Financial Institutions and the Global Farming Industry: the Impacts of Large-Scale Agricultural Investments Observed in Ethiopia

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Financial Institutions and the Global Farming Industry: the Impacts of Large-Scale Agricultural Investments Observed in Ethiopia

Senior Project submitted to
The Division of Social Studies
of Bard College

by
George Goceljak

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Plagiarism Statement

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George Goceljak
Abstract:

Due to the significant deregulation of commodity futures markets in 2000, the presence of index-speculators became increasingly prevalent. The strategies applied by these market participants drastically manipulated global commodity prices. The severe rise in food prices would come to initiate a global concern towards food security. Consequently, developed countries began implementing policies that would secure agricultural production and food supplies. This policy movement facilitated a trend in agricultural investments. Through political influence, investing governments were able augment favorable environments abroad for investors. In such environments, farmland was easily obtainable and regulations of agricultural investments were minimal. The combination of government influence, and decontrolled investment environments, has been the major catalyst in this recent investment trend. Recognized as one of the most commonly targeted countries, Ethiopia has faced a multitude of large-scale agricultural investments. The African country has adopted policies that have favored these agricultural investments, including policies that aim to modernize the land market. In attempt to confront the controversial role of financial institutions in the growing farmland investment trend, the project examines a collection of investment projects in Ethiopia. Furthermore, policy proposals regarding land reforms and the regulation of agricultural investments are provided. The projects seeks to challenge the controversies of this investment trend by offering policy suggestions that pursue a farming industry that supports small-scale farmers while also stimulating agricultural driven development.
Introduction

Unlike asset classes such as stocks, commodities and agricultural investments are closely related to real economic products. Where an individual company can be affected by the value of its stock, entire regions depend upon commodities and farmland assets. Investing in agricultural products, whether it is a commodity future or farmland, connects the investor with those who are dependent on such products. Though this notion is not entirely uncommon, there has been evolving increase in institutional investors that are investing heavily in agricultural investments. In the years leading up to the 2008 financial crisis, institutional investors such hedge funds, pension funds, and investment banks were investing significant amounts of money into commodity futures markets. These participants were employing speculative investment strategies, known as index speculation, which intensified the inflationary environment in commodity markets.

Now that index speculation has declined popularity, financial institutions have dedication their focus towards agricultural investments. Unlike the speculation that had occurred in commodity markets, which had been instigated directly by the investors themselves, the current agricultural investment trend had been significantly encouraged by an array of governments. Implementing policies to alleviate concerns towards food security, countries stimulated the role of private investors in agricultural production.

Ethiopia has been considered one of the prominent targets of these agricultural investments. While investors, including the investing country and the private participants, urge that these investments facilitate economic growth, Ethiopian farmers argue otherwise. The project aims to confront such investments in favor of the well-being of Ethiopian farming
communities. Following the examination of commodity speculation in the first chapter, the second chapter illustrates the evolution of food security policies and their influence on the recent agricultural investment trend. The third chapter provides a description of the varying strategies applied by these investments. The chapter then evaluates a collection of investment projects in Ethiopia and the effects of such projects experienced by local farming communities. The final chapter offers policy proposals that aim to challenge the negative impacts of agricultural investments. The proposals focus on improving land reform policies and increasing the regulation of agricultural investments in Ethiopia. While the proposals do not aim to completely eliminate the presence of these investments, they intend to support and protect local, small-scale farmers. Similar to the participants in the commodity speculation scenario, the investors in the agricultural investment phenomenon seek promising returns. The presence of these institutional investors in the Ethiopian farming industry has introduced local farmers to an array of consequences. In order to counteract these effects, the investors and their investment projects must be regulated.
Chapter 1: Commodity Index-Speculation and Commodity Prices

Sharp increases in food prices, such as those seen during the early 1970’s and the 1980’s, present an array of political, economic, and dietary difficulties. Each commodity crisis has been result of agricultural or environmental complications. Unlike food crises experienced before, however, the 2008 global food crisis introduced an unfamiliar presence of financial manipulation and forces. Though the impact of fundamental market forces, such as supply & demand, and agricultural inputs, during the 2008 global food crisis should not be ignored, the massive amount of financial speculation had significantly intensified the crisis. This financial manipulation, referred to as index speculation, is distinctly different from the type speculation that has occurred in commodity markets for years. It had been the rapid evolution of index speculation, and the inability of regulators to address this financial phenomenon, that presented a considerable amount of concern. This chapter will provide an in-depth discussion of the evolution of speculation in commodity markets and how ‘managed money’ speculators introduced global consequences.

Commodity Market Regulation

Before examining the development and the impact index speculation had on global commodity markets, we must present a historical breakdown of the commodities regulatory system, along with the standard practices that observed before the 21st century. Prior to highly active financial markets, commodities were sold at prices that were determined at the time of the transaction; also referred to as a ‘spot price.’ About over 150 years ago, however, commodities had begun to be sold in ‘futures contracts.’ Theses derivatives, similar to a forward, provide an opportunity for a buyer and seller to agree upon a predetermined price for a delivery of the particular commodity at a specific date. Futures would allow consumers to
hedge against the risk of sudden price increases. Unlike forwards, futures were being traded on organized markets. Consequently, numerous regulatory precautions would be taken as futures contracts increased in popularity. The Commodities Exchange Act of 1936 (CEA), which had replaced the Grains Futures Act, was the first viable source in regulating the trading of commodities future contract. There were some holes within the CEA, which strategic investors characteristically took advantage of. This would ultimately lead to the creation of the Commodities Futures Trading Commission (CFTC) in 1974. The CFTC, unlike the previous authority over the CEA, was able to regulate futures trading of all commodities rather than the specific ones declared in the CEA.

During the mid-1980's, discrepancies between the CFTC and the Securities Exchange Commission (SEC) regarding the regulation of financial derivatives had sprouted, establishing a long-term debate between the two agencies. In 1998, amidst the Asian Financial Crisis, Chairwoman of the CFTC, Brooksley Born, saw obvious issues with financial derivatives as they rapidly grew. At the time, she believed that the CFTC should direct federal regulation of financial derivatives, including futures contracts and swaps.¹ Former Chairman of the Federal Reserve, Alan Greenspan, the 70th Secretary of the Treasury, Robert Rubin, and the 71st Secretary of the Treasury, Larry Summers, had ultimately petitioned against Born’s theory. The three assumed that regulation of these financial instruments during the middle of the stock market boom would cause the system to halt, eventually resulting in a financial uproar. They had accepted the notion that the markets, being efficient, would systematically fix themselves from any issues presented by the derivatives.

¹ Commodity Futures Trading Commission
The conflicting influences would eventually result in Congress denying Born’s request to provide jurisdiction over derivatives to the CFTC. Shortly after, the Gramm-Leach-Bliley Act of 1999 was passed, allowing depository and non-depository institutions to combine, permitting the largest banks in the world to form financial conglomerates. The further opposition of Born’s proposal was expressed through The Commodities Futures Modernization Act of 2000 (CFMA). The bill states that its role is to, “To reauthorize and amend the Commodity Exchange Act to promote legal certainty, enhance competition, and reduce systemic risk in markets for futures and over-the-counter derivatives, and for other purposes.”2 The act “deregulated” financial derivatives, allowing for single stock futures to be sold, and permitted a flexible regulatory structure.3 A major issue, however, was the fact that the bill did not declare the distinction between financial derivatives and commodity-backed derivatives, which exempted all Over The Counter (OTC) derivatives from regulation by the CFTC4. Under the CFMA, the CFTC would only have limited regulation compared to their previous roles of authority under the CEA. Additionally, The CFMA allowed firms to offer foreign currency trading opportunities as a regular investment tool; the CFTC had previously discouraged this.

**Traditional Market Participants**

In almost all financial markets we see various types of investors. From large investment banks to small proprietary trading firms, modern markets contain a variety of members. While the list of investors can vary between markets, let us focus on those that are

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2 Commodity Futures Modernization Act, H.R. 5660, 106th Cong. (2000)
3 Commodity Futures Trading Commission
active in the commodities markets. Unlike the majority of the financial vehicles traded today, commodities trading will always eventually involve, whether it is through the transaction of raw or finished goods, the producer and the consumers of the physical product; they directly incorporate real economic participants. Therefore, everyone observes the effects from changes in commodities prices, regardless of their position in the market.

Within the commodities futures markets, there are three main investors: physical hedgers; traditional speculators; and the relatively new participant, index speculators. Physical hedgers are interested in the physical product, such as a farmer or an airline company. Traditional speculators take on the risk physical hedgers aim to avoid but do not necessarily have an interest in the physical product. They can efficiently increase the number of transactions in the market, therefore providing liquidity. Contrary to some beliefs, traditional speculators do in fact play a beneficial role in futures markets. Oliver De Schutter, Former United Nations Special Rapporteur on The Right to Food, notes, “This for of Speculation is generally considered necessary and useful in the market: it facilitates commercial hedging against risk, and it allows for price discovery, assisting farmers and buyers in discovering the reasonable price for a particular commodity in individual trades on spot markets…Moreover, it is conventionally thought that such speculation reduces price volatility, because speculators provide a market for hedgers, and because they buy when the price is low and sell when the price is high, thus evening out extremes of prices.”5 It must be acknowledged that physical hedgers and traditional speculators both take what is referred to as long and short positions.

During the CFMA, the CFTC classified physical hedgers as "commercial" investors, while classifying traditional speculators as "noncommercial" investors.\(^6\)

**Index-Speculation**

Index speculators, however, are entirely different. These investors are orchestrated by money manager groups, which are most commonly seen as hedge funds and pension funds. Their investments are solely based on the intentions of diversifying portfolios, as it can help reduce risk. Figure 1.1 below identifies the three substantial variations of commodities markets investors.

**Figure 1.1**

<table>
<thead>
<tr>
<th>Hedger</th>
<th>Index Speculator</th>
<th>Traditional Speculator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheds Price Risk</td>
<td>Takes on Price Risk</td>
<td>Takes on Price Risk</td>
</tr>
<tr>
<td>Hedges Underlying Position</td>
<td>Profits from Price Moves</td>
<td>Profits from Price Moves</td>
</tr>
<tr>
<td>Consumes Liquidity</td>
<td>Consumes Liquidity</td>
<td>Provides Liquidity</td>
</tr>
<tr>
<td>Price-sensitive</td>
<td>Insensitive to Price</td>
<td>Price-sensitive</td>
</tr>
<tr>
<td>Takes Long and Short Positions</td>
<td>Takes Long Positions Only</td>
<td>Takes Long and Short Positions</td>
</tr>
</tbody>
</table>

Unlike hedgers and traditional speculators, index speculators only hold the long position or act as buyer of the futures contract, while also anticipating price increases. Shown in Figure 1.1, Index Speculators are insensitive to price movements. Wray notes that this is the case since the contracts purchased act as only a portion of their “diversified” portfolio; they will

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continue investing regardless if the price increases.\textsuperscript{8} Index speculators usually enter a market under the assumption that prices will grow. As they enter the market, prices will continue to increase. This price increase inevitably attracts more index speculators, forming a cycle of euphoric speculation, consequently developing a bubble.

The speculative boom was initiated through the role of indexes following commodity futures. Index speculators commonly participate through commodities index funds, which consist of a basket of commodity futures. These funds base their investments off the activity of particular indexes, such as S&P GSCI and the Dow Jones-AIG index (now known as the Bloomberg Commodity Index), which are based on the returns of a particular grouping of commodity futures. These funds’ fundamental structures, however, appear to be organized directly around the objectives sought by index speculators. “It could be said that animating principle behind the commodities index funds was momentum. The strategy evolved by the Goldman Sachs managers who ran the GSCI was to have nothing but “long” positions, to keep on acquiring them, and to “roll” them over as they expired, no matter how high the price of those futures climbed.”\textsuperscript{9} These funds, through their continuous application of "long positions," can stimulate an ever-growing cycle of euphoria, consequently initiating an artificial rise in prices.

Remarkably, It must also be noted that, due to the fact they primarily operate within the swaps markets, the CFTC categorized index speculators as "commercial" investors. Under the CFMA, the CFTC established different regulatory guidelines for "noncommercial"


investors than "commercial" investors\textsuperscript{10}. This regulation allowed index speculators to invest frivolously without strict position limits and other parameters that would prohibit their excessive participation. Masters openly ridiculed the CFMA’s lack of attention towards index speculators, arguing that its ill-informed standards allowed for this surge of financial manipulation. In his testimony before the Committee on Agriculture, Nutrition, Forestry, Masters distinguishes a fundamental difference between financial derivatives markets and commodity derivatives markets saying, "When bubbles occur in the capital markets, those people left holding the securities at inflated prices suffer when the bubble pops. When bubbles occur in the derivatives market for consumable commodities, it is potentially devastating for every person on the planet."\textsuperscript{11} Severe bubbles in commodity markets impact all economic participants, regardless of their role in the market. At the beginning of 2000 to mid-2008, there was a major increase of derivatives of consumable commodities.

**Growth of Market Participation**

According to the Bank of International Settlements, in 2000 there were $389 billion OTC derivatives on consumable commodities, however, following the implementation of CFMA, that number grew to about $12.4 trillion by the middle of 2008.\textsuperscript{12} Figure 1.2, provided from Masters and White, expresses the rapid and abrupt rise of assets in consumable commodities acquired by index speculators between 2000 and 2008. It was not until 1996 when index speculators had made a slight appearance in commodities markets. Though

\textsuperscript{10} Masters, M. W. (2008). Testimony of Michael W. Masters, Managing Member/Portfolio Manager, Masters Capital Management, LLC. Testimony before the US Senate Committee on Homeland Security and Governmental Affairs

\textsuperscript{11} Masters, M.W (2009) Testimony of Michael W. Masters, Managing Member/Portfolio Manager, Masters Capital Management, LLC. Testimony before the Committee on Agriculture, Nutrition, and Forestry

\textsuperscript{12} Bank of International Settlements
initially gradual after the CFMA was implemented in 2000, there was a noticeable rise in commodity-based investments by index speculators, increasing from $13 billion in 2003 and $317 billion in 2008. The graph also illustrates the index spot prices of the 25 largest commodities. During the time between 2003 and 2008, the S&P GSCI spot index tripled. This information implies that the increase in index speculation had contributed to the major rise in prices.

**Figure 1.2**

This presents issues for both traditional speculators and physical hedgers, who are sensitive to price movements. Inversely, price insensitive index speculators prefer price increases, for it attracts more speculative behavior, igniting the euphoric speculative cycle mentioned earlier.

**Regulation & Loopholes**

How is it that index speculation produced by managed money, which was noticeably increasing, was able to be so active in the market without strict regulation? Recall that due to

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14 Masters, Michael W., and Adam K. White. 2009 *The Accidental Hunt Brothers: How institutional investors are driving up food and energy prices*. The Accidental Hunt Brothers Blog, special report.
the majority of index speculation operating through swaps dealers, they would be classified as "commercial" parties in commodities markets. When the CFMA removed a majority of the regulatory position limits that were used during the time of the CEA, transactions done through swaps market were free of position limits, resulting massive amounts of futures contracts bought and sold. The absence of position limits allowed for the euphoric state of index speculators to grow. Another means of evasion taken by managed money is the use of foreign boards of trade, or FBOT’s, such as the Intercontinental Exchange (ICE). These exchanges are nearly identical to U.S. regulated futures exchanges; however, the regulations on them are very limited. Though FBOT’s are required to receive permission to have stations within the United States, they do no submit the same data as other regulated exchange.\textsuperscript{15} The FBOT's would provide index speculators with the opportunity of arbitrage trading as they do not have speculative position limits. A third alternative for strategic index speculators was what Masters referred to as the “Enron Loophole”. Under CFMA's Tiered Approach to Regulation, commodities that were deemed unsusceptible to manipulation were classified as "exempt" commodities and were traded on Exempt Commercial Markets or ECMs.\textsuperscript{16} The CFTC had made the assumption that a commodity, such as crude oil, with massive volumes of supplies, was incapable of being manipulated by speculation. This principle appeared to be based solely on supply and demand fundamentals, which does not necessarily hold true for oligopolistic commodity industries, especially for crude oil. This belief allowed index speculation to go unregulated in the ECMs where these "exempt" commodities would become vulnerable to price manipulation. These markets, especially with little regulation, were easily influenced by index speculation.

\textsuperscript{15} Masters, M.W (2009) Testimony of Michael W. Masters, Managing Member/Portfolio Manager, Masters Capital Management, LLC. Testimony before the Committee on Agriculture, Nutrition, and Forestry

\textsuperscript{16} Commodity Futures Trading Commission
Index-Speculation and Prices

Future contracts on commodities were created with the intent to hedge against the risk of possible inflation. Since futures contracts increased in popularity, there has been a great deal evidence that supports the concept that spot prices are directly influenced by future prices that are nearing maturity, rather than around supply and demand fundamentals. In “textbook” competitive conditions, future prices would be higher than spot prices. However, this is not the case in reality. "…Since commodity producers seeking to secure the price at which they will be able to sell their output tend to outnumber buyers seeking to lock in future price at which they will purchase. Thus, the supply of futures contracts offered by commercial hedgers will exceed the demand, leading prices that are below cash prices- what Keynes called the ‘natural backwardation’ of commodity futures markets,”17 The features that determine spot prices demonstrate that commodity markets diverge away from supply and demand forces that are found in competitive models.

During the early to mid-2000's, there was a clear spike in the demand of futures, sending the futures prices above the traded spot prices. When Contracts approach maturity, index speculators do not wish to receive the delivery of the physical commodity, effectively causing them to sell the maturing contract for a newer one. Unsurprisingly, this practice drives up the price of futures, while also driving up spot prices as investors “roll” the products into more future contracts; this concept provides support to graph 1. The scenario where future prices exceed spot prices, subsequently reversing “natural backwardation”, is a concept known as “contango”. Although the presence of contango does not automatically determine that index speculation is controlling a market, it does show similar tendencies of a dominating

inflow of managed money. Wray further explains that since spot prices are set around maturing future contracts, an overall climb of prices in the spot market will encourage a higher speculative demand for future contracts, which will be represented by a contango. Declared previously, a constant rise of speculative activity from managed money tempts further involvement in the market, once again pushing prices further up. Figure 1.3, shown below, presents comparative data between the spot prices and the prices of four different future contracts of crude oil between 2001 and 2008. Each gray area indicates a point where a contango occurred by at least one particular type of future. Figure 1.2 displays comparable increases between the volume of speculative assets and the number of incidents where contango occurred in Figure 1.3, only to show additional correlation with index speculation and its responsibility in raising future prices, ergo provoking an upswing of spot prices.

**Figure 1.3**
Chris L. Gilbert provides a detailed analysis of the relationship of “index-based” and commodity futures. Figure 1.4, shown below, illustrates Gilbert’s findings.

**Figure 1.4**

<table>
<thead>
<tr>
<th>Table 6</th>
<th>Estimated average price impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average impact</td>
</tr>
<tr>
<td></td>
<td>2006</td>
</tr>
<tr>
<td>Crude oil</td>
<td>6.4%</td>
</tr>
<tr>
<td>Aluminium</td>
<td>6.8%</td>
</tr>
<tr>
<td>Copper</td>
<td>6.3%</td>
</tr>
<tr>
<td>Nickel</td>
<td>5.4%</td>
</tr>
<tr>
<td>Wheat</td>
<td>6.1%</td>
</tr>
<tr>
<td>Corn</td>
<td>6.8%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

As the chart explains, the influence of index speculation remained relatively modest leading up to 2008. In the first half of 2008, however, index speculation significantly swayed primary commodity prices. The activity in the first half of 2008 represents the euphoric environment that was mentioned early in the project. This environment adequately explains the rapidly growing prices during 2008. Rather than upward price movements that follow supply shortages, the prices during this period were meaningfully swayed by index-speculation.

Confronting the notion that it was supply and demand fundamentals that caused these major price increases, Masters and White address the supply of in oil markets. “Today, commodity prices have risen dramatically but there a few shortages. There are no consumers waiting in

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19 Source: Gilbert, C. L. (2010) *Speculative Influences on Commodity Futures Prices 2006-2008*
line for gasoline. OPEC says that there are no supply shortages in the world oil markets… It is prices, not supply, that has led to food riots around the globe.”

Impacts on 2008 Food Prices

Mentioned above, though fundamental supply & demand forces should not be ignored when examining the 2008 global food crisis, such aspects were not necessarily the sole influences of the increase in prices seen around the world. As we saw, the massive influx of index speculation within commodity markets significantly impacted global prices, which had increased tremendously between 2003 and 2008. What must be asked is how did this spike in global commodities affect food prices seen around the world? In a 2009 report, the Food and Agriculture Organization reported that in the first half of 2008 food prices 40 percent higher than they were in 2007 and 76 percent higher than they were in 2006. In addition to the drastic price increase of food commodities, there had been an excessive rise in the volatility of these goods. In 2011 The United Nations Development Program (UNDP) reported that the volatility of primary commodities increased from 9 percent during 1990-1999 to 26 percent during 2000-2009. Furthermore, the study reported that food commodities increased from 9 percent to 25 percent. The combination of higher prices and greater volatility creates unstable supplies of food. The Food and Agricultural Organization, FAO, provides information identifying that between 2007/2008 and 2008/2009 supply of grains were increasing at similar and at times higher rates in comparison to the rate of utilitization. Ghosh


acknowledged that in the midst of the financial crisis both China and India expressed declines in the consumption in both per capita as well aggregate demand for major grains. This further weakens the claim the increasing demand contributed to the global price surge.

Figure 1.5 below provides historical data regarding the retail prices of rice in China, India, Bangladesh, and Sri Lanka while also comparing it to the world trade index prices. The line representing the world trade prices illustrates the speculative boom during the financial crisis. Though spikes in the retail prices were not as severe as those experienced by the world trade price, they did show substantial increases around the same period. Notice that the retail prices in India rose simultaneously along with world market prices; however, they did not fall during the decline of market prices. Ghosh notes that retail prices of rice in India were 60 percent higher in May 2009 than they were in January 2007. He additionally notes that 90 percent of the workers in the Indian labor force have incomes that are not indexed.

It should also be distinguished that, according to the World Health Organization, around 30 percent of the population of India was below the poverty line, which was about double the percentage in the United States in 2009. Therefore, a 60 percent increase in the retail price of a vital grain would develop unfavorable scenarios for what appears to be a large portion of the population. A study done by the FAO in 2009 shows that 80 percent of developed countries experienced price increases of rice between a 12-month period. Furthermore, 100 percent of the developing countries in sub-Saharan Africa faced a price rise of rice in at the end of the 12-month period observed.

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It is not astonishing to see that as commodities prices increase, food prices simultaneously follow. However, when global commodities experience a major and rapid climb in prices, the shock exceeds anticipated levels of inflation and encourages strategies that attempt to stabilize food supplies. This was exactly what consumers had faced during the 2008 financial crisis. Unlike years prior to CFMA, price shocks were moderately manageable. Yet, the CFMA permitted a large inflow ‘managed money’ activities, which introduced index speculation to the commodities markets. Naturally, index speculation fueled itself, resulting in continuous movement of prices. The CFMA's lackluster regulation allowed for commodity index speculation to develop, encouraging euphoric speculation. It's presence caused both spot and futures to grow, which had eventually dropped at a tremendous rate. While the managed money funds were filled with eagerness, other market participants had felt the

impact of price increases. The significant rise in food prices had influenced a global anxiety towards food security. This global fear had resulted in a policy trend that sought to establish food supplies, eliminating worries of food insecurity. The following chapter will address the growth of this policy trend, and examine how it had been the catalyst of the agricultural investment movement.
Chapter 2: The Role of Investing Governments in The Agricultural Investment Trend

While investments in foreign agriculture were not necessarily a new policy taken by wealthier, well-developed countries, the recent application of large scale land acquisitions, commonly referred to as “land grabs”, have received a great deal of attention from the media. Unlike the investments that have occurred prior to the turn of the century, the recent trend in “land grabs” and agricultural investments has introduced numerous economic issues for many poorly developed countries, especially Ethiopia. Though this project will focus more so on the influence of privately led agricultural investments, the role of investing governments cannot go unmentioned. This chapter aims to illustrate the role of governments in influencing the modern speculative phenomenon of international agricultural investments.

Government-Led Land Acquisitions: Food Security

During the years leading up to the 2008 financial crisis, commodity prices, and therefore food prices, rapidly grew. This euphoric environment, which was significantly instigated by the unprecedented amount of index speculation, discussed earlier, had presented the global economy with greater fears of food insecurity. The enormous rise of commodity prices in 2008, eventually causing the 2008 food crisis, had transformed the overall outlook towards food security. Countries, now concerned with maintaining their dietary needs, pursued policies that would secure their supply of food. Some countries, however, were presented with issues regarding their self-sufficiency of agriculture. While several of these countries might very well had an adequate quantity of environmental resources, there were a numerous amount of additional matters that conflicted with their ability to emphasize
domestic agricultural production. Furthermore, most of these nations, which have a sufficient amount of capital resources, were able to dedicate a great deal of their spending to cheaper, foreign agricultural production. These considerations initiated a new trend towards securing the supply of food. Figure 2.1 below illustrates the main participants of public land grabs during 2006-2009.

**Figure 2.1**

![Chart showing land acquisitions by various countries](chart)

As shown above, wealthier countries from Asia and the Persian Gulf contributed the most to international land acquisitions. These countries, which share similar economic capabilities, participated in substantial transnational land grabs, securing land for the production of agricultural goods. Though the objectives among the investing countries all maintained fundamental similarities, there were a variety of approaches towards their investments.

China had been a significant participant of government-led farming investments amid the 2008 food crisis. Though China has a vast amount of agricultural resources, they were concerned with their ability to meet their rapidly growing demand. According to the World

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27 The Economist *Outsourcing’s Third Wave*
Bank, China’s population was estimated at around 1.325 billion people, making it the most populated countries in the world.\textsuperscript{28} Additionally, both China’s steadily increasing GDP and industrial development had accentuated its growing demand. Accordingly, rather than increasing domestic production, China sought supplementary policies that would appropriately satisfy their demand in an uncertain food market. Especially with their abundant supply of foreign reserves, China was able to continue the expansion of their agricultural abroad.

While China’s approach towards foreign agricultural development was not an entirely new concept during the 2008 food crisis, there was a noticeable increase in their application of this policy. GRAIN, an international non-profit, addresses China’s policies in a 2008 briefing “Through China’s new geopolitical diplomacy, and the government’s aggressive ‘Go Abroad’ outward investment strategy, some 30 agricultural cooperation deals have been sealed in recent years to give Chinese firms access to ‘friendly country’ farmland in exchange for Chinese technologies, training and infrastructure development funds. This is happening not only in Asia but all over Africa as well, through a range of highly diverse and complex projects”\textsuperscript{29} China’s ventures in foreign agriculture and land had noticeably expanded. In 2008, through the China-Africa Development Fund (CAFD), a private equity fund supported by the China Development Bank, China a committed $5 billion to Chinese corporations to invest in African farmlands for 50 years.\textsuperscript{30} Many of the projects established by China, however, did not exclusively promote the employment of communities in these “target” countries. Rather, China migrated Chinese workers to manage and help cultivate the

\textsuperscript{28} The World Bank

\textsuperscript{29} GRAIN The 2008 Land Grab for Food and Financial Security

\textsuperscript{30} GRAIN The 2008 Land Grab for Food and Financial Security
farmlands. China began introducing technologies and farming systems that were unfamiliar and extremely advanced for these regions, which had been accustomed to a labor-intensive system of farming.

Many Gulf States, such as Kuwait, Saudi Arabia, the United Arab Emirates, were also influential contributors in policy movement towards agricultural investments during this period. Unlike China, who had the potential to initiate policies towards maintaining domestic agriculture, the Gulf States were environmentally restricted to develop a stable agricultural system. The Persian Gulf, having insufficient amounts of fertile soil and water, would have to rely on foreign agricultural production. Furthermore, especially as global food prices dangerously climbed, the Persian Gulf countries, whose currencies were pegged to a declining U.S. dollar\(^3\), were amid a critical scenario regarding food security. In 2008, GRAIN stated, “Their food import bill was ballooned in the last five years from US$8bn to US$20bn. And since their populations are largely made up of low-wage migrant workers who build their cities and staff their hospitals, it is absolutely necessary for the Gulf’s political dynasties that they provide food at reasonable prices.”\(^3\) The countries in the Persian Gulf became well aware of the uncertainty in the global food market. Unsurprisingly, the region began implementing policies that encouraged investments in international agricultural production.

Fortunately for the Gulf States, similar to China, they were able provide themselves leverage with their ample amount of capital resources. Acknowledging their overwhelming abundance of oil and money, countries in the Persian Gulf positioned themselves where they could seamlessly maintain foreign agricultural imports. In response to the drastic increases food prices, the Gulf Cooperation Council (GCC), a regional political and economic union,

\(^{31}\) The World Bank
\(^{32}\) GRAIN *The 2008 Land Grab for Food and Financial Security*
developed an approach that would use the regions oil reserves and capital as influence in order to obtain farmland. The GCC, applying this political tactic, targeted several Islamic countries, such as Sudan and Pakistan, and a number of countries in South-East Asia, including Burma, Indonesia, and Laos\textsuperscript{33}. The “food-for-energy” approach taken by the GCC and its member countries proved to be relatively successful tactic in attempts to obtaining farmland.

One example of an “effective” agricultural investment policy applied by a Gulf state is Saudi Arabia’s 2009 agricultural initiative. During this period, Saudi Arabia established King Abdullah’s initiative for Saudi Agricultural investment abroad. The program, which enabled a large-scale acquisition in Ethiopia, sought to secure its supply of wheat, barley, corn and a multitude of agricultural products. The initiative urged that that it would be complimentary to local agriculture, and would maintain mindful humanitarian standards. The Islamic Development bank declared that the program’s vision was, “To let Saudi private investment play in the near future, an active role abroad in enhancing food security for Saudi Arabia as well as to increase global food production and providing a good example for a responsible international investment in agriculture.”\textsuperscript{34}

In 2009, \textit{The Economist} provided an analysis of the developing program, “The investors are exempt from tax in the first few years and may export the entire crop back home. Meanwhile, the World Food Programme (WFP) is spending almost the same amount as the investors ($116m) providing 230,000 tonnes of food aid between 2007 and 2011 to the 4.6m

\textsuperscript{33} GRAIN \textit{The 2008 Land Grab for Food and Financial Security}

\textsuperscript{34} Islamic Development Bank \textit{King Abdullah’s Initiative For Saudi Agricultural Investment Abroad: A way of Enhancing Saudi Food Security.}

Ethiopians it thinks are threatened by hunger and malnutrition.”

By providing private firms with funds, credit and logistics, the Saudi government was able to initiate the program. The Islamic Development Bank established that, though the private sector would act as the largest source of investment in the program, the Saudi government’s role must not be overlooked. It had been their ability to provide credit and political support to private firms that reinforced their influence of the program.

The Gulf States, considering the magnitude and size of their land acquisitions, would receive support and guidance from the United Nations Food & Agriculture Organization (FAO). In an article published by *The Wall Street Journal*, Jacques Diouf, director-general of the FAO, was quoted saying, “‘Foreign direct investment in agriculture is the only way we are going to eradicate global poverty,’ he said. ‘I have no problem in Arabs doing the investment. Where I start getting worried is [a situation in which investors] rush and buy land all over the place,’ said Mr. Diouf. ‘Land is a political hot potato,’ he said. ‘My job is to avoid...provoking a negative response in the developing world.’”

While Diouf states he does support the deals established by the GCC and its member countries, however, he recognizes that such acquisitions must be regulated due to uncertainty that would diminish foreign investment. Diouf emphasizes that such acquisitions, if properly implemented, can prove to be beneficial for not only the investing country, but also target country by stimulating employment and development. This concept, however, remains to be a significant issue addressed by many in the campaign against global land grabs. Overall, the public campaign towards sustaining food security through international investment projects would become a

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35 The Economist *Outsourcing’s Third Wave*
36 Islamic Development Bank *King Abdullah’s Initiative For Saudi Agricultural Investment Abroad: A way of Enhancing Saudi Food Security*
37 The Wall Street Journal *U.N. Food Chief Warns on Buying Farms*
popular strategy among private investors. The attention of investing governments had generated a modern trend in the financial industry. Additionally, as the next chapter will examine, the surge in foreign investment in agriculture has proven to be rather detrimental to farming communities in Ethiopia.

**Government Support: Investment Agreements**

Through multiple tactics, government-led agricultural investments were becoming increasingly prevalent following the 2008 financial crisis. What seemed to be frantic policies towards maintaining food security, would eventually introduce a great deal of interest towards agricultural production in the private sector. The increasing distress over food sovereignty consequently became a rather attractive investment opportunity for private investors. Though goals towards establishing stable food supplies remained relevant, the objectives of private sector investors vastly strayed from the intentions expressed in government-led projects. These profit-seeking projects were becoming an increasingly popular strategy among an array of private investors. The remainder of this chapter is dedicated to addressing the role international policies had in stimulating private sector participation in foreign agriculture. While this project does not ignore the prominent presence of government acquisitions, the main emphasis of the project is on the growth of the financial sector’s participation in international agriculture. These participants, who were rather unaccustomed with the agriculture industry, have introduced a modern paradigm within agriculture, which has presented a multitude of issues in agricultural-dependent societies.

In the previous section, we discussed the policies taken by governments in acquiring international agriculture production. In the past several years, the status of direct government-
led land acquisitions has increasingly become less relevant. While instances of direct “government-government” land deals continue, the vast majority of agricultural investments include private sector participation. Yet, the role of governments in international land acquisitions must not be ignored. Even in acquisitions that are entirely controlled by private firms, the investing governments are capable of providing assistance. In addition to State Owned Enterprises (SOEs) and other state influenced programs, such as King Abdullah’s Initiative for Saudi Agricultural Investment Abroad mentioned earlier, governments of investing countries are able to influence foreign legislation. These policies cultivate an environment that is extremely advantageous for investing firms. In the years preceding and following the 2008 Financial Crisis, many African countries accepted policy reforms that favor foreign investment. This included reforms on legislation that regulated land, customs regimes, and banking. Cotula, Vermeulen, Leonard, & Keeley note that “One of the main discernible policy trends is towards the easing or removal of restrictions on foreigner’s acquisition or “strategic” assets, including land…”38. This approach of supporting and advocating private participation in international agriculture has been a major catalyst in the evolution of the international agricultural industry.

In order to facilitate private investment, investing countries began to implement bilateral investment treaties (BITs). Though they vary in detail, BITs in general assist investments abroad by weakening or adjusting legislation in host countries. Provisions in BITs tend to protect investors against discrimination, expropriation and arbitrary treatment. Furthermore, they help investors against profit refurbishment and other forms of international arbitration. The support provided by BITs enables investors to implement investment

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strategies that might ignore policies that protect local entities. BITs tend to conveniently have a broad definition of investment, authorizing investors to surpass regulations that will inhibit investments. Additionally, this broad definition allows for private participants to pursue investments in agriculture, including land acquisitions, ignoring the significance it holds in rural regions. These agreements appeared to be a popular trend in Africa during the couple of years proceeding and following 2008 Financial Crisis. In fact, The United Nations Conference on Trade & Development reported that by 2006, African countries, which had concluded a total of 193 BITs at the end of 1995, signed a total 687 BITs.\(^{39}\)

One provision frequently seen in BITs is a stabilization clause. The contractual clause negotiates and alters legislation for the duration of the investment project. Stabilization clauses, in attempt to increase the projects efficiency, significantly favor the investor. The FAO notes, “‘Stabilisation clauses’ included in the contract may commit the host government not to change the regulatory framework governing the investment in a way that affects the project’s economic equilibrium (e.g. by raising project costs), and to compensate investor if it does…While these mechanisms can help protect the investment against arbitrary host state action, if not properly formulated they may also restrict the ability of the host state to take action in the public interest (e.g. to improve social and environmental standards, where this raises project costs) over the long duration of the investment.”\(^{40}\) In a study conducted by the International Finance Corporation, stabilization clauses have shown to prevent host states from implementing policies that regulate social and environmental conditions. “The data


show that the text of many clauses applies to social and environmental legislation, so that investors are able to pursue exemptions of compensation informally and formally.”

There are three distinct forms of Stabilization clauses, each providing unique protection to the investor: Freezing clauses; Economic Equilibrium clauses; & Hybrid clauses (see figure 2.2). A Freezing clause halts, or “freezes”, the host country’s laws that would hinder the investment project. The clause can either freeze all investment laws during the period of the investment project, known as a “full freezing”, or can freeze a predetermined set. Shemberg notes, however, that Freezing clauses have become outdated are rarely seen. Economic Equilibrium clauses require that the investor will be compensated for any reparations that are implemented by the host’s laws, regardless if they are new laws. Shemberg establishes that, unlike Freezing clauses, Economic Equilibrium clauses do not freeze laws, but rather, “maintain the economic equilibrium of the investment project.”

Hybrid clauses share the qualities of the two clauses mentioned above. They seek to maintain the investors financial position prior to changes in legislation. Though Hybrid clauses do not necessarily exempt the investor from laws, they do, however, encourage exemption in order maintain the investor’s economic equilibrium.

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Governments can also arrange agricultural cooperation agreements in order to maintain favorable conditions for private investors. These agreements encourage cooperation between the host country and the investor in technical and research objectives. Resources regarding environmental, social, and historical information are provided to the investor, enhancing the project's efficiency. Agricultural cooperation agreements have shown to encourage private investment in agriculture.\(^{44}\) Though they are not extremely common, agricultural cooperation agreements, similar to BITs, present a promising environment for private investors.

The investing government has the ability to modify and influence the host country’s legislation, offering their private investors opportunities that might not be available domestically. Ethiopia has shown to have rather weak legislation against foreign investment, including land acquisitions. The combination of investment agreements and weak investment regulation has further impacted those vulnerable to land grabs. The private sector is provided with the opportunity to surpass foreign regulation and achieve undisturbed profits.

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Initial Campaign against Land Grabs

In the early stages of the campaign against the global “land grab” trend, many expressed their anxiety towards the traditional land rights of indigenous farmers and workers. Typically, in the popular target African countries land rights are based on informal and tribal customs. The issue, however, was whether or not these land rights provide a proficient amount of legal security to those who inhabit and farm the land. In Ethiopia land is nationalized by the state. In these environments, though local farmers and farming communities inhabit a majority of the nationalized land, the land is still owned and controlled by the government. The FAO reports that, “where ‘customary’ tenure systems are functioning and perceived as legitimate, local resource users may feel they have sufficient tenure security under these systems. The implication is that, even where private ownership is formally recognized, most of the land is controlled by the state.” Under these nationalized systems, the state entirely controls the ownership of land, allowing them to redistribute land to foreign investors.

These “traditional” land structures, unlike the formal land systems established in Western society, are exposed to transparency issues. Due to the informal structures, many problems regarding legitimate land ownership became a reoccurring issue in many land deals. Cotula, Vermeulen, Leonard, & Keeley declare that, “However, land tenure contexts in many developing countries are not always so clear-cut. The deal may not account for broader value of the land, perhaps in terms of environmental services, or to a particular social or ethnic

group not represented in the negotiations.”

Unfortunately for many, these land acquisitions tended to exclude the majority of people in African farming societies. The information regarding the features of individual land deals were difficult for the public to obtain. In cases examined in Ethiopia, foreign investors, after obtaining an investment license from the Ethiopian Investment Commission, would enter negotiations with “clan leaders” and the regional investment office. Though local clan representatives participated in such negotiations, “even here issues may exist as to the representativeness and downward accountability of these leaders towards their constituents.”

This lack of transparency consequently left farming communities susceptible to imbalanced negotiations. In the report conducted by the FAO, it is noted that, “…it is difficult for the public to gain access to information on inter-governmental discussions and negotiations.” The combination of the relatively informal land registrations in Ethiopia, and the poor transparency seen in land acquisitions had introduced rural farming communities to a multitude of economic and humanitarian issues.

**Development Programs and Initiatives**

These matters remained rather prevalent during the beginning of post-2008 Financial Crisis era. Yet, in recent years, uncertainties regarding land rights have received attention from governments and development agencies, in attempts to eradicate ethical concerns. This was primarily influenced by the ridicule presented by media outlets and other human rights


advocacy groups. This attention, however, has not significantly weakened the global land grab trend, but rather influenced an alternative approach taken by investing governments and corporations. In the past couple of years, in order to adapt to the current concerns of land grabs, a recent trend of agricultural “development” initiatives has evolved. In addition to investing governments and private firms, a multitude of prominent development agencies and foundations have provided a noticeable amount support in the plan to commercialize international agriculture.

While strategies such as BITs and investment initiatives remain prominent in the attempt to support private investment, many investors have been confronted by the ridicule of the emerging movement against international land grabs. This has instigated a trend towards the liberalization of land rights in target countries, particularly in Africa. Prominent foundations and development agencies have been noted as active participants in this trend towards advocating liberalization. These organizations declare that a liberalized land system would improve economic uncertainties and lower poverty in target regions. Furthermore, the agencies argue that their programs will improve land statuses for rural communities, as they will formalize land rights and secure ownership. Are these formalized land system, however, truly advantageous for rural farming communities? In a 2015 report, GRAIN stated that, “Many small food producers might conclude that their historic cultural rights to land – however they may be expressed- will be better recognized, thus protecting them from expropriation. But for many governments and corporations, it means the creation of Western-type land markets based on formal instruments like titles and leases that can be traded.” It appears that, while controversies regarding ownership of land might momentarily be resolved,

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the attempt to formalize the land systems in Africa introduces traditional farming communities to formal land markets. As land begins to become increasingly privatized, customary land systems will consequently diminish. Unfortunately, many small-scale farmers in Africa, including those in Ethiopia, rely on such land systems. Without proper documentation, farmers who rely on traditional land rights will involuntarily enter the open land market. Food Tank, a non-profit organization, published an interview with Zambian Chief, Chief Ndake, addressing the trend of formalization of land rights. Chief Ndake urged that such policies leave farmers susceptible land displacements. Chief Ndake argues, “If one’s land can be freely bought and sold, it is likely that financial pressure, such as unpaid debts, after a bad harvest, will many to lose their land”.

Considering that rural farmers are likely to be unfamiliar with formal land markets, they become vulnerable to the investment tactics applied by experienced, profit-seeking investors. These development programs encourage that private investment supports agricultural development. Additionally, such programs concur that well-defined, secure and negotiable land rights are essential for agricultural development. GRAIN, however, notes that, “… many initiatives such as the G8 New Alliance explicitly refer to securitization of investors’ rights to land. These are not historic or cultural rights at all: there are market mechanisms. So in a world of grossly unequal players, ‘security’ is shorthand for market, private property the power of the highest bidder.”

The G8’s New Alliance for Food Security and Nutrition has become one of the more notable initiatives that aims to reinforce “western” financial practices in Africa’s agriculture.

50 The New Alliance for Food Security and Nutrition
industry. Partnered with ten African governments, including Ethiopia, the initiative advocates privately led investments declaring that such actions will improve agricultural-led growth. The program declares that, “Through these efforts, partners are unlocking responsible private investment in African agriculture that can sustainably support small-scale farming and help reduce poverty, hunger and undernutrition.” The alliance permits transnational corporations greater accessibility to resources in the ten represented countries.

The campaign has influenced its member countries to embrace policies that facilitate private investments. Presented below are the seven policy commitments the alliance encourages its partners to embrace:

**Business enabling environment:** Policies that facilitate sound investment, including infrastructure, tax reforms and access to finance
- **Inputs:** Policies that regulate the production, distribution and use of improved seed, fertilizer, pesticides and farming implements
- **Land and resources rights:** Policies that clarify and strengthen rights to productive resources such as land and water to protect communities and investors
- **Nutrition:** Policies related to key elements that can affect nutrition, including biofortification, fortification, nutrition policies and malnutrition treatment
- **Policy institutions:** Policies related to strengthening and supporting institutions that implement the vision, objectives and strategies of governments
- **Resilience and risk management:** Policies that build resilience and manage risk, especially important for ensuring resilient communities and sustained development for vulnerable populations
- **Trade and markets:** Policies that promote efficient and competitive domestic marketing and trading systems that are unencumbered by fiscal, regulatory and administrative barriers and supported by adequate infrastructure

The “commitments” advocated by the New Alliance for Food Security embrace a formal and modernized approach; reflecting concepts seen in western land and agricultural markets. Such formal principles are significantly promoted by the first, third, and seventh commitments.

These three commitments aim to cultivate a modern investment environment, one that would

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52 The New Alliance for Food Security and Nutrition
53 The New Alliance for Food Security and Nutrition
be extremely favorable for international investors. The alliance has reported that its ten
tenant governments have committed to 213 policy modifications since its development in
2012. A report by GRAIN acknowledged that, out of the 213 changes, “Some 43 of these
changes target land laws, with the overall stated objective of establishing ‘clear, secure and
negotiable rights to land’ – tradeable property titles.”54 The alliance has notably influenced its
partner governments to endorse formal land markets, subsequently abandoning traditional
land rights that many farming communities rely on.

In Ethiopia, steps towards establishing a formal land structure has been observed. As
noted in the Alliance’s May 2013 Progress, the Ethiopian government reported that, “About
94 million households (86.3%) have been registered and of these 73.2% (8 million
households) have been issued first level landholding certificates.”55

As these rural communities begin to receive landholding certificates, land becomes formally
recognized by the state as a privately occupied property. Yet, what must be recognized is that
the development of land rights had coincided with the growth of private agricultural
investments. The Ethiopian government began granting long-term leases to foreign investors,
formally recognizing the investor as the legal occupant. Especially with an abundance of
financial resources, these participating investors gained superior purchasing power over local
farmers in the land rental market. Many of these leases granted consisted of mass quantities of
land, including a string of deals involving over 300,000 hectares, which will be examined in
the following chapter. This sudden redistribution of sovereign land to foreign firms has
abandoned a vast population of rural farming communities. Such communities, who have
historically cultivated the state land, have lost their traditional “rights” to a large portion of

pushing changes in Africa? GRAIN
farmland. This increase in legal recognition, as emphasized earlier, introduces local farmers and farming communities to an environment where private firms can openly and easily bid for long-term leases. Though advocates of this trend in agricultural investments, including the Ethiopian government, maintain that this flow of capital will benefit the Ethiopian economy, the local farming industry has seen destabilizing effects.

In addition to the modernizing land market, the Ethiopian government has sought to support an optimal atmosphere for investors. In the alliance’s 2013 progress report, it was acknowledged that Ethiopia was seeking to implement policies that would increase the availability of financing in the agricultural industry. The government has established a warehouse receipt system, which increases the smallholding farmers’ access to credit from both domestic and foreign financial institutions. The system, which Ethiopia is seeking to expand, allows for farmers to attain credit by establishing stored commodities as collateral.\(^{56}\) Though the greater access to capital for small-scale producers seems beneficial, these farmers are absorbing a mass amount of risk by sacrificing their production. Additionally, the Ethiopian Agricultural Transportation Agency (ATA) has been developing contract-farming agreements between farmers and private investors and large institutional buyers. The report declares that the plan aims to “institutionalize and scale up these contract farming agreements by working with Ethiopian Commodity Exchange to standardize the contracts and ensure enforcement mechanisms by developing a forward-contracts platform.”\(^{57}\) Such agreements facilitate greater involvement of financial institutions and private investors. Furthermore, since the ATA aims to standardize these agreements, the processes of the contracts will mimic


principles of modern investment and cooperation agreements, once again formalizing the agricultural industry.

The government’s decision to grant large long-term leases to foreign private entities, while following its strategy to promote agricultural investments, has introduced new profit-seeking participants to the Ethiopian farming industry. Also, further encouragement of such investors has been enhanced by favorable policies towards increasing private sector contribution. Though the Ethiopian government has enthusiastically embraced these developments, foreign governments and investors have been the dominant influences in altering investment policies; external coaxing has progressively modified the investment environment. Foreign participants have used a number of strategies to prompt these policy changes. In particular, foreign investors’ pledge to provide Ethiopia with vast amounts of foreign capital has served as the primary motivation behind this policy evolution. Furthermore, the foreign investors’ commitment to prompting economic growth, particularly through agricultural development, has persuaded Ethiopia’s modification. The following chapter will examine how this manipulated environment has amplified the participation of private investors in Ethiopia’s farming addition. Additionally, the chapter seeks to assess the array of investors contributing to this trend, particularly financial investors.
Chapter 3: Private Farmland Investments and Experiences in Ethiopia

In the previous chapter, we examined the evolving phenomenon of international farming investments and the influential role of investing governments. In attempt to dilute food security concerns, many well-developed countries have implemented policies that stimulate private investment in the international agriculture industry. Overall, this recent policy movement has focused on facilitating favorable environments for private investors. Policies that employ investment agreements, such as BITs, have been a popular tactic for many investing countries. While such contracts have not lost their relevance in the global “land grab” movement, a newer trend towards formalizing land markets in developing countries has received a great deal of attention from investing governments. These strategies have been successful in encouraging a surge of private investment in the international agriculture industry.

In this chapter we will first examine the structure and strategies taken by investors in agricultural investment projects. In this section, we will focus particularly on the participants who have recently joined the movement: financial institutions and investment funds. Though they are relatively new and unfamiliar to the agriculture industry, their abundant access to financial resources has allowed them to pursue these investments, resulting in paradigm shift within the industry. The chapter will then concentrate on the presence of such investors in Ethiopia. We will inspect and analyze a collection land deals that have taken place in the eastern African country in the past eight years. Finally, the chapter will address the controversies prompted by numerous farming communities in rural Ethiopia. This portion assesses case studies presented by the Oakland Institute, who has provided extensive fieldwork in order to confront the advancing presence of the financial industry in African
farming. The growing distress among Ethiopian farming communities emphasizes the detrimental role that these excessive and abusive investment projects have. While the main investing participants argue that the flow of FDI benefits the development and productivity of these farming communities, the farmers and individuals of these communities argue otherwise. As we will see, this modern financial approach has proven to result in unfavorable consequences for Ethiopian farmers.

**Private Sector Interest**

Mentioned earlier in the project, the support and advocacy by investing governments influenced a great deal of interest by the financial sector. In fact, the role of such investors’ maintained crucial part in the vast majority of agriculture development policies. It had not taken long for this investment trend to exponentially grow. In a 2012 report published by the International Institute for Environment and Development (IIED), 190 equity firms had invested a reported $14 billion in agriculture, including land acquisitions. The report also notes that, provided by limited public information, around $15 billion had been invested by pension funds up until that point. In addition to these institutions, hedge funds and other financial institutions have devoted a great deal of interest towards international agriculture projects. This noticeable attraction by many institutional investors has become increasingly significant. Unlike earlier government-led investment projects, these financial institutions and investment funds, which are rather inexperienced in the agricultural industry, are entirely dedicated to attaining profits. Wilkes and Bailey urge that, “Financial investors, as opposed to investors seeking food security, are motivated by both the potential for capital appreciation

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and increased income returns; their focus is a carefully timed purchase and subsequent disposal.\textsuperscript{59}

In the past ten years, private investors have become increasingly interested in agriculture investments. Investors have glorified these projects, emphasizing that they further diversify portfolios. Participating investors have advocated that agriculture-backed investments provide a consistent flow of income. Through numerous methods, investors aim to secure a consistent flow of revenue. In a 2010 report by Black Sea Agriculture, a subsidiary of Global Quest LLC, a farmland and agriculture consulting company, agricultural-focused investments have expressed stable conditions for investors. The group stated that, “In addition to capital gains potential, agriculture offers the investor a source of income, either in the form of annual lease payments or profits from the actual farm operations.”\textsuperscript{60} The report stresses that both options, while they introduce different strategies, assure consistent and favorable returns. Additionally, it is argued that farmland investments have shown to have low correlations with commonly traded assets. Below, figure 3.1 illustrates the correlation of seven varying asset classes with the S&P 500 index. Farmland, in comparison to the six other asset classes, has a relatively low correlation with the S&P 500. Assets with lower correlations are extremely attractive to investors, as they further disperse the risk in one’s portfolio. The report also identifies that even during times of poor market outcomes, farmland assets performed fairly well; once again, further incentivizing investors to pursue agriculture projects.


\textsuperscript{60} Notaro, J. (2010). Agricultural Opportunities in Today's Challenging Economic Climate. \textit{Black Sea Agriculture.}
In addition to having a lower correlation with popular asset classes, agriculture investments have shown hedge against domestic inflation. Black Sea Agriculture maintains that, “Additionally, most prime farmland investments are based in foreign currencies, so they act as a Dollar hedge as well. Since no one knows for sure when and to what degree inflation or Dollar depreciation will occur, many experts suggest that farmland can help you earn yields better than those currently available in the bond market while remaining hedged.”

Many of the targeted countries of such investment projects, including Ethiopia, have historically shown to have low exchange rates. In the beginning of 2008, the Ethiopian Birr to U.S. Dollar exchange rate was recorded at around .10. The exchange rate has since consistently fallen,

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with the Ethiopian Birr to USD now equaling .043.\textsuperscript{63} This increasingly declining exchange rate has allowed foreign investors to pursue inexpensive projects.

Stable returns and limited correspondence with different asset classes provided investors a sense of financial security. Especially as countries such as Ethiopia continue to support environments that are advantageous for foreign investors, the presence of

**Strategies of Agriculture Investment Projects**

This current trend, due to minimal regulation, has introduced an array of investors, who apply a variety of investment strategies. In most of these investment projects, the investor either aims to control the agricultural production or solely own/rent the cultivated land. Though what varies between these investments is how direct the investor is involved with the producing asset. While some strategies pursue a more direct involvement with the production, others incorporate a multitude of intermediaries to potentially minimize unfamiliar risks. Such practices allow the investor to reduce any risks introduced by agricultural production, an industry that a majority of these participants are unfamiliar with.

Figure 3.2 below provides a fundamental illustration of the common processes taken by institutional investors. Fund managers, having an abundance of financial resources, seek favorable agriculture investment opportunities, which tend to require a substantial amount of capital. In some instances, the original investor will manage the fund themselves. Other strategies have employed asset management companies, who develop individual funds for the participating investor. Once the capital is acquired, the investment fund can then pursue the target investment and/or asset. In many cases, however, fund managers rely on external

\textsuperscript{63} xe.com http://www.xe.com/currencycharts/?from=ETB&to=USD&view=10Y
research and information in order to confirm the stability of the intended investment. In order to do so, industry experts, or “sell-side analysts”, are employed by fund managers to provide research regarding agriculture production, including the oversight of the targeted land. These firms also provide information about the local political and investment environments, analyzing how the local legislation will impact the project. The detailed investigations allow the fund managers to determine whether or not to continue the venture. Once the project is accepted, the managing investor will implement the particular management strategy. The Investor will then, either through rent or production profits, will receive its return on investment.

Figure 3.2

Mentioned above, a strategy commonly applied focuses primarily on the ownership of farmland. In such instances, the investor or fund will aim to secure an agriculturally productive plot of land by buying, or by, usually, leasing it. Once the farmland is acquired, the investor has the ability to determine the production strategy. Many cases have indicated that

institutional investors, rather than directly engaging in agricultural production, will redistribute the farmland to local farmers. The inhabiting farmer will then compensate the investor either by paying rent or by forfeiting production profits. In Black Sea Agriculture reports that, “It follows that cash leasing is a popular choice for conservative institutions such as insurance companies. They are attracted to the steady cash flow at yields equal to or better than those offered by most bonds. Additionally, they have upside potential of an asset class that has a history of trending higher, as well as being an excellent inflation hedge.”65 Serving solely as the land “owner”, the investor isolates itself from the agricultural process, allowing for local farmers to independently cultivate the land. This strategy significantly relies on the growing land prices; which has been observed in many African countries. In an article published by Ethiopian Business Review, land lease prices in Addis have exponential grown in the past decade. “The maximum price of a square metre of land has skyrocketed from 2,000 birr in 2008/09 to 26,202 birr in 2012/13 and 31,850 birr in 2013/14.”66 While the prices of land contracts continue to grow, financially privileged investors gain a major advantage over poorer farmers. The investors’ financial resources allow them to continue to bid on the land contracts, consequently increasing the price. While the lease prices rise, rents will evidently follow, offering a profitable opportunity for the investor.

In addition to the “cash leasing” method, foreign investors have applied strategies that rely directly on agricultural production. In fact, this method has increasingly become the popular method for many private ventures, particularly in Ethiopia. A variety of financial institutions, including investment banks and hedge funds, have continuously directed their

focus towards agricultural production. A common production-focused strategy incorporates a multi-facet contract between an institutional investor, an agricultural engineering company, and a local producer (See Figure 3.3 below). The agricultural engineering company, who is well experienced in agricultural production, concentrates all farming operations into industrial production method. Anseeuw, Ducastel, and Gabas establish that this method aims to, “centralize all the farmer-oriented services (input supply, technical support, commercialization) within the same entity. It thus proposes to the producers a contractual arrangement representing in all-in-on integral solution.” Furthermore, the agricultural engineering company/contract manager will participate in commodity futures markets in order to secure the sale price of the output. The contract manager will then reimburse the lending institution. While production decisions tend to be individually determined by the agricultural engineering company, the bank/financial institution provides the required financial inputs. These inputs allow for the company to obtain necessary production inputs, including the finances required to obtain the lease. Though this method excludes the direct allocation of land to the financial institution, the debt issued to the contract manager significantly incorporates the institution.

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Similar to the agricultural engineering approach, financial institutions have been developing funds that exclusively invest in equity shares of agricultural companies. Just as one buys shares in a publicly traded company, these funds strategically allocate its capital in either an individual or an assortment of agro-industrial companies. The agricultural company is able to finance their production activities through the flow of capital from the investing fund. In turn, the agricultural company yields a portion of its profits to the investing fund. Anseeuw, Ducastel, and Gabas note that in this approach, “The risk is limited since capital is not places in less rigid and socially less sensitive assets such as land.”


funds continue to increase in popularity, the share prices of prevalent agricultural companies will rise, consequently increasing their available funding and expanding their position in the local agriculture industry. This rather new speculative strategy by institutional investors could develop oligopolistic environments in traditionally small-scale farming industries.

A common attribute that these varying agriculture investments share is the production of export-oriented crops. Regardless of the strategy implemented, the modern agro-business trend has embraced the cultivation of export crops. Tom Lavers addresses this attraction to export crops in foreign agriculture investments (see figure 3.4 below). Though the percentage of export crops in active projects (20%) was only the second highest category, the quantity of export crops in pre-implemented projects illustrates a significant increase in the interest of such products. Figure 3.4 shows that both export crops and bio-fuel crops account for a majority of foreign agriculture investments in Ethiopia. This increasing concentration of export crop production indicates that foreign investors have found these crops to be profitable outputs, designating them as cash crops.
In fact, the Ethiopian government has encouraged that investors pursue export crop production. Lavers notes, “In addition, there are a number of policies to encourage particular forms of investment. For example, investors are eligible for exemptions from corporation and export taxes for five years if exporting more than half their production or providing 75% to exporters… An additional incentive is that the state-owned Development Bank of Ethiopia provides concessional lending of up to 70% of an investment.”71 The Ethiopian government seeks this trade-oriented production, as it will increase their trade balance, and, therefore, their supply of foreign reserves. The promotion of export crops inherently encourages farmers, especially large-scale farmers, to produce these crops. This consequently results in a decrease of domestically produced staple crops, which local Ethiopian farmers have traditionally produced. Unless local farmers adapt, they will experience a decline of revenue. Additionally, as farmers begin to produce export-crops they will begin rely on imports for wage foods.


**Ethiopia’s Popularity and The New Alliance for Food Security and Nutrition**

The sovereign advocacy of a favorable investment environment, in combination with profitable and efficient investment strategies, has significantly encouraged the rush of financial participants in the Ethiopian agricultural industry. These reasonably new market participants, including Investment banks, hedge funds, and pension funds, have expressed a noticeable amount of interest in Ethiopian farmland investments. The G8’s New Alliance for Food Security and Nutrition has posed as one of most influential campaigns towards agricultural investments. In addition to receiving support from multiple advanced economies and the World Bank, the New Alliance has partnered with a variety of private sector investors. Ranging from financial institutions to agricultural companies, the G8 has received a strong private sector backing.

The New Alliance has released yearly progress reports assessing the statuses of each targeted country. The reports provide records of policy progress as well a data regarding financial commitments in each individual country. Below, Figure 3.5 illustrates the growing progress of financial commitments in Ethiopia. The data shown in Figure 3.5 shows that there has been a consistent rise of financial commitments to Ethiopia through the program. From 2013 to 2014 disbursements increased by 46%, while between 2014 and 2015 disbursements increased by nearly 24% to $1.15 trillion. Figure 3.6 compares the quantity of funds distributed as of 2015 between the ten targeted countries.
Observed in figure 3.6 Ethiopia has been the most popular recipient in the New Alliance campaign. While information regarding the individual investors contributing to this
funding is not provided, the overall development of investments in Ethiopian agriculture is extremely significant. Especially since the New Alliance is supported by a considerable amount of private sector participants, the increasing trend of financial support indicates that Ethiopia has become one of the main targets in growing interest of agricultural investments. It must also be noted that, considering the G8’s geopolitical presence and influence, the increasing amount of financial support allocated towards Ethiopia suggests that policies concerning the agriculture industry are being encouraged to evolve in favor of the New Alliance’s guidelines. The Alliance has noted that, since joining the program, Ethiopia has progressively embraced the policy principles.  

**Investment Projects**

Ethiopia, becoming a favorable location for many farmland investors, has experienced a considerable amount of agricultural investments. Unfortunately for many rural farming communities, these investments have evolved substantially. Unlike smaller land acquisitions observed in the past, these projects acquire a substantial amount of land. Furthermore, the production strategies of these investments have significantly changed, adopting industrial and export-oriented agricultural production. GRAIN, acknowledging this global trend, has attempted to approach and confront the growth of such investments. The non-profit organization published a dataset in 2016 examining 491 global land deals across. All the land deals observed in the data set had begun no earlier than 2006, led by foreign investors, and were 500 hectares or larger. In Ethiopia, the report identified sixteen acquisitions that matched the characteristics mentioned above. Though all of the acquisitions examined by GRAIN are

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72 The New Alliance for Food Security and Nutrition
of significant size and importance, one investor in particular deserves further mention in this project: The Karuturi Global land deals.

**Karuturi Global Projects**

Karuturi Global, an Indian-based agriculture production company, has been noted as one of the largest investors in Ethiopia’s agriculture industry. Karuturi, which is a publicly traded company, has received a vast amount of attention from foreign investors, especially institutional investors. Karuturi’s 2013-2014 financial report records that 26.37% of their shares were held by nine foreign financial institutions, representing the second largest category of shareholders. The report also reports that three foreign companies held 13.03% of the shares. While residential individuals held the largest portion of shares, 34.09%, the number of holders in this category, 74,471, diminishes the value of their holdings in relation to the holdings of the nine financial institutions. The 276,065,836 shares held by the 74,471 resident individuals averages to 3,707 shares held per investor. Foreign financial institutions, however, held an average 23,705,255 shares per institution. Since these institutions own significant portions of equity in Karuturi Global their presence and influence is of greater weight.

Though Karuturi Global has allocated a substantial amount of capital towards agricultural projects in Ethiopia, the company has promoted controversial investments that have significantly impacted the well being of rural farming communities. Through numerous Ethiopian subsidiaries, including Karuturi Agro Products Plc, Karuturi had begun multiple agricultural ventures. GRAIN reports that Karuturi acquired, “a long-term lease on 11,000 ha

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73 Karuturi Global Limited “Annual Report for the year 2013-2014”
http://64.131.79.155/images/PDF%20NEW/AR_13.pdf
in the Oromia Region of Ethiopia and a 50-year renewable lease on 100,000 ha in the Gambela Region, with an option for another 200,000 ha. The general strategy of the company’s investments had mainly targeted rice and wheat crops with intention to export the products to India and a mixture of European countries.

In 2015, the Ethiopian government declared that Karuturi’s projects were not meeting development standards and that the state would terminate the company’s long-term leases. The Ethiopian government argued that out of nearly 300,000 hectares acquired by Karuturi, only a total of 3,000 hectares were successfully cultivated, coming up short of the company’s commitment to the development of 100,000 hectares within the first two years. In response, Karuturi Global has challenged the Ethiopian government’s decision to terminate their lease, maintaining that the state has not abided by the terms of their investment agreement. The company contends that due to the Ethiopian Trade Ministry’s decision to limit cereal exports, export-focused production was restricted, consequently inhabiting their ability continue their production strategy. Furthermore, due to flooding and other natural disruptions, Karuturi claims that additional cultivation was drastically effected. While the legal confrontation between Karuturi Global and the Ethiopian government remains unsettled, local farmers continue to experience the impacts.

The Oakland Institute, an Independent think-tank, has provided numerous case studies and reports that examine the experiences of rural farming communities. In a 2015 report, the Oakland Institute provides an interview with an Ethiopian farmer and their experience within Karuturi Agro Products Plc project in Gambella. The farmer discusses the agreement between the local authorities and Karuturi Global. While the community expressed their concerns, the

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regional authorities urged that the foreign company would improve the production of the allocated land, and would, therefore, benefit the community as a whole. As the project began, however, the public began to notice that their original fears were becoming a reality. Karuturi had begun clearing areas of land subsequently excluding the rural community’s access to the forest, an area that the public has historically relied on for an array of resources. In the interview, the farmer emphasized, “Before Karuturi, people used the cultivated area near River Baro on both sides. If there was a flood, the people went to the forest. After Karuturi arrived, only the riverbank is left. There is no way out when there is a flood.”

In addition to constraining the locals’ access to the forest’s resources, Karuturi has dramatically impacted the incomes and consumption of the Gambella residents. Noted as one of the poorer areas in Gambella, the village discussed in the report was rather vulnerable to the employment practices implemented by Karuturi. As the Indian company entered the region, northern Ethiopians, commonly referred to as “Highlanders”, relocated to Gambella for employment opportunities. In the interview, the farmer notes that there were disparities between the salaries of the highlanders and the locals. “Karuturi give jobs to locals and also to highlanders. Highlanders earn 3,000 birr per month (approximately $149). The locals – the Karuturi staff call the locals ‘non-people’- earn 1,000 birr per month (approximately $50). The highlanders are paid more.” The local’s relatively low salaries were impacted further as Karuturi’s export-oriented crops increased in prices, evidently making the local resources more difficult to obtain. Additionally, due to the company’s export-driven production, local residents were inherently constrained from purchasing the domestic products. “…they planted

maze, which they sell to the Ethiopian market. But our people cannot buy- we cannot buy 1 kg or 100 kg of maize because Karuturi only allow wholesellers, who come from the highlands.  

Along with investing in the Gambella region, Karuturi implemented a project that leased 12,000 hectares in Bako Tibe district in 2008. Prior to the acquisition, the region applied customary land rights, which divided farmland among smallholder farmers. These small-scale farms had historically depended on the land for cattle farming. Once Karuturi cultivated the farmland, however, production was converted to maize. Comparable to the scenario in Gambella, the company had only used a small portion of the land obtained in the lease. Out of the 12,000 hectares acquired, only 2,800 hectares were cultivated. The combination of under-cultivated land and the divergence away from cattle farming negatively impacted local workers. Shete and Rutten argue that due to the regions dependence on livestock, there were negative effects on income and food security, particularly in Baca Ode Walde. In Shete and Rutten’s study, which examined a survey of 300 households, local farmers in Baca Ode Walde had 49.6% less livestock than they did prior to the Karuturi acquisition. Considering the region’s dependence on cattle farming, the impacts on income were inevitable. Similar to the effects seen in Gambella, the incomes and food security of Bako Tibe residents were noticeably impacted. The study concludes that residents in affected areas, predominantly households in Baca Ode Walde, experienced a decline in annual gross

income between 15-25%.\textsuperscript{81} Overall, it appears that Karuturi’s decision to shift local production from livestock to cereal products had not benefited local farmers in Bako Tibe district.

Karuturi insisted that their program would provide farming communities with job opportunities and would further develop the region as a whole. Yet, these commitments have yet to be observed by the residents of Gambella and Bako Tibe, who continue to remain exposed to the agriculture production company’s strategies. Karuturi maintains that the export restrictions hindered their production capacity, violating the terms of their agreement with the Ethiopian government. This discrepancy does not necessarily explain their discrimination towards local farmers. The exclusion of the locals, in regards to land allocation and salaries, proved to be detrimental. In both instances, farmers from Gambella and Bako Tibe were debarred from fertile areas that they have successfully cultivated in the past.

Unfortunately, federal and regional authorities in Ethiopia had initially allowed for these projects to develop, ignoring the anxieties of the native workers. As regional development commitments in Gambella and Bako Tibe have yet to be met, however, the Ethiopian government has acknowledged that Karuturi’s projects must be dismissed. The government’s decision to obstruct grain exports in attempt to alleviate concerns of rural food insecurity has resulted in counterproductive outcomes. Rather than implementing limits on exports, policies towards regulating foreign agriculture investments, as well as alternative approaches towards land reforms, would confront issues seen in the Karuturi projects. In the next and final chapter, the project will provide policy alternatives that aim to improve the structure of Ethiopia’s farming industry and the environment of agriculture investments.

Through adjustments of both investment and land reform policies, the proposed guidelines seek to protect small-scale farmers in Ethiopia.
Chapter 4: Policy Proposals and Conclusion

This final chapter aims to address the frameworks of both agriculture investment and land reform policies in Ethiopia. As stressed throughout the entire project, the policies adopted by the Ethiopian government have facilitated a surge of foreign investors in the agriculture industry. While the investing parties maintain that these flow of investments will prove to be beneficial to Ethiopia as a whole, including rural farming communities, numerous instances have suggested otherwise.

The first portion of the chapter will examine Ethiopia’s current framework towards promoting private investment in the agriculture sector. Applying guidelines encouraged by the G8, the United Nations, and the World Bank, Ethiopia has embraced a significant presence of foreign private sector participants. This increasing presence has fostered export-oriented production, which has implemented large-scale, industrial style agriculture. As farms begin adopting this western approach towards agriculture, small-scale farmers are being forced to abandon their production methods, which they have traditionally relied on for income and consumption. Second, this portion of the project will confront issues regarding the rights to land and the redistribution of farmland to industrial agro-businesses. The long-term leases obtained by foreign private investors have consequently excluded rural farming communities from the farmland that they have traditionally cultivated.

It must be noted that the policy suggestions in this project do not aim to entirely eliminate foreign private investment in Ethiopian agriculture. A moderate level of private participation, if properly monitored, could simultaneously benefit local farming communities while also generating profits from agriculture production. The proposals, however, do encourage closer regulation of private investors. This includes greater inspection of the types
of investors participating, the quantity of land acquired, and the production strategies applied. Additionally, land reforms that efficiently respect traditional inhabitants could further improve the communal development of Ethiopia. A proper combination of agricultural investment and land reform policies that are conscious of traditional, small-scale farmers should be favored. The policy proposals presented promote the success of domestic farming communities, while also supporting agricultural and export led economic growth.

**Principles for Responsible Agriculture Investment**

In coalition with a variety of investors, including those affiliated with the G8’s New Alliance for Food Security and Nutrition, the Ethiopian government has accepted policies that encourage private agriculture investments. Mentioned in chapter two, the New Alliance campaign has urged its member countries to embrace a collection of guidelines that support agriculture investment. The G8 ‘s campaign asserts that these guidelines, illustrated in the second chapter, replicate codes endorsed by the UNCTAD and the FAO known as the Principles for Responsible Agricultural Investment (PRAI). Below are the seven parameters set by PRAI:

1. Existing rights to land and associated natural resources are recognized and respected;
2. Investments do not jeopardize food security but rather strengthen it;
3. Processes relating to investment in agriculture are transparent, monitored, and ensure accountability by all stakeholders, within a proper business, legal, and regulatory environment;
4. All those materially affected are consulted, and agreements from consultations are recorded and enforced;
5. Investors ensure that projects respect the rule of law, reflect industry best practice, are viable economically, and result in durable shared value;
6. Investments generate desirable social and distributional impacts and do not increase vulnerability; and
7. Environmental impacts of a project are quantified and measures taken to encourage sustainable resource use, while minimizing the risk/magnitude of negative impacts and mitigating them. 

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The principles, the UNCTAD encourages, support an increasing role of private investors in agriculture while also consciously respect the welfare of local farmers.

These principles, however, have received a great deal of criticism from those who claim that it does not truly consider human rights obligations. Olivier De Schutter, the former United Nations Special Rapporteur on the right to food, has frequently critiqued the PRAI and the policies it has facilitated. He has argued that the principles have been based around that notion that the farmlands in targeted countries are underutilized and that private sector participation will improve the production capacity of such areas. He contends that this conception is not a reality. Policies should rather, as De Schutter notes, “… ask instead whether such land could not be used more productively, in ways that are both more equitable and more environmentally sustainable, by agrarian reform- including, but not limited to, the distribution of land to smallholders.”

**Multidimensional Farming industries and Farmers’ Cooperatives**

Numerous studies have shown that small farms have displayed more efficient uses of resources. In contrast, small-scale farms have expressed lower productivity of labor in comparison to large-scale industrial farms. These greater rates of labor productivity, their projects have, as detailed in chapter three, significantly jeopardized the well-being of local communities. Small-scale farms, however, have shown to contribute a significant presence in the development of native populations, while also sustaining local ecosystems. Acknowledging the proficiencies of both production

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strategies, promotion of an industry that incorporates both groups could improve aggregate production capacity. Furthermore, a multifaceted farming industry, that is carefully structured and regulated, could facilitate agricultural and export led growth, while also safeguarding the social and economic rights of local communities.

Implementing a multidimensional farming industry in a developing country is confronted with the concern that such a system could introduce small farmers to a competitive market, consequently driving them out. Yet, with proper monitoring and regulation of large-scale farms and private investors, a multidimensional farming industry could produce favorable results. Rather than allowing the two diverse farming groups to enter into the same market, segmenting small farmers and large farmers into different markets could alleviate the burden of competition on small-scale producers. For example, large-scale farmers, embracing export-oriented strategies discussed in chapter three, could produce a selection of export-crops. Small-scale farmers, on the other hand, could harvest a mixture export crops and wage-foods. The distribution of crop production within the sector, though it will most certainly not be as simple as the example above, can be successfully addressed in policy and investment agreements. De Schutter urges that, “A delicate balance may have to be struck here between the need to ensure food security in the home country (including by adequate food availability) and protecting the local small-scale producers from what might otherwise be seen as a from of ‘internal dumping’. For this purpose, flexibility clauses may have to be built into the investment agreements providing that a certain minimum percentage of the crops produced shall be sold on local markets, and that this percentage may increase, in proportions to be agreed in advance, if the prices of food commodities on international markets reach
certain levels.”\textsuperscript{85} De Schutter’s proposal, in addition to addressing the issues of introducing small-scale producers to highly competitive markets, aims to respond to concerns of food security in an export-oriented market, a prominent issue in Ethiopia.

Complimentary to a multidimensional agriculture industry, contract farming could further support agricultural-led growth. Providing small farmers access to capital, technical innovations, and larger markets are some of the major benefits that contract farming can achieve. Contract farming, however, has received criticism from a mass of local farming advocacy groups. In a number of cases, investing participants have manipulated local production schemes. Rather than producing traditional crops, local farmers are forced to harvest non-traditional, export-crops, or “cash” crops. Stressed in the third chapter, excluding the production of wage/food crops enhances the susceptibility of farming communities to food insecurity. Additionally, eliminating such crops could potentially decrease the productivity of local farmers.

In contract farming environments, farmers can establish farmers’ cooperatives in order to reduce the complications mentioned above. Farmers’ cooperatives are a collection of local farmers, who, each providing a specific area of concentration, pool their resources. The cooperatives introduce the possibility of developing processing facilities, correspondingly increasing the role of small farmers in the value chain. De Schutter urges, ”The establishment of farmers’ cooperatives could be encouraged to ensure that farmers can achieve certain economies of scale and move up the value of chain into processing, packaging, and marketing their crops.”\textsuperscript{86} Influential applications of farming cooperatives have shown to improve the


results on contract farming. In Mali, farming cooperatives have enhanced the efficiency of biodiesel contract farming. Mali Biocarburant SA, a biofuel production company backed by Dutch investors, has invested in jatropha crops for the use of biofuel production. In order to maintain authority in production strategies, local cooperatives have taken equity in the program. Rather than solely producing jatropha, the farms have continued to harvest maize. While jatropha crops have increased the flow of capital in Mali’s agriculture sector, the continuous production of maize has supported the presence of local farmers and has stabilized food supplies. As small farmers increase their position on the value chain, their profits will concurrently follow. Furthermore, an increased position in the value chain could deliver small-scale farmers with finer protection against invading investments, which aim to manipulate production.

The Karuturi projects depicted in the third chapter display characteristics of contracting farming. Unfortunately, the number of farmers’ cooperatives in Ethiopia remains extremely limited. This is predominately due to the inadequate amount of financial resources Ethiopian farming communities have. If the Ethiopian government claims that it is seeking to facilitate agricultural development, particularly in rural areas, the promotion of farmers’ cooperatives would further support that political goal. Initially, legislative actions can support the development of farmers’ cooperatives. In 2007, the Chinese government implemented the Law of the People’s Republic of China on Farmer Specialized Cooperatives. The law aimed to promote and direct the development of farmers’ cooperatives in Northwest China. Below, are the five main objectives of the Law:

1. Their members are mainly farmers;
2. They aim to serve their members, working for the common interests of all the members;

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3. The members join the cooperatives voluntarily and are free to withdraw from them;
4. The members are equal in status and democratic management is practiced; and
5. Profits are to be distributed mainly in proportion on the volume (amount) of the transactions effected between the cooperatives and their members.\(^{88}\)

Garnevska, Liu, and Shadbolt provide a report that examined the development and impacts of two farmers’ cooperatives in China’s Shandan county. The study concluded that, “The successful development of these two cooperatives in Shandan county showed their significant influence on both their members and the local rural community. A stable legal environment and government policy builds up farmer confidence in the potential of cooperatives.”\(^{89}\)

In addition to advocating farmers’ cooperatives through legislation, the Ethiopian government should provide financial support to active cooperatives. Particularly due to their limited resources, local farmers would significantly benefit from federal funding. The funding would further support the farmers’ cooperatives purposes of protecting rural farming communities. With greater financial resources, the cooperatives could obtain equity and influence production decisions determined in farming contracts, as experienced in Mali. Furthermore, if farmers’ cooperatives are able to influence harvest strategies, an efficient distribution of export-crops and wage/food crops could be met.

**Land Reform and Investment Regulation Proposals**

Though policies that facilitate regulated multidimensional markets and farmers’ cooperatives could deter the impacts of large-scale, export-oriented investment projects, such policies could not preform properly without conscience land reforms. De Schutter encourages

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that, “For, if it is to be successful, the third scenario envisaged, one that would support small-scale farming not only to make it viable, but even to make it desirable and thus maximize the poverty-reducing impacts in agriculture- should include means to strengthen an equitable access to land.”

If local farming communities in Ethiopia are granted stronger rights to land, the market reforms discussed in the previous section could prompt agricultural development.

In the second chapter, we discussed the current evolution of land rights in Ethiopia. While private investors and advocates of such investments conclude that the overwhelming flow of capital is advantageous for the Ethiopian Economy, particularly the farming industry, farming communities have experienced an abrupt loss of the control of land and production. If the Ethiopian government seeks to improve the development of agriculture and the economic well-being of local farmers, policies towards proper land reform and investment policies must aim to meet multiple objectives. First, the rights to production of local farmers must be strongly considered in land acquisitions. While the land rights of local farmers is of crucial importance, this objective is not limited to an application of strict allocation to traditional/local occupants. Second, the selected land must be closely investigated prior to the acquisition. This includes a definitive limit on the quantity of land, the amount of active farmers currently cultivating the land, and the productivity of farming activities.

As this project has continuously argued, the rights of traditional, local farmers have been compromised by the growth of private agricultural investments. One policy that could potentially improve the land rights of local farmers is the implementation of Traditional Landholding Certificates (TLHCs). The policy tool is granted by the federal government to regional or tribal authorities, who than allocate the land to local farmers. TLHCs aim to

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reduce the presence of unidentified occupants, protecting small-scale farmers from the consequences of open land markets. These certificates, however, have presented multiple issues. The basic structure of TLHCs allows for regional authorities to have complete control over of the distribution of the certificates. Consequently, there have been numerous instances where the local authority significantly inflates the price of the certificate, excluding many local farmers. In the Petauke District of Zambia, TLHCs have been adopted. In a case study examining these certificates, Norberg concludes that, “The Interviews with the farmers also showed that the chiefs charge a 3-5 times higher price than what was agreed upon between the PDLA and all the chiefs in the district. This relates back to the authority of the chiefs and lack of enforcement for them to keep their agreements with civil society…” These dilemmas, however, do not necessarily nullify TLHCs. If Ethiopia were to adopt the use of TLHCs, the federal government must diligently regulate the distribution of the certificates. This regulation includes setting a price limits, and closer examination the recipients. In addition to monitoring these aspects, the federal government should supervise and screen the practices of regional authorities to ensure that fair policies are being applied in favor of local farmers.

While securing native farmer’s land rights serves an important role in reducing the negative impacts of foreign agricultural investments, this project does not intend to entirely denounce such investments. In order for large-scale land acquisitions to be collectively advantageous, however, they must be monitored by multiple parameters. First, the Ethiopian government should implement limits on the quantity of land acquired in foreign-led farmland investments. Shown in chapter three, Ethiopia has experienced a collection of significantly large land acquisitions. Allowing excessive amounts of land to be leased by foreign investors,

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who seek export-oriented profits, broadens the volume of those vulnerable to the particular venture.

A second parameter to controlling large-scale agricultural investments recommends meticulous investigations of the targeted land, as well the farmers occupying the area. Reviewed earlier, majority of agricultural investments in Ethiopia were based on the assumption that a vast amount of farmland was “underdeveloped”. The assumption inferred that small-scale production was inefficient, justifying the allocation of farmland to large-scale/industrial producers. If the occupying farms were properly and justly evaluated, the targeted farmland might not have been considered underdeveloped. Furthermore, proper assessments of local farmlands would have potentially prevented the Ethiopian government from selling large leases.

In addition to examining the local land and producers, closer inspections of investing firms would further regulate and deter controversial agricultural investments. Karuturi Global, and the multitude of its subsidiaries, had been significantly backed by a variety of private investors, including foreign institutional investors. Karuturi’s investment strategies displayed speculative characteristics, which sought to maintain export-oriented production as the main source of revenue. The crops harvested had not typically been the main agricultural products produced in Ethiopia. The crops, rather than supporting sovereign food security, were produced for foreign markets. Yet, ignoring the concerns of local farmers, the Ethiopian government permitted Karuturi’s projects, in hopes that the agricultural production company would initiate rural development. The production strategies intended by Karuturi were noticeably structured to support export farming, which should have alarmed Ethiopian authorities. Due to Ethiopia’s intention to promote export-led growth, however, the projects
were not initially confronted. Processes that evaluate the intentions of investing firms should be well developed. Investing firms should be analyzed based on their financial supporters, as well as their investment strategies. In combination with altering their approach towards agricultural development, that doesn’t entirely focus on exports, diligent examinations of investing firms could deter future speculative investments that compromise the status of local farmers.
Conclusion

The current trend in international agriculture investments has become a popular strategy among private investors, particularly financial institutions. Similar to the speculative environment observed in commodity markets prior to the 2008 financial crisis, the “land grab” phenomenon has continuously been an attractive investment strategy for institutional investors. Additionally, the regulation of these investment projects, similar to the regulation of commodity-backed derivatives, has been minimal, enticing a mass of managed money. What separates the two investment categories, however, is the magnitude of political advocacy for agricultural investments. Incorporating the private sector in their crusade for food security, investing governments had provoked a modern trend among financial institutions. Embracing the role of such participants, governments and development agencies aimed to manipulate foreign investment environments in favor of farmland investments. Due to the success of this policy movement, developing countries increasingly become the targets of agricultural investments.

Ethiopia has been one of the primary focuses in this modern investment trend. Allowing the massive redistribution of state-owned land to private companies had been one of the major catalysts in the growth of agricultural investments in Ethiopia. In addition to investor friendly land reforms, Ethiopia further stimulated agricultural environments by adopting principles established by the G8’s New Alliance for Food Security and Nutrition.

In attempt to address the structural issues of Ethiopia’s land and investment policies, the project has presented numerous policy proposals. First, abandoning guidelines set by the PRAI should be considered. Deserting the PRAI will allow the Ethiopian government to influence a multidimensional farming industry and endorse the development of farmers’
cooperatives. These two concepts, which aim to efficiently mix small and large-scale farming, seek to improve the overall production capacity of the farming industry. Critical changes of land reform, which support the land rights of traditional and local farmers, must be encouraged by Ethiopia in order to facilitate agricultural development that improves the well-being of rural communities. A combination of a carefully monitored farming industry, and land reforms that support local farmers, would potentially alleviate the consequences induced by the large-scale agricultural investments.
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