (WFP)

**Renewed export-based ADLI strategy**

According to the development model depicted in figure 3, the government’s first step is to attract foreign investors. Ethiopia has a total of 51.3 million hectares of arable land surface, of which only 11.7 million hectares is currently being cultivated (Rahmato 2014, 35; Lavers 2012, 803; Vidal 2010;
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PIF 2010, 1.3). More than 3.7 million hectares is under negotiation or has already been formally leased to foreign firms (Becker and Wittmeyer 2013, 755; Abbink 2011, 517). As the Ethiopian government continues the ADLI policy and the attraction of foreign investors, it is likely that this will increase. The first investments were made in 2007 by Karuturi Global Limited and Saudi Star Agriculture Development PLC (Parulkar 2011, 104). No hard conclusion can yet be drawn from economic data about the results and successes of the land leasing projects, although the first developments offer an indication of success, if the projects are correctly executed.

The next step of the trade-oriented strategy is to increase agricultural exports. The MoARD has expressed its wish to achieve an annual 10% increase in agricultural export and, therefore, no export tax is levied on export products, with exception of hides and skins (EIA 2013, 18). In contrast to the previous examples of mainstream African food securing policies, the EPRDF government aims to export food in order to import food. While this paradox sounds absurd, it is currently unknown what impact this will have on national food security. Will food import dependency worsen or improve the food security in Ethiopia? Gerardo Otero et al. argue in their research that food-import dependency based on a neoliberal trade policy supported by suprastate organisations brings along some considerable risks (Otero et al. 2013, 285). In the attempt to address food security issues, the World Bank labels food self-sufficiency as costly and inefficient and argues for a trade-oriented strategy including free trade. The FAO has supported a food import-driven model based on comparative advantage too, believing that food imports constitute as the most efficient means for the achievement of food security (Otero et al. 2013, 268).

This classification, set out by Ng and Aksoy, enables an analysis of Ethiopia’s export and import data from the past decade to determine the extent to which Ethiopia indeed exports food to import food. Following this analysis, conclusion can be drawn about which of Ethiopia’s trade patterns offer an indication of the feasibility of the ADLI strategy and ‘exporting food to import food’ (Eyassu 2014).

In order to do so, the current trade flows should first be examined.

The total number of exports has more than doubled since 2007. Figure 7 shows the total value of Ethiopian exports in US dollars, which underlines the general, structural upward trend. Moreover, during the first half of 2014, the Ethiopian Revenue and Customs Authority recorded exported “products” worth 1.77 billion US dollars. These figures do not provide concrete information, however, about what sectors have contributed to the increase in exports. Figure 8, therefore, classifies the total value of exports in fifteen groups according to the Harmonised System (HS) made up of Ethiopia’s top exporting categories. The figure illustrates that the majority of all exports consist of agricultural cash crops, such as coffee, seeds, cut-flowers, pulses, and a small minority of raw foods, such as vegetables. More specifically, figure 9 depicts the increase or decrease in export per group from 2008-2013, proving that the agricultural sector is the stimulus for export growth, as the exports of wheat,
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Livestock, and vegetables have all significantly increased. Hereby, it can be concluded that the increase in exports have resulted from the ADLI’s transition towards export-based development.

Figure 7: Total value of Ethiopian exports 2007-2014 (in bn US$)

![Figure 7: Total value of Ethiopian exports 2007-2014 (in bn US$)](image)

Source: Ethiopian Revenues and Customs Authority (own calculations)

Figure 8: Classification of total exports in 2013

![Figure 8: Classification of total exports in 2013](image)

Source: Observatory of Economic Complexity; UN Data (own calculations)
Foreign investment as the engine of the agricultural transformation to attain food security in the ‘liberalising’ Ethiopian state: the effects of Ethiopia’s interference in the economy on foreign investment and food security – M Kleingeld

Figure 9: Average annual export change 2007-2013 (in %)

![Average annual export change 2008-2013 (in %)](image)

Source: Observatory of Economic Complexity; UN Data (own calculations)

According to the third phase of the development model, a trade surplus balance will enable the Ethiopian government to import machinery and technology that cannot be produced in the national labour-abundant economy. The net export, portraying the difference between the total value of exports minus imports over a certain period, is negative for Ethiopia in all the years between 2007-2013 and is still deteriorating, as shown in figure 10. This structural trade deficit has dramatic consequences for the ADLI in terms of purchasing power, as the imports cannot be entirely funded by the exports. Nonetheless, the government is increasing its imports of among other things, machines and wheat (ERCA). This means that the needed technology and food is being imported, no matter what the balance of trade is. In addition, this imbalance heavily pressures Ethiopia’s exchange rate policy, because the trade deficit often offsets a decrease of the Ethiopian birr’s value.
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Figure 10: Balance of trade 2007-2014 (in bn US $)

These figures demonstrate that the government is increasing the total value of exports and imports to accelerate industrialisation and increase agricultural productivity, although it remains unsustainable due to the trade balance’s structural deficit. There is however hope that this will change in the near future, when the development strategy’s vicious circle eventually offers positive results. An increase in productivity, crop yields, and demand for domestic products caused by favouring imports over agricultural industrialisation will result in further industrialisation and reduced dependency on food imports.

The structural deficit of the trade of balance hinders the import of food. The question is whether or not Ethiopia’s agricultural and food exports can cover the food imports. In terms of value, in 2011, about one third of all agricultural trade in Ethiopia was exported while two thirds was imported. The agricultural balance of trade has always been positive, allowing the import of food. Figure 11 also shows that Ethiopia imports significantly more raw foods than it exports. Three conclusions can be drawn about this information. Firstly, the positive agricultural balance of trade results from the net exports in cash crops, seeds, and agricultural raw materials. Secondly, the negative balance of trade is due to the enormous imports of petroleum, machinery (such as trucks and computers), chemicals, and semi-manufactured products (OEC). Finally, and perhaps most importantly, Ethiopia is a net food-importing and food-dependent country.

Figure 11: Raw food trade and all agricultural trade divided into exports and imports in Ethiopia in 2011, based on value
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As mentioned in Chapter Three, within the context of Ethiopia’s agricultural sector, food import dependency not a problem as long as the country is able to sustainably cover its food imports with its agricultural exports. The previous analysis showed, however, that Ethiopia is unable to cover its imports of machineries, petroleum and food with its current exports. Historical trade patterns do not show favourable precedence for Ethiopia, as the overall trade balance has always been a deficit. For Ethiopia, food import dependency is problem because, in the future, the country may not have the funds to import the needed food supplies. Moreover, a structural balance of trade deficit will jeopardize the value of the Ethiopian birr.

The other danger of food import dependency is the possibility that competitive advantage prevails over comparative advantage (Otero et al. 2013, 270). As previously discussed, competitive advantage favours multinational companies with advanced technology that enables them to produce products against a low price. This damages the smallholder sector, as it attempts to commercialise its former self-sustaining agricultural companies. Although the trade-oriented strategy aims to exploit the comparative advantage, the Food Uniformity Index (FUI) will shed light on the extent of diversification in the Ethiopian agricultural industry (Teshome 2006). For Ethiopia the Food Uniformity Index (FUI) is 46, 49 and 49 in 1995, 2007 and 2011. The stable FUI means that the Ethiopian economy has slowly been developing towards specialisation rather than diversification. This illustrates that, thus far, comparative advantage is prevailing in Ethiopian agriculture, although the change is minimal.

On the contrary, many authors are questioning the impact that the establishment of large foreign corporations has had on local smallholders (Parulkar 2011, 106; Becker and Wittmeyer 2013, 169; Abbink 2011, 515). They have found that local peasants were displaced by federal authorities and that foreign investors confiscated pastures used as grazing land for local cattle. The socio-economic effects of land-leasing projects, however, have not yet been examined.
Thus, foreign investment was sought after to bridge the import-export gap ensuring Ethiopia’s sustainable import of food. Unfortunately, this did not successfully the level the country’s exports with its imports. Despite the ADLI strategy’s positive results, including the increase in agricultural exports, food and machinery imports are also increasing, which is resulting in a structural trade deficit. This is why food import dependency currently is ‘a ticking time bomb’. Although the undernourished population percentage is decreasing and domestic food production and supplies are rising, Ethiopia is unlikely to survive a natural disaster that destroys its crops. In short, the EPRDF government has managed to stimulate agricultural expansion and development, and to improve the current food situation in Ethiopia, despite the structural trade deficit risks and the socio-economic consequences. These improvements have not been sufficient, however, to create a trace balance surplus. More foreign agricultural investors are needed to achieve this.

The next chapter contains an analysis examining if and how the Ethiopian government is creating favourable liberal policies for foreign investors. This will lead to a better understanding of the government’s behaviour and interference in the economy. That, in turn, will provide an understanding of how the regime is attempting to attain food security with the involvement of foreign actors.

Chapter 6: Measurement of liberal government policies

In order to analyse the feasibility of Ethiopia’s current ADLI strategy, in which foreign investors are perceived as the engine for further economic growth and the achievement of food security, it is essential to focus on the tools and policies that a government can use to influence foreign investment in a mixed market economy. These investment attraction tools and policies can be derived from general neoliberal policies, which that have been proven successful in attracting foreign investors (Simons and Elkins 2004, 187; Büthe and Milner 2008, 743; Bénassy-Quéré et al. 2001, 196; Morissel and Pirnia 2000, 5-10). The following points of attention should therefore be recalled from Chapter Four: 1) public procurement and conditions; 2) reduction of trade bans, tariffs, and other barriers; 3) adoption of favourable tax policy; 4) free convertibility of currency and capital controls; and 5) lobby opportunities. The next question that must be answered is how the established foreign private sector in Ethiopia experienced these incentives and liberal investment tools during and after their establishment.

Investment incentives according to the state

There is a lack of information about the government’s actual facilitation of foreign investment through the trade tax policies, investment policies, capital control exceptions and their facilitation that it has put on paper. While different government officials have ‘clearly’ included liberal trade, investment capital, and monetary policies in multiple policy formulations, there are doubts about the extent to which the Ethiopian regime applies these rules, and how the government facilitates foreign business by selectively implementing these regulations (Becker and Wittmeyer 2013, 778; USTR; World Bank
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Group). It is reasonable to presume that there is a reason for Ethiopia’s 132nd position on the the World Bank’s 2015 Ease of Doing Business list (World Bank Group 2014).

The Ease of Doing Business ranking is an objective annual report created by the World Bank to measure the regulations that enhance and constrain business activities. It presents indicators that can be compared across 189 countries for eleven areas of the business life, ranging from starting a business and obtaining credit, to trading across borders (see table 4). This ranking is already a reliable indicator for understanding the difficulty of doing business and investing in Ethiopia. This information will be used to complement this paper’s findings on government policies for attract investors, and what economic role this government plays for new foreign actors.

### Table 4: Doing Business Rank 2015 Ethiopia

<table>
<thead>
<tr>
<th>Topics</th>
<th>DB 2015 Rank</th>
<th>DB 2014 Rank</th>
<th>Change in Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Starting a Business</td>
<td>168</td>
<td>165</td>
<td>-3</td>
</tr>
<tr>
<td>Dealing with Construction Permits</td>
<td>28</td>
<td>30</td>
<td>2</td>
</tr>
<tr>
<td>Getting Electricity</td>
<td>82</td>
<td>81</td>
<td>-1</td>
</tr>
<tr>
<td>Registering Property</td>
<td>104</td>
<td>102</td>
<td>-2</td>
</tr>
<tr>
<td>Getting Credit</td>
<td>165</td>
<td>163</td>
<td>-2</td>
</tr>
<tr>
<td>Protecting Minority Investors</td>
<td>154</td>
<td>143</td>
<td>-11</td>
</tr>
<tr>
<td>Paying Taxes</td>
<td>112</td>
<td>109</td>
<td>-3</td>
</tr>
<tr>
<td>Trading Across Borders</td>
<td>168</td>
<td>168</td>
<td>No change</td>
</tr>
<tr>
<td>Enforcing Contracts</td>
<td>50</td>
<td>51</td>
<td>1</td>
</tr>
<tr>
<td>Resolving Insolvency</td>
<td>74</td>
<td>73</td>
<td>-1</td>
</tr>
</tbody>
</table>

*Source: World Bank Group*

Before interviews of foreign company’s experiences are analysed, it is essential to obtain a clear overview of how Ethiopian policies regarding investment, trade, tax, admission, and monetary regulations are being presented to in order encourage foreign investment in Ethiopia. A closer look at the incentives for investing in Ethiopia shows how the government tries to portray its country as the best place to invest. This information is based on different official policy formulations and interviews with governmental officials.

For the ADLI strategy to succeed, Ethiopia needs foreign investors that can boost the structural economic transformation towards national food safety, as foreign investors are the engine for further economic development towards becoming an African lion. It is not without reason that Ethiopian
government officials have the task of attracting as much investment as possible, preferably within the Ethiopian agricultural sector which offers plenty of opportunities (EIA 2013, 3).

The Ethiopian Investment Agency (EIA)\textsuperscript{viii} is the government-affiliated agency that promotes and facilitates foreign investment in Ethiopia. Respondent 1 states that there are investment opportunities in the textile, leather, agribusiness, mining, infrastructure, power, and health industries (respondent 1). Respondent 2 emphasises agribusiness and agro-processing as priority areas (respondent 2). Their responses show that any investor interested in Ethiopia is welcome invest regardless of the investor’s field of interest, although Ethiopia particularly embraces investment in agriculture.

According to both respondents 1 and 2, since Ethiopia’s transition to a liberal economy, the investment environment and trade policies favoured international businesses seeking settle in Ethiopia to produce for local or world markets. Firstly, Ethiopia is politically stable and the government is actively encouraging private sector investment through public tendering and by simplifying business regulations. All foreign investors must meet the necessary criteria for investment admission (respondent 1). Investors are required to possess an investment permit from EIA and are required to allocate a minimum capital of 200,000 US Dollar for single investment projects or 150,000 for joint ventures with an Ethiopian investor. In the meantime, foreign investors can invest alone or partner with domestic investors in areas that are open for foreign investment. There are also no restrictions on equity ownership in joint ventures.

Secondly, Ethiopia’s efforts to join the WTO in 2015 signals its willingness to comply with all membership criteria conforming to the WTO Agreements, which include reducing trade barriers and opening up protected areas for international competition (Maasho 2013). The WTO’s objective is to promote the liberalisation of international trade by encouraging non-discriminatory treatment in international trade and the elimination of trade barriers. Thirdly, there is a robust policy framework that promotes the growth of private sector investment, including attractive tax holidays and duty free packages for investors, and strong commitment to agriculture and rural development with more than 10% of the total government budget allocated to this. The EIA states that Ethiopia’s investment regulations are favourable because there is guarantee against nationalisation and expropriation through bilateral investment treaties and Ethiopia’s constitution and investment law. Foreign investors are allowed to employ foreign staff and foreign management, and double taxation is avoided with eighteen treaty countries.

Respondent 1 adds that the fiscal investment laws are favourable for both foreign and domestic investors, as the investment policy does not discriminate. Ethiopia offers customs duty exemptions on imported capital goods, construction materials, and spare parts, as well as income tax exemptions for a period between two and nine years. The EIA states that imports for the food industry, crop production, animal production, mixed farming, and forestry are eligible for 100% customs duty exemption (EIA
2013, 14). While the income tax is 30% and is levied on profit, any investment in the abovementioned industry will enjoy income tax exemption (EIA 2013, 16). The duration of exemption depends on the area of investment.

Fourthly, monetary regulations are particularly interesting for investors because the free exchangeability of different currencies allows the investor retain control of its own assets. In Ethiopia, foreign investors have the right to take remittances such as profit and dividends out of the country as convertible foreign currency. Respondent 1 also outlines that a stable political environment fosters a peaceful and secure working environment, thereby decreasing the risk of investment. Strong political and security integration with countries in the region fosters mutual economic ties and benefits. Finally, the EPRDF government is also committed to good governance and to fighting corruption. Documentation provided by the EIA called “Ethiopia: Land of Tomorrow”, describes another ten incentives for foreign investors such as low crime rates, macroeconomic stability, excellent climate and fertile soil, abundant and trainable young labour force, transparent investment approval procedures, and access to wide markets (EIA 2013, 2).

In short, the Ethiopian government and government-related agencies all emphasise multiple incentives for foreign investors to come and establish a new dairy farm or leather factory in Ethiopia. They portray their country as a limitless location for foreign investment where the ruling government maintains favourable policies for the investor. They highlight the abundance of opportunities in available in almost every sector and the lack of barriers preventing an foreign investment in the Ethiopian economy. An investors’ business plan does needs to meet all the EIA requirements in order to apply for an investment admission, but these criteria are not unusual and should, therefore, not be viewed as a barrier.

In fact, these opportunities and incentives should encourage foreign investors to come to Ethiopia to help the economy grow through their direct investment. Nevertheless, Ethiopia has fallen from 129th place in 2014 to 132nd place in 2015 on the Ease of Doing Business List (World Bank Group). While according to various agencies and respondents 1 and 3, there are no investment discouragements regarding Ethiopia, it seems that the EPRDF government does not act entirely reliable and it is essential, therefore, to analyse how foreign investors actually perceive and experience these incentives and policy tools. An evaluation of the policy tools provides insights into the role of the government in foreign private activities, the investment attraction and procedure and, consequently, the Ethiopian economy.

Policy analyses based on respondents

Public procurement:
As discussed in Chapter Four, Both the World Bank and Ethiopia’s national law oblige the government to tender for investors regarding public procurement. Respondent 1 highlights the fact that
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the Ethiopian government is looking for private domestic and foreign investors via public tendering (respondent 1). Additionally, the government is actively instructing their agencies and embassies to search for foreign investors that are interested in establishing a joint venture with an Ethiopian enterprise. Annex 2 shows a letter that is sent monthly to investment-facilitating organisations in the Netherlands to attract Dutch investors for the establishment of, for instance, a new dairy farm, soft drink factory, cereal farm, or coffee plantation.

Of the ten foreign or semi-foreign companies established in Ethiopia, that are being studied, seven are the result of public tendering. These companies are the result, either of a complete take-over of previously state-owned enterprises or of a joint venture with other (Ethiopian) companies. Consequently, respondent 5 mentions that his company Africa Juice was initially founded by the Ethiopian emperor and was later nationalised by the authoritarian Derg regime (respondent 5). The current ruling government privatised the farm in 2009, enabling foreign investors bid on the previously state-owned farm. Thanks to financial assistance from Dutch banks, the current owners had the opportunity to win this public tender. Meanwhile, sheikh Al Amoudi, the biggest individual foreign investor in Ethiopia, owns 75% of the company’s shares. Similarly, Ethiopia’s privatisation programme allowed Heineken’s bid on two Ethiopian state-owned breweries and gain a majority share of those companies (Heineken press release).

Additionally, joint ventures are being established as mergers of new foreign enterprises and old nationalised companies. This study shows that more than half of the examined foreign firms were founded as a joint venture. Respondent 6 explains, for instance, that Abysinnia Flowers is a joint venture of Dutch greenfield investment and the integration of state-owned Derba, which was the first public procurement in Ethiopia horticulture industry (respondent 6). Other foreign investments resulted in the establishment of Linssen Roses Ethiopia PLC, Rhea Holding BV, Alfa Farm, and Grazeland Farm Agro Industry PLC. They are all joint ventures with one or more Ethiopian or foreign companies. Both joint venture as well as take-over foreign investments fit within the EPRDF privatisation and liberalisation policy.

The entire public procurement procedure seems to be under supervision of the federal or national authorities, as the national government and its affiliated agencies are the executive authorities in charge of tenders. No respondent has expressed the feeling that it was a prejudiced party during the application for public procurement. Respondents have not indicated the allocation of public assignment to privileged government-affiliated parties either. It is, therefore, unlikely that the theory of extraversion, including USTR’s findings that the EPRDF government privileges its own or related parties, holds water, at least in relation to public procurement.

Respondents agree with USTR findings that there is a general lack of transparency in the procurement system and that delays in decision-making can lead to redundant impediments for foreign investors.
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(USTR 2014, 1). The findings of this research, however, are based on the views of foreign investors that successfully started up business in Ethiopia. It remains unclear how many investors, if any, have encountered unfair competition by state-affiliated parties during the application for public procurement. The argument that privileged allocation of public procurement to party-affiliated parties is not taking place is, therefore, not conclusive but remains a useful indicator.

This public procurement process and the experiences of foreign companies established in Ethiopia, offer evidence in support of the position that Ethiopian government agencies are truly active and successful in their search for foreign investors. Public procurement is, therefore, a useful method for attract foreign investment. State-affiliated agencies such as the PPPAA do have complete control over the tenders and its allocation but it cannot be said that the agency specifically allocates assignments to state or party-affiliated parties.

Trade bans, tariffs and other barriers
As Ethiopia is joining the WTO in 2015 it has loosened its grip on certain sectors, such as the telecom and banking sectors, in preparation, despite efforts made by the Ethiopian government to keep trade restrictions as it joins this multilateral organisation that works towards non-discrimination between domestic and foreign products in international trade (Maasho 2013). At the time of writing, Ethiopia’s admittance has been put on hold as the WTO Working Party examines Ethiopia’s foreign trade policy (WTO). Previous researches have evaluated tariff barriers, trade bans, and non-tariff barriers in Ethiopia (USTR; Lavers 2012, 107; Imani 2007, 20-22). According to the Office of the United States Trade Representative report (USTR 2014, 2), the applied tariff rate was 17.3% in 2010 and revenue generation was the primary government justification for this rate. High tariffs were applied to protect several fragile labour-abundant sectors, such as the leather and textile industry. The majority of the respondents in this study have experienced import rates of more than 100% on specific products that are also being produced domestically. As will be shown below, they are all eligible for exemptions and holidays, however.

In addition, the national government imposed an export ban on cereals in 2009, which still remains in effect (USTR 2014, 1). Food shortage is the rationale and justification for the authorities’ decision. Similarly, an export ban was imposed on cotton in 2010 due to short supply but was lifted two years later when the production of cotton has increased dramatically, leading to an excess supply of cotton (Tefere 2012, 2; Lavers 2012, 117). The imposition of food export bans seems to differ from the pursuit of export-led development strategies that focus on increasing Ethiopian agricultural exports. This is not the case, however, as Ng and Aksoy’s food classification explains (Ng and Aksoy 1985, 4). According to their classification, cereals and grains are considered raw foods that are not targeted for export to foreign markets. Raw foods are more likely to be sold in the domestic market because this type of agricultural production is not replaceable by foreign imports and less valuable than cash crops.
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Tom Lavers found, in his research, that the investors’ goal, in particular the domestic investors that produce basic and raw food, is not profit maximization but national food security (Lavers 2012, 116). According to Lavers, foreign companies, in contrast, focus on producing cash crops within the framework outlined by the government policy. However, the foreign-owned companies studied in this research do not produce for foreign markets only. Half of the agricultural enterprises and farms address the increasing importance of the growing Ethiopian market as increasing numbers of consumers are able to afford their products. They particularly focus on establishing inclusive businesses such as the creation of employment and the transfer of know-how, which contribute to Ethiopian economic and social development (respondents 2, 4, 5, 12, 13, 14). This trend has been identified by Tony E. Elumelu and named africapitalism. According to Elumelu, “Africapitalism is a philosophy that embodies the private sector’s commitment to the economic transformation of Africa through investments that generate both economic prosperity and social wealth”; this is a new step in African economic development discourse and has been appropriated by prominent magazines and newspapers, such as as the Economist and the Guardian (Elumelu, Economist, Guardian).

The other companies in this study aim to export their production for several reasons. One reason is that the world price is much higher than the domestic one, making export more profitable (respondent 5). Within the Ethiopian market there is little demand for specific agricultural products, leading companies to export a large share of these products. The government also obliges foreign investors to export a certain amount of the production (respondents 11 and 13). Karuturi Global, one of the biggest foreign-owned companies leases a large amount of land, produces cut roses that are exported to high-value markets (Kebede 2011).

It is interesting to note that foreign-owned agricultural enterprises that provide crops and fast-moving consumer goods for the domestic market produce basic foods, as they are active in the dairy, poultry and livestock sectors. In contrast, the exporting foreign private sector produces luxury products, such as juices, blueberries, and flowers. This is in line with the ADLI strategy, which aims to promote the cultivation and exportation of high-value crops and products (PIF 2010, 14).

A good example of a foreign investor producing for both the local and international market is, for example, ASA Ethiopia. Respondent 13 explicitly mentions that this Dutch-Ethiopian joint venture is a fish farm that has chosen to produce fresh fish for the local market for two reasons. First, there is lack of fresh fish in the Ethiopian market and by selling its produce locally the company contributes to national food security. Secondly, the fish that is available in the local market is of bad quality. By providing high-quality farmed fish within the local market the company also contributes to food safety. After a number of years, ASA Ethiopia hopes to export its produce to participate in foreign exchange.
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Lavers’ argument that foreign investors produce solely for overseas markets is, therefore, disputed by these findings. Instead, Ng and Aksoy’s classification of agricultural products offers a helpful indication of whether companies export, distinguishing companies that produce basic food as participating in the domestic market and those producing cash crops and luxury products as participating in international markets. In sum, exports bans in this field are not a serious problem because foreign enterprises cultivating grain and cereals offer the produce within the local market. Nevertheless, export bans enable the authorities to maintain control over the cereal production and supply and to contribute, to some extent, to food supply.

Aside from these well-defined export bans and tariffs on exports and imports, studies executed by Imani Development International found three relevant key issues concerning non-tariff barriers in Ethiopia (Imani 2007, 20-22). Firstly, customs and administration procedures remain one of the main problems including long clearing procedure delays that lead to uncertainty and unpredictability as well as formalities and documentation in the area of import and export trade. Secondly, sanitary and technical regulations and standards are a problem as cumbersome documentation is required for exportation. Thirdly, the government’s organisational, operational and implementation capacity remains an issue as the authorities lack the human resources, coordination, and synergy to adequately process all trade.

These findings are supported by the respondents who claim that the entire Ethiopian export system is an enormous obstacle for international trade, with issues ranging from regulations to documentation and inspections (respondent 3, 4, 5, 9, 11, 13). Export companies often experience difficulties in every single phase of the trade process. This results from a lack of coordination and synergy between different agencies as well as severe and time-consuming controls implemented by government agencies. These difficulties often lead to delays and cause distribution problems, but can also result in a significant loss profit and market share due to the limited conservation time of agricultural products, including livestock.

The current export barriers that imposed by the Ethiopian authorities serve different purposes. The tariffs are primarily set to generate foreign exchange for the government. Furthermore, specific export bans are intended to increase food supplies. The Ethiopia’s trade policy, therefore, favours both the treasury of the nation, the struggle for food security, and exporting companies, although involved agencies can simplify the process for the latter by reducing Non-Tariff Barriers (NTBs).

Favourable tax policy

The tax policy is one of the Ethiopian government’s tools for attracting and facilitating foreign investment. Ethiopian fiscal investment law is favourable for both domestic and foreign investors, particularly for those investing in sectors supported within the policy framework, such as food-related and/or agricultural companies. The majority of the respondents benefit from several fiscal regulations,
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including tax holidays and duty-free packages. Most of the respondents also enjoy tax exemptions on capital goods imports, such as trucks, milking machines, stables, and winery equipment. According to respondent 2, import tax exemptions are not a onetime event, but can be negotiated for every event (respondent 2). In compliance with the guidelines, capital goods imports contributing to corporate development and the Ethiopian economy are eligible for tax exemption.

In addition, three companies in this study enjoy a 2-year, 3-year and 5-year profit tax exemption. Moreover, respondent 11 addresses the land-tax and export-tax holiday that a company can enjoy for a period of time. Overall, all respondents benefit from various fiscal investment and trade regulations. Tax policy is, therefore, a flexible instrument applied by the government to attract foreign investment, particularly within the agricultural domain, and to support export-based production.

**Favourable foreign exchange policy**

Ethiopia maintains several foreign exchange restrictions that do not comply with IMF regulations. For instance, the Ethiopian birr is not freely convertible because the exchange rates are set by the government (Keatinge 2014, 2-3). According to the respondents, the exchange rate policy the pursued by the Ethiopian government focuses on acquiring foreign exchange without allowing investors to freely convert birr into foreign currencies (respondent 3, 11). In fact, the authorities maintain a restricted foreign exchange market that gives them full control over their currency and provides them with the tools to influence the Ethiopian birr’s exchange rate against major currencies and, in turn, exports, imports, and investments.

According to the majority of the respondents, obtaining foreign currency is a big problem in Ethiopia, due to the government’s strict foreign exchange regime controlling inflow and outflow. Due to the lack of foreign exchange at the Central Bank of Ethiopia all foreign exchange is currently being used to bridge the trade deficit gap, the so-called downdraw. Companies need foreign exchange in order to purchase foreign products or capital goods, which can be acquired in two ways. First, firms have to export their production in order to obtain foreign currency that will enable them to secure needed products outside the country. Secondly, firms without (sufficient) foreign exchange accounts must to request the amount of needed dollars or euros at the National Bank of Ethiopia (NBE). Relying on the NBE to provide foreign exchange for company imports a long time if the company ends up in the queue. Furthermore, potential foreign investors are impeded by a large fee charged by the NBE for its role in facilitating the acquisition of foreign currency in exchange for Ethiopian birr.

Although the government tries to fully control its currency, the Ethiopian government was obliged to devalue the currency in 2010, leading to a nominal exchange rate from 1/8 $/Birr in 2005 to 1/20 $/Birr in 2014, as the strong birr was under severe pressure due to the persistent outflow of capital and trade deficits (World Bank; Dorosh et al. 2009, 4-7). The trade deficit increased, however, because the real exchange rate appreciated by 34 % between 2004 and 2008 and lead to the overvaluation of birr,
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resulting in a decrease of international competitiveness and increase of imports, because the birr’s strong position allowed the cheap import of substitute goods and reduced domestic production incentives (Keatinge 2014, 2).

Governments throughout the world, most notably of developing countries in Africa and South-America, have maintained overvalued exchange rate systems even when they proved detrimental to economic growth and development, as shown above. What is the rational for governments, in this case the Ethiopian government, to do so? There are two explanations for this phenomenon. Firstly, developing countries tend to empower parties that favour an overvaluation of the currency (Razin and Collins 1997, 16-19; Eichengreen 2007, 5-10). Secondly, governments in developing countries maintain this type of exchange regime to enhance the purchasing power of voters and, thereby, win national elections (Dornubsch and Edwards 1991; Furlan and Gächter 2012, 13-17). The World Bank is currently urging the Ethiopian government, however, to devaluate the currency once more as the former devaluation has proven to be insufficient due to the still-rising real exchange rate (ENCA). Similarly, the IMF asserts that Ethiopia should abandon its foreign exchange regime and adopt a flexible regime because exchange rate flexibility is essential for competitiveness and international trade.

In sum, Ethiopia’s strict exchange policy increases the incentive for foreign investors to export production in order to allow for future imports, as there is currently a lack of available foreign exchange. Ethiopia’s foreign exchange regime simultaneously impedes foreign investment, however, due to the difficult obtainability of foreign exchange and Ethiopia’s worsening international competitiveness. Devaluing the birr once more will create a situation in which the foreign exchange market may reach equilibrium, leading to increased exports and contributing to the entire Ethiopian development and economy. It can be said that the current foreign exchange regime is not benfitting economic growth and that the difficulty of obtaining credit and foreign exchange, as shown in the Doing Business ranking, does not support foreign investors and businesses in Ethiopia. Private parties do not have the power to convince the government to approve their foreign exchange applications.

It is, therefore, interesting to consider both explanations for maintaining an overvalued currency more closely. It has been argued that the government favours several interest groups, ranging from the population to influential banks, in order to maintain its position in power. From this perspective, the purpose of overvaluing currency is to please national high-level parties and the population in order to maintain power. Bayart’s embedded state thesis helps to explain why the elite and the ruling party pursue the policies that they implement. As mentioned in Chapter One, this theory states that self-enrichment and self-interest form the basis for government behaviour, policy and decision-making. Their choice for this specific monetary policy and restricted foreign exchange regime has turned out to primarily favour their own party and its affiliates rather than national development.
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Lobbying

Before conclusions are drawn about the interference of the public sector in the Ethiopian economy and the attraction of foreign investors, it is wise to take a closer look at the relationship between the foreign and private sectors and, in particular, lobbying. Through lobbying activities, companies, NGOs and other groups attempt to influence policies and decisions made by public officials. Accordingly, official decisions in their favour help to facilitate trade, the provision of credit, and the lifting of taxes. The extent to which domestic and foreign enterprises have access to public channels, and the government’s willingness to take their demands and wishes into consideration, reveals much about the government-private sector relationship.

All foreign investors in this study have access to government officials in a direct or indirect way. Few companies, however, have high-level connections that can be used to influence policy and decision-making. Companies that do have access to policymakers provided politically correct answers that do not include any new information. Considering the relatively small size of these companies, they may therefore not be of interest to high-ranking government officials. Results show that attempts to contact decentralised governments have no use, as they do not possess essential information and are inconsistent with sharing information. The companies need trade organisations and embassies that can act on behalf of a group of investors.

Trade organisations and embassies, in particular, have a strong say in national government affairs. The Dutch Embassy in Addis Ababa frequently holds conversations with the Prime Minister’s office to address certain problems encountered by several companies and to find an appropriate solution. A number of respondents positively regarded embassy engagement, which enabled their companies to renew their licenses or to plea for import tax holidays. The majority of companies, however, are unable to influence policy and decision-making, as they have no access to high-level government officials and no political voice. They are merely able to address minor requests via intermediary parties.

In contrast, the government has taken notice of a unique dairy farm that created a new platform for knowledge sharing. According to respondent 13, thanks to its distinctive expertise in agricultural knowledge and technology, the government has involved them in the legislative process to provide counsel about new regulations on this particular topic. This provides the company with access to high officials within the MoARD and the possibility of steering policies in their favour.

Moreover, Heineken has closely collaborated with the Ethiopian government to establish its third brewery near Addis Ababa. Similarly, Heineken Breweries signed a Memorandum of Understanding (MoU) with the Netherlands Minister for Foreign Trade and Development Cooperation and the Agricultural Transformation Agency and the Ethiopian Institute of Agricultural Research; this marked the official start of a 4 year malt barley programme, that was part of the corporate’s sustainable
strategy to increase local sourcing (Heineken press release). Multinational enterprises intending to make large investments in Ethiopia have access to decision-making officials because national government authorities embrace substantial investment.

A brief analysis of the companies’ lobby activities shows that size and area of expertise matters when in terms of their ability to approach high-level officials. Large-scale investment and unique expertise are two characteristics that the Ethiopian government is interested in, which enable investors to influence policy and decision-making. Companies only seem to have easy access to inclusive businesses that contribute to local and national (economic) development. The government seems to allow this in order to support national economic development, including the creation of wealth and employment, rather than self-enrichment, as the embedded state theorem supposes. Due to the limited number of respondents, however, is it a premature conclusion to say that sustainability and inclusiveness are relevant factors and further research is needed.

**Applicability of Bayart’s embedded state thesis**

The data gathered about foreign investors and business in Ethiopia should provide a clear understanding of whether, and to what extent, the policies have been liberalised. This should, in turn, illustrate how the government uses them to favour foreign investors. Different policy tools, such as trade openness, tax regulations, and the exchange rate policy are either incentives for foreign investors to size up their investment or are serious impediments that deter them from investing (Simons and Elkins 2004, 187; Büthe and Milner 2008, 743; Bénassy-Quéré et al. 2001, 19; Morissel and Pirnia 2000, 5-10). Above all, foreign investment is the key factor for the success of the ADLI strategy and the struggle for food security.

The policy tools have been derived from Boas and Gans-Morse’s concept of neoliberalism, which is the ideological pathway chosen by the Ethiopian government for transforming their economy into an African lion (Boas and Gans-Morse 2009, 139). This includes a diminishing state intervention in economic affairs, an area in which the centralistic Ethiopian government traditionally had much control over. Foreign investors’ experiences show whether, and how, the EPRDF government still dominates Ethiopia’s economic sphere, and how this impedes the attraction of foreign investment and, consequently, economic transformation and food security.

Firstly, a public procurement procedure is a useful method for attracting foreign investors. This procedure enables the government to privatise state-owned farms and enterprises and to help develop different sectors by seeking companies willing to partner with local or other foreign parties in Ethiopia. Government agencies are fully involved in the process of allocating projects to domestic and foreign investors, as the procurements always involve government selling or spending. Although the allocation procedure is non-transparent, no discrimination between domestic and foreign bidders has
been experienced by the companies in this study. As public procurement was imposed by the World Bank, its goals are not ones of self-enrichment or power maintenance. Therefore, the embedded state thesis does not hold for this issue.

Secondly, as previously mentioned, Ethiopia’s trade policy focuses on the exportation of agricultural produce to gain foreign exchange, with which import payments that contribute to national food security can be made. Although Ethiopia seeks to join the WTO, according to previous studies and new findings its trade regime is not free from bans and tariffs. In order to achieve food security, export bans are imposed on cereals. Furthermore, high taxes are being levied to limit imports to only the necessary capital goods or food. Aside from these bans and tariffs, NTBs such as sanitary regulations, documentation, and extended customs procedures create delays and pose obstacles for international trade.

As all imports and exports need to be controlled by the ERCA, the government completely dominates the inflow and outflow of goods to and from Ethiopia; free trade is non-existent within federal state. The arguments for the control and tariffs are three-fold. Initially, they aim to generate revenue for the Ethiopian treasury and to contribute to food security. Moreover, by discouraging certain imports, the state aims to stimulate domestic industrialisation and general economic development. Collecting import tariffs for government use cannot, as such, be qualified as self-enrichment, because it requires the spending of gained funds. Although the government has full control over the trade between Ethiopia and the rest of the world, it cannot be stated that extraversion takes place. Even though its trade policy is not liberal, the Ethiopian government contends that it is the appropriate policy for intensifying exports while limiting the overflow of imports.

Thirdly, fiscal policy refers to import tariffs that the government is willing to lift in order to stimulate required imports, such as capital goods, that stimulate domestic productivity and its positive economic and social spillover effects. It does not seem that the government has chosen this policy instrument with self-interest in mind. Fourthly, monetary policy, including exchange rate policy, is a useful instrument for influencing the inflow and outflow of domestic and foreign currency and international trade. The Ethiopian birr is currently overvalued, even after a recent devaluation of the currency. Overvaluation decreases Ethiopia’s international competitiveness and stimulates imports. This monetary policy counteracts government initiatives to stimulate export and discourage import, as the real exchange rate makes a basket of foreign products cheaper than domestic products.

The birr is not freely convertible against other foreign currencies. Therefore, government agencies do not easily provide foreign companies with foreign currency. Due to the drawdown of the foreign currency owned by the Ethiopian state as a result of its structural deficit of the balance of payments, foreign investors cannot exchange birr for foreign currency. This obstructs their ability to imports
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goods that need to be paid for in foreign currency. It also impedes foreign investors ability to transfer Ethiopian money to foreign banks.

The government is actively preserving this exchange rate policy to the detriment of Ethiopian economic transformation, and the achievements of the ADLI strategy and other policy tools. Scholars argue that governments in developing countries tend to maintain an overvalued currency to satisfy influential and important local stakeholders, and to maintain the population’s high purchasing power in order to win votes for upcoming elections. Both arguments imply that the current Ethiopian exchange rate policy merely serves the government’s objective of maintaining power. In short, maintaining overvaluation of the birr is the means needed to achieve the following goal: the pursuit of hegemony.

**Conclusion**
The Ethiopian government has adopted a neoliberal economic development policy involving the privatisation and liberalisation of the economy in order to transform it into an African lion. Using Boas and Gans-Morse’s definition, this means that the state must reduce its role in domestic economic affairs, and that investment, trade, monetary flux need to be opened up and transparent (Boas and Ganse-Morse 2009, 137). The key to structural transformation is Agricultural Development-Led Industrialisation, which focuses on agricultural economic growth that, in turn, should lead to increased agricultural productivity and crop yield allowing the attainment of food security and increased agricultural exports. Foreign private investors are to be considered the means to this end. This policy analysis shows whether national food security can be attained with ‘liberal’ policies and policy tools and a traditional dominating government.

By assessing the interim results of economic goals set by various Ethiopian investment guidelines and policies, such as the PIF, ADLI, and GTP, it has been found that the agricultural sector is successfully developing and transforming in terms of FDI, crop yield, and productivity. Ethiopia remains a food import-dependent country, however. While this is perceived by Rakotoarisoa as perilous, food import dependency is irrelevant as the ADLI focuses on exporting agricultural produce that would enable the state to fund food imports (Rakotoarisoa et al. 2011, 40).

This study also expounds the paradoxical statement that the Ethiopian state wishes to export food in order to import food. While Lavers argues in his findings that only domestic agricultural investors produce for the local market and that foreign companies offer their production in the world market, the study of foreign companies over a decade shows that this classification does not hold on. In contrast to Lavers, Ng and Aksoy differentiate different types of agricultural production into basic foods and cash crops (Ng and Aksoy 1985, 4). This study argues that basic foods, of which Ethiopia’s supply is too small, are not being exported, while cash crops, for which there is too little local demand, are being exported against the higher global price.
The problem with food import dependency, however, is that Ethiopia must manage a structural balance of payments deficit because the total import value has always exceeded the total export value, and current imports still surpass the country’s exports. This situation will render future food imports unaffordable, as the monetary drawdown will lead to a lack of foreign exchange to purchase needed imports. This is only a mid-term evaluation of the renewed export-based ADLI policy, but it is essential that agricultural economy will eventually, in Rostowian terms, take off. Agricultural yield, and hence exports, could significantly increase in the coming years allowing the total export value to exceed the import value, but more foreign investors are needed for this to happen. Additionally, as the importation of capital goods is a one-time event that must occur before production can accelerate, the total import value may fall in the coming years.

In short, the export-based ADLI strategy is, theoretically, a successful method for quickly transforming the agricultural sector towards modern farming, rising productivity, and crop yields, thereby enabling the attainment of food security. Due to this export-based system, food imports should not be a problem. Nevertheless, food import dependency, in combination with a structural negative balance of payments, could lead to food security problems and economic standstill in the future. The question that has been neglected in this research and should still be impartially examined concerns the consequences of the ADLI strategy for self-sufficient smallholders.

More investors are needed to increase the total value of Ethiopia’s exports. Liberal ideas about the state structure, the government’s interference in economic affairs, and international trade and monetary policies incentivise foreign investors to set up business in Ethiopia. In terms of the traditional government’s strong position within the state and all state-related affairs, Bayart’s embedded state theory provides tools for explaining Ethiopia’s policies and decision-making. It is helpful to examine the role of the state in economic affairs and, in particular, the state’s incentives for specific policy-making. This study found that government agencies do not practice what they preach. It has been argued that investment incentives on paper and Ethiopian policies and policy tools are not consistent. While taxes and duties have, indeed, been exempted and licences have been approved, free trade and the free convertibility of currency have been thwarted due to strong governmental control and interference.

The results demonstrate that governmental control is currently present in all international economic relations, as the government monitors every international corporate activity. This study has found that economic development, for instance through the prevention of excessive imports, is often the rationale for its involvement. In addition, the Ethiopian trade policy includes basic food bans that directly contribute to attainment of food security. Although these policies do not fit within the neoliberal paradigm, they do not impede economic transformation and food security either.
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This paper also argues that Ethiopia’s exchange rate policy does harm steps towards structural economic transformation through foreign agricultural investment, because the overvaluation of the birr is counterproductive. Due to the EPRDF government’s aim to preserve its political power and pursue hegemony, influential key stakeholders and the Ethiopian people are being kept satisfied by artificially maintained high purchasing power that deteriorates the country’s competitiveness.

As the mid-term data shows, the food security situation in Ethiopia is improving. It seems that the attainment of complete food security will only be realised when the regime’s exchange rate policy changes, thereby improving its international competitiveness and its investment climate. An increased number of foreign companies will be incentivised to invest in the Ethiopian agricultural sector and contribute to the attainment of food security for two reasons. Firstly, exports will increase the balance of payments, enabling the country to import necessary food supplies. Secondly, as shown in this paper, foreign companies do not, unlike Lavers’ statement, only produce for international markets but are, in fact, eager to contribute directly to Ethiopian food security through knowledge and technology transfer, training local people, and producing for the local market (Abbink 2011, 518).

State-led developmentalism can work in developing countries such as Ethiopia, but as Bayart demonstrates, self-interest impedes further economic development. Africapitalism could be an important new theoretical framework for the examination of economic and social development and, in particular, the ADLI strategy. Further research is needed to develop conclusive answers about the long-term effects of the ADLI strategy.
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Annex 1:
Ethiopian Public Procurement Letter

The Embassy of the Federal Democratic Republic of Ethiopia to the Benelux, Baltic countries and the EU presents its compliments to the Netherlands-African Business Council and has the honour to bring the following to the attention of the latter.

Ethiopian local companies engaged in various sectors as attached herewith have requested for joint venture companies in their line of business.

Thus, the Embassy kindly requests the latter to convey this information to the Netherlands companies that have interest to work with the local companies in joint venture and in addition requests the latter to provide information which of the Netherlands companies have showed interest for joint venture with which Ethiopian local company for record purpose and any help it would suffice.

The Embassy of the Federal Democratic Republic of Ethiopia to the Benelux, Baltic Countries and the EU avails itself of this opportunity to reemphasize the Netherlands-African Business Council the assurance of its highest consideration.

Enc. 3 pages

To:- The Netherlands-African Business Council
The Hague
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<table>
<thead>
<tr>
<th>List of Local Investors Looking for Foreign Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Name of the Company:</strong></td>
</tr>
<tr>
<td>Investment Activity:</td>
</tr>
<tr>
<td>Capital:</td>
</tr>
<tr>
<td>Land obtained:</td>
</tr>
<tr>
<td>Contact person:</td>
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<tr>
<td>Fax:</td>
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<tr>
<td>Mobile:</td>
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<tr>
<td>E-mail:</td>
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<tr>
<td>Country:</td>
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</tbody>
</table>

| **2. Name of the Company:** | Fiker Misgana G/B PLC |
| Investment Activity: | Dairy Processing for Export |
| Capital: | 15 million ETB |
| Land obtained: | -- |
| Contact person: | Mr. Yalew Laikar Yemane |
| Mobile: | +251-911-45-66-70 |
| Fax: | +251-114-16-03-35 |
| E-mail: | |
| Country: | Amhara Region, Debret Birhan Town, Tebase Wereda, Ethiopia |

| **3. Name of the Company:** | Zelalem Mulunken Soft Drink Manufacturing |
| Investment Activity: | Production of Carbonated Soft drink by using locally made concentrate |
| Capital: | 105.6 million ETB |
| Land obtained: | -- |
| Contact person: | Mr. Zelalem Mulunken |
| Mobile: | +251-911-21-68-58 |
| Fax: | |
| E-mail: | |
| Country: | Legeberi, Barak Woreda, Finfine Lyyu Zuria, Oromia Stete, Ethiopia |

| **4. Name of the Company:** | Omega Electronics PLC |
| Investment Activity: | Production of Carbonated Soft drink by using locally made concentrate |
| Capital: | 121 million ETB |
| Land obtained: | -- |
Foreign investment as the engine of the agricultural transformation to attain food security in the ‘liberalising’ Ethiopian state: the effects of Ethiopia’s interference in the economy on foreign investment and food security – M Kleingeld

<table>
<thead>
<tr>
<th>Contact person</th>
<th>Mr. Worku Teklu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>+251-11-275-71-53</td>
</tr>
<tr>
<td>Fax</td>
<td>+251-11-275-20-89</td>
</tr>
<tr>
<td>E-mail</td>
<td>Industry Cluster, Akaki Kaliti sub city Keble 10/11, Addis Ababa, Ethiopia</td>
</tr>
</tbody>
</table>

5. **Name of the Company:** Worku Musa Garment Factory  
**Investment Activity:** Production of Garment products  
**Capital:** 20 million ETB  
**Land obtained:** --  
**Contact person:** Mr. Amha Molla  
**Mobile:** +251-911-51-46-77  
**Fax:**  
**E-mail:**  
**Country:** Addis Ababa, Akaki Kaliti Sub city, Woreda 10, Industry Zone, Addis Ababa, Ethiopia

- 6. **Name of the Company:** Mr. Bezabhe Wedea  
**Investment Activity:** Growing of cereal crops and oil seeds  
**Capital:** 30 Million ETB  
**Land obtained:** 4,000 hectare  
**Contact person:** Mr. Bezabhe Wedea  
**Mobile:** +251-922-11-54-79  
**E-mail:** kbh1475@gmail.com  
**Country:** Ethiopia, Amhara region, West Gojam

7. **Name of the Company:** Mr. Wondim Biadgilign  
**Investment Activity:** Shoe Factory, Edible Oil Processing, Knitting, Assembling of Electronics, Processing and Exporting of Spices, Leather Products Manufacturing and Pen/Pencil Factory.  
**Capital:** 1.5 Million ETB (USD 79,000)  
**Land obtained:** 556 Msq  
**Contact person:** Mr. Wondim Biadgilign  
**Mobile:** +251-911-65-90-62  
**E-mail:** wondimbidadgilign@yahoo.com  
**Country:** Ethiopia, Addis Ababa, Gard-Shola
Foreign investment as the engine of the agricultural transformation to attain food security in the ‘liberalising’ Ethiopian state: the effects of Ethiopia’s interference in the economy on foreign investment and food security – M Kleingeld

8. **Name of the Company:** Seblewongale Sedessa Botanical Garden  
   **Investment Activity:** Agro processing, recreation center, fish farming, coffee plantation & fruit 
   vegetable  
   **Capital:** 57 Million ETB  
   **Land obtained:** 100,000 Sq. M  
   **Contact person:** Seblewongale Sedessa  
   **Mobile:** +251-911-66-03-65  
   **E-mail:** araya.hallu@yahoo.com  
   **Country:** Ethiopia, Oromia Region, Holleta Zone
Foreign investment as the engine of the agricultural transformation to attain food security in the ‘liberalising’ Ethiopian state: the effects of Ethiopia’s interference in the economy on foreign investment and food security – M Kleingeld

Respondents:

1. Ethiopian Investment Agency Director-General 29-5-2014
2. Embassy of Ethiopia Brussels Minister Counsellor 29-5-2014
3. Olij Roses Ethiopia General Manager 9-9-2014
4. Maranatha Farms PLC General Manager 8-9-2014
5. Africa Juice Planning Manager 27-8-2014
6. Abysinnia Flowers Owner 14-9-2014
7. ESPBC Manager 10-9-2014
9. Embassy of the Netherlands Agricultural Departm. 4-12-2014
10. Farming Africa Owner 19-11-2014
12. Grazeland Farm Agro Industry Manager 30-11-2014
13. Alfa Fodder and Dairy Farm Owner 8-11-2014
14. ASA Ethiopia Manager Operations 9-12-2014

Endnotes

i There are no strict criteria to comply to in order to become an ‘African lion’. The African lion status has therefore little value. It only symbolizes the state of the progress and potential of the Ethiopian economy in particular and Ethiopia in general.
ii At the timing of writing, the Coca-Cola Company announced on the US-Africa Summit to invest another $ 5 billion in Africa’s agriculture (Hamada 2014).
iii Terms referring to foreign parties investing in arable land such as land-leasing projects, large-scale land acquisitions and land grabbing are used interchangeably in most literature. In this research we use the term land-leasing projects only for two reasons. First, the Federal Democratic Republic of Ethiopia Constitution (article 40(3)) prescribes that all urban and rural land is the property of the state and the Ethiopian people (Ambaye 2012, 5). As the purchase of Ethiopian land is prohibited by law, the government lends the land to investors. Although the government approves and signs 99-years lending contracts, it is still incorrect to speak of acquisitions. Secondly, as the aim of this research is to analyze the impact of the government’s policy on food security and not to judge this phenomenon, it is appropriate to avoid any judging terms like the land-grab.
iv The government put banks, industries and commercial firms under state control. In the first year, only 87 companies were nationalised up to 159 enterprises in 1983 (Selvam 2007, 68).
v The EPRDF is the commonly used name for the ruling party, although the Tigray’s People Liberation Front (TPLF) is the main part of the EPRDF (Lavers 2012, 108; Clapham 2009, 185; Demissie 2008, 525). The EPRDF is an alliance of four groups: the Oromo Peoples’ Democratic Organisation, the South Ethiopian Democratic Front, the Amhara National Democratic Movement and the TPLF.
v The PIF 2010-2020 has been based upon six different policies: aside from the FYGTP, the PSNP, the FSP and the PASPED, the Millennium Development Goals (MDG) and the Comprehensive African Agriculture Development Programme (CAADP) were taken into account as well.
vii The Ethiopian Investment Policy has been modified four times in the last two decades.
viii The Ethiopian Investment Agency changed its name into the Ethiopian Investment Council from November 2014. There are no operations differences between the EIA and the EIC.