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SUMMARY OF COMMISSIONED STUDIES

An assessment of Operation and performance of commercial farmers in Ethiopia

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Preamble:

A study to assess the performance of commercial farmers in Ethiopia was commissioned by the UNDP on behalf of the Ethiopian government to generate evidence based policy actions aimed at enhancing the performance and development of the country's commercial agricultural sector. This executive brief highlights some of the key findings and policy actions distilled from the main report to support policy-decision making.

Basic highlights:

The agricultural sector accounts for 41.1% of the GDP, 85% of total employment and about 50% of total export receipts in 2011.

Peasant farmers account for 95% of total food production, and commercial farmers 5% only. There are about 4952 registered commercial farmers of which 47.6% are in crop production, 35% in both crop and livestock, and 16.7% in livestock production.

In terms of investment projects, data from the Ethiopian Investment Agency (EIA) indicates that 10,224 agricultural investment projects have been registered and allocated 10.112 million ha between 1992 and 2011. Of these 8,298 are registered as operational.

1540 of the 8481 domestic investment projects (18.2%) in agricultural sector have the potential land areas of 1.076 ha operations. 386 of 1743 foreign owned foreign firms are currently operational and occupy approximately 1.52 million ha.

Overall distribution of commercial farmers varies from 2% in Gambella and Somali regional states to 50% in Tigray.

Only an average of 48% of land leased is currently farmed and only 1% for investors with 10,000 ha and above.

Summary of Key Results and Findings

Ethiopian Investment Framework to commercial farming

A detailed review of the stages, steps within stages, requirements and fees show that it takes on average a year for an investor to move from the expression of interest to leasing farmland.

Information from interviews with commercial farmers indicate that unless the investor is pro-active to provide transport and other ancillary benefits, including side-payment or solicited and unsolicited favors, the applications would not be processed on time.

The information from the case-studies conducted show that the average time taken to obtain the lease reduces to 232 days from one year period when the investor provides transport and other side-payments to induce public officials to undertake their work more swiftly.

The percentages of investors reporting making informal payments vary across regions with lowest reported in SNNP (0%) followed by Tigray (2%); Oromia (4%) Benishangul-Gumuz (9%), Amhara (31%) and Gambella (66%). The average time to complete the process in Gambella is also the lowest at 28 days only.

Land allocation and utilization

The analysis of Ethiopian Investment Agency data for 1992 to 2012 shows that only 18% of domestic and 25% of foreign agricultural investors converted from registration as license holders to an enterprise establishment during this period.

Analysis of field and secondary data further shows that land utilization rates are still very low, with only 42% of land leased converted into production over the last 20 years. However, the rate of land utilization varies quite significantly across regions and by size of land holding.

The larger the size of leasehold, the greater the percentage of unutilized land, with those, mostly foreigners, with land holding of greater than 10,000 ha currently utilizing only 1 percent of the land against the average of 42% for 112 commercial farmers captured in the survey;

Given the average land use, the size of land allocation should be capped at about 2,000 ha per investor.

Large-scale land allocations to investors have been made on the basis of administrative boundaries without due consideration of the benefits of strict application of watershed approaches to land allocation for commercial agricultural development. This has negative impacts on environment and productivity of the farms.

A careful reform of land allocation and land use policies need to be undertaken in order to promote efficient allocation and land use for commercial agriculture development.

Incentive regime for commercial farmers

The following factors contribute to the difficulty in accessing these incentives:

The process for tax exemption are unduly lengthy and do not begin until goods have arrived at the border in Djibouti. Implementing efficient pre-clearance procedures can speed-up customs clearance and reduce cost of doing business for commercial framers;

Customs and Excise taxes do not make allowances for up-dating equipment and machinery model or specifications changes or resolving obvious mistakes in equipment specifications by the sellers/suppliers or exporters. Holding periodic joint review of procedures and agricultural equipment technical specifications is recommended.

The current import duty exemptions do not cover equipment and machinery required to assist farmers provide critical on-farm services such water supply and electricity. Remission of duty on such critical equipment and machinery should be considered.

There is not much clarity in a number of tax and customs laws and provisions nor uniform interpretation and application of these provisions by government officials at national and sub-national levels.

About 65% of interviewed commercial farmers have indicated that they haven't received any tax break, although they are entitled to a 2 year tax holiday. There are also variations in terms of application of tax holiday among regions.

About 93% of the investors fail to obtain agricultural loans from the domestic banking sector largely because the process for applying and accessing loans is too cumbersome, require 100% collateral on loans and banks do not accept leased land as collateral.

Even after going through protracted procedures for applying for a loan, banks rarely provided the amount of credit applied for in full.

The Profile of Commercial Farmers

The study also reveals three important findings regarding the profiles of the commercial farmers and their investment behavior:

There is significant difference in the educational attainment and practical farming experience between foreign and local commercial farmers.

While all foreign farmers have post graduate training and practical experience in agriculture and allied fields, only half of the domestic commercial farmers had postgraduate and few of these where in agriculture and related field.

50% of the indigenous farmers came from agricultural commodities trading backgrounds and lacked practical commercial farming experience;

Unlike their foreign counterparts, majority of indigenous commercial farmers do not prepare and maintain business plans, farm plans, farm records and performance details

This practice in (c) is closely connected to their commodity trading background and limited formal and practical farm management/entrepreneurship training and experience.

Commercial farmers were profiled into four categories according to the type of enterprise, investment and investor behavior as follows:

well-established, well- managed farms producing commodities at a level of performance on par with, or better than, the best organized, small-holder farms, and newly-established enterprises still in the process of developing tree-crop plantations or currently pilot-testing field-crops;

Investors adopting “low-cost, low-output” farming systems designed to maximize short-term profit with minimal fixed investment expenditure. This group of investors accounts for almost 50% of the commercial farms;

Large-scale gatherers collect natural-forest coffee for sale in the organic market; and finally, investors with, apparently, other agendas beyond agricultural production such as those currently exploring medicinal plant collection from thousands of hectares leased.

According to the International Investment Law (OECD, 2008), the first group of investors is accurately defined as investors while the latter groups fit within the class of speculators. Speculation leads to unsustainable land use and stifles commercial agricultural development, it must be discouraged.

Performance of commercial farmers

The performance of domestic and foreign investors were analyzed and compared using indicator on a) number of investors /firms that progressed from registration to operation; b) the actual land occupancy rates measured by the amount of land used expressed as a percentage of total land leased and; c) the level of productivity achieved expressed as yield per hectare (ton/ha) for individual crops grown. The analysis shows that:

Establishment: After issuance of land leases, foreign investors are able to establish farms and bring farm land it production in less than half of time it takes their local counterparts.

Productivity: A comparison of yields for 7 crops grown by both types of investors shows rather surprising that local investors reported higher level of productivity in sesame, sorghum, maize, rice, soy bean and coffee than did their foreign counterparts. This could be due to under-reporting by foreign investors;

Tractors: in order to meet timing targets for grain crops in heavy land, the basic requirement is 1 hp per hectare against the observed 0.8hp/ha;

The best performing 10% of the investors in terms of land use have an average of 0.8 hp/ha and while the average of the two worst performing 10% have 0.06 hp/ha (highly under-mechanized).

The data shows that 40% of the investors use more than one seed source. Western lowland investors sow sesame at 3-5 kg/ha, sorghum at 6-8 kg/ha and maize at 7-16 kg/ha. These rates are much lower than sowing rates used by the well-managed farms in Oromia, who also use much higher proportion of improved seed.

Only in Tigray and Oromia do fertilizer application rates conform to BoARD norms and in Gambella and Afar, little or no fertilizer is used. In Amhara, application rates are very low, despite instructions from the Regional BoARD to buy and use more.

In contrast, plant protection is taken more seriously, with field crop investors using herbicides, pesticides and fungicides in all regions (except in SNNPR where tree crops dominated the sample) to control non-migratory pests.

Agricultural extension services are not tailored to the needs of commercial farmers and only 43% of the investors have reported to have used the services of Government extension agents and/or services of private consultants.

Enhancing Agricultural Markets

About 75% of the produce of commercial farmers is sold on the domestic market, 9% is exported and 16% is sold in either markets.

The study estimates that commercial farms contribute 5%-6% of the food crops, but about 25% of wheat and maize in the domestic market chains.

Wheat, because of the country's high dependence on imports, shows greater integration with global and regional markets, and the local market prices is about 45% higher than US FOB Gulf prices during April 2011- April 2012.

Maize, whose import- export oscillates between +30,000 tons to -50,000 tons from year to year shows no significant integration with the global market.

Local prices differ markedly between surplus and deficit areas at levels that defy the good road network between the markets studied (i.e., Addis Ababa to Dire Dawa).

While ECX has an important role in promoting agricultural markets, there are concerns about transparency in pricing, grading and quality assurance as well as warehousing systems for most commodities traded on the exchange.

Key Policy Actions

Undertake a comprehensive review of the current investment framework and its administration, with particular efforts directed at re-engineering business processes and procedures and enhance institutional and administrative efficiency in licensing. Setting up single window or one-stop shop investment office is also recommended.

Develop a robust foreign direct investment (FDI) regime for the agricultural sector and specifically embed within the regime incentives for attracting productive foreign investment in the sector as well as provisions for ensuring that the country and local communities derive maximum benefit from FDI.

Undertake a comprehensive review of tax incentives and exemptions for commercial farm and improve clarity and uniformity in interpretation and application of tax and customs laws at national and sub-national levels.

Improve property registration and enforcement of property rights for investors including commercial farmers (title deeds) and consider setting up an investment ombudsman at national and regional level to help with conflicts resolution involving investors (commercial farmers).

Review the land allocation systems, modalities and procedures and transition from land allocation by administrative area to land allocation by watershed.

Establish a cap or limit on the amount of land that can be allocated or leased to a commercial farmer to approximately 2000 ha and provide incentives to encourage optimal land use and management by commercial farmers;

Remove duplication of roles between zonal and woreda boards, and, zonal and woreda committees by consolidating decision-making committees and establishing and monitoring service performance targets (service charters) for land administration authorities;

Design market-based and regulatory instruments, performance benchmarks and land use guidelines, to curb speculative and sub-optimal investment behavior of identified groups of investors while incentivizing long-term and environmentally sustainable investments in commercial agricultural development;

Remit taxes and customs duties on equipment and machinery imported and used in water reticulation and supply and power generation especially from green energy sources (bio-energy, solar and wind energy) used in commercial agriculture.

Enhance the institutional capacity to develop and implement quality standards, and control and assurance programs for agricultural products produced and imported into the country. This can be accomplished in part by establishing a voluntary code of quality control for domestically marketed (non-export crops) and for imports.

Fast track infrastructure improvements in remote areas where transport network and infrastructure is poor or non-existent and connectivity to the electricity grid is not currently available especially in North-western Amhara and SNNPR regions.

Concluding remarks

This executive brief is summarized from the main report on assessing the performance of Ethiopian commercial farmers and provides the snapshot of the results, finding and upstream policy recommendations that government and development partners should begin to reflect on as they design and implement interventions to speed up the agricultural commercialization process and development in the country. An exhaustive analysis and discuss on the status and performance of commercial farmers is provided in the main report and in the summary publication of the report.

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