

SCHOOL OF CONTINUING EDUCATION
INDIRA GANDHI NATIONAL OPEN UNIVERSITY

RESEARCH ON
ASSESSMENT OF LAND USE & PERFORMANCE EVALUATION
OF FOREIGN LARGE-SCALE FARMS IN OROMIYA REGIONAL
STATE, ETHIOPIA

BY
DEREJE ABEBE WUBIE

NOVEMBER 18, 2013
ADDIS ABABA

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A THESIS

SUBMITTED TO INDIRA GANDHI NATIONAL OPEN
UNIVERSITY

MASTER IN RURAL DEVELOPMENT (MARD) PROGRAM

BY

DEREJE ABEBE WUBIE

NOVEMBER 18, 2013

ADDIS ABABA

I hereby declared that the Dissertation entitled -----

submitted by me for the partial fulfillment of the M.A. in Rrural Development to Indira Gandhi National Open University, (IGNOU) New Delhi is my own original work and has not been submitted earlier either to IGNOU or to any other institution for the fulfillment of the requirement for any course of the study. I also declare that no chapter of this manuscript in whole or in part is lifted and incorporated in this report from any earlier work done by me or others.

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CERTIFICATION

This is to certify that Mr. -----
-student of M.A. (RD) from Indira Gandhi National Open University, New Delhi was working under my supervision and guidance for his project work for the course MRDP-001.

His project work entitled

which he is submitting, is his genuine and original work.

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Date:

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ACRONYMS

ADLI:	Agricultural Development Led to Industrialization
AGOA:	Africa Growth and Opportunity Act
AILA:	Agricultural investment and Land Administration Agency
AISD:	Agricultural Investment Support Directorate
COMESA:	Common Market for Eastern and Southern Africa
CSA:	Central Statistically Agency
EIA:	Environmental Impact Assessment
FDRE:	Federal Democratic Republic of Ethiopia
FDI:	Foreign Direct Investment
GIS:	Geographic Information Systems
GTP:	Growth Transformation Plan
LDC:	Least Developing Country
MDG:	Millennium Development Goal
MIGA:	Multilateral Investment Guarantee Agency
MoA:	Ministry of Agriculture
MoARD:	Ministry of Agriculture and Rural Development
SNNP:	Southern Nations and Nationalities and People
SNNPR:	Southern Nations and Nationalities and People's Region

ABSTRACT

This study assesses the trends of FDI flows in agriculture and the challenges encountered by investors in Oromiya regional states; identifies the amount of land transferred to and the land size effectively developed by investors in different regions in Ethiopia; assesses the performances of foreign investors in Oromia regional states and further documents the magnitude of employment opportunities created by the large-scale farms in Oromiya region. Both primary and secondary data were used. Secondary data were collected from districts, zones, and Oromiya regional state and from the Ministry of Agriculture. Primary data were collected through interviews, direct observation, and discussions with various groups such as community members, company managers, employees of large-scale farms and government key informants. The findings indicated that the land identification approach for investment had shortcomings in accounting for land capability and suitability for investment and limited in ground-testing of information generated through satellite imagery. The study suggests revision of the administration of large-scale agricultural investment and careful identification of supporting services at different level to agricultural investors.

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CHAPTER ONE: INTRODUCTION

1.1 Background

Ethiopia has huge investment potentials for agriculture. For the past five consecutive years the agriculture sector was growing faster with more than 11% average annual growth (MoFED 2011). The total area of the country is estimated to be about 111.5 million ha, out of which 74.3 million ha is suitable for annual and perennial crop production and only 15 million is under utilization. The irrigation potential of the country estimated to be around 4.3 million ha (MoA 2011). Of the total area of the country about 45 % (50.2 million hectares) is mid-highland and highland; the remaining is lowland. The average temperature rarely exceeds 20°C (68°F). The sparsely populated lowlands typically have sub-tropical and tropical climates. The average annual rainfall ranges from 200 to 2500mm.

Investors engaged in large scale commercial farming in Ethiopia are also expected to contribute to the construction of physical and social infrastructure such as rural roads, health posts and schools (MoFED 2010).

The World Bank report indicated that only slightly greater than 20% of the potential yield is realized in the Ethiopian agriculture so far (World Bank 2011). Deininger (2011) suggested that promoting investment in technology, improving access to finance and investment in infrastructure narrow down the gap between potential and actual yield. On average, there is 1.6 billion USD trade deficit recorded in Ethiopia every year between 1999/2000 and 2009/2010 (Access Capital 2010). As a strategy of narrowing down trade deficit and promoting economic growth, the five years Growth and Transformation Plan underscores the promotion of export oriented and import substituting industries (MoFED 2010). To

this end, large scale commercial farms are envisaged to contribute to the availability of raw materials for domestic industries, and the investment directives issued by MoARD gives priority to investment projects that target to produce raw materials for import substituting industries such as cotton, palm tree, rubber tree, etc (cf. Investment directive issued by MoARD 2010).

In Ethiopia, however, due to various reasons, commercial farms were not widely spread, and as a result of which the contribution of these farms to the country's gross total agricultural output were limited only to about 5 percent (CSA 2010). Currently, however, the Ethiopian government's policy, strategy and program emphasize the importance of agricultural investment by local and foreign investors for capital accumulation, development of rural infrastructure, employment opportunity and as well as technology transfer (MOA 2011). As part of this effort, vast amount of fertile farmland were transferred, to local and foreign investors through fair lease rates (MOA 2011). Currently there are about 5284 investors who re- investing operating in the country with a total land size of 2.15 million ha. Out of the total 269 of them are foreign with the total land of 720524.1 ha (Agricultural Investment Support Directorate [AISD] 2013).

Agricultural investment land with an area of 3.7 million hectares (ha) is delineated and deposited in the federal land bank (MoA 2012). They are found in six regional states such as Gambella, Benshangul Gumuz, Southern Nation Nationality of People of Region SNNPR, Oromiya, Amhara and Somali and located in western, north western and southern geography of the country. (MoARD 2009). Out of these, Ministry of Agriculture has been transferred more than 462802ha of land to foreign (388581ha) and domestic investors (74223 ha) since 2010 till 2013 to

cultivate different agricultural commodities MoA 2013). However, there is no systematically studied and documented information, which clearly show the contribution of agricultural investment for economic and social development. This study intended to fill this gap by generating valuable information for the Region concerned parties, including policy makers, development planners and implementers, donors' and stakeholders. It could also serve as a spring board for further investigation in the field and also will assess the trend and challenges which encountered FDI in Oromiya Regional States and come up with recommendations to alleviate the obstacles vs. the problems identified.

The private agricultural sector has a central role to play in the war against poverty and mobilizing private investment is imperatives for promoting the broad based and sustained growth that will help to reduce poverty. In today's global economy, private investment is both domestic & foreign and takes many forms, from physical assets to intellectual capital.

Ethiopia is one of the target countries for FDI with abundant natural and labor resources that attracted interest of developed countries. The government of Ethiopia declares in its policy framework that promoting FDI helps to ensure food security in the country through increasing access to and availability of domestic food supply. Besides, it enhances employment opportunities for local people, serves as source of revenue and foreign currency generation, and contributes to the modernization of the agricultural sector through transfer of improved agricultural practices and technologies to smallholder farmers. At times it might also contribute to equitable distribution of income/wealth since it gives opportunities for landless youths, who are poor without household asset to earn income from employment

and become asset holders. Ministry of Agriculture encourages committed and motivated investors to engage in the agricultural sector. Due to this reason, the Ministry established Agricultural Investment Support Directorate which is responsible for organizing, coordinating and buildup investors who are engaged in agricultural investment and enhancing their operational capacities through technical assistance to some extent has been improving from time to time (FDRE 2010). The AISD has been following up and evaluating the performance of the investors both those who received land from the regions and who acquired land from Ministry of Agriculture based on the check list which encompasses production and productivity, employment opportunity, social services provided for the community, environmental issue, camp arrangement, employment security, etc. In today's global economy, private investment both domestic & foreign is increasing highly from time to time specially in five Regional States namely; Oromiya, Amahra, SNNP, Benshangul, Gambella and Tigray.

Table 1: Agricultural Investment trends in Ethiopia

S.No	Regions	No of Projects	Land transferred(ha)	Capital registered (000' birr)	Total No of Employment
1	Oromiya	929	458292.2	66775	736890
2	Afar	48	47744.25	9045	86853
3	Somali	16	18762	79	2236
4	Benshangul	306	600253.9	2018666	76955
5	SNNP	1408	311502.1	13093692	80123
6	Amhara	1290	171771.89	20744	674508
7	Dire Dawa	186	10819	678	17270
8	Tigray	397	109318	2598	389169
9	Adiss Ababa	364	17420	2916	77877
10	Gambella	304	399491	1624	79697
11	Harare	37	7428.4	115	826
12	Total	5285	2152802.8	15216932	2222404

Source: AISD (2013)

The above table shows that the total land transferred for both local and foreign investors¹ are estimated to be around 2.15 million ha of land and the number of the

¹ Under this study foreign investors include foreign nationals with Ethiopian origin (Diaspora), Joint ventures and investments owned purely by foreign nationals.

investors is about 5284. The same table also demonstrates that agricultural investors are available in all regions but more are located in SNNPR. On the other hand, more land is transferred in Oromiya region which is about 458292.2 ha.

Table 2: Amount of Land and Number of Projects owned by Foreign Investors in different Regional States in Ethiopia

S.N.	Regions	Amount of land	No of Project
1	Oromiya	115134.28	85
2	Amhara	34719.7	28
3	Tigray	17750	36
4	Somali	11400	7
5	Afar	25150	8
6	Gambella	220612	14
7	SNNP	124369.03	50
8	Beshangule	171389	41
	Total	720524.01	269

Source: AISD (2013)

The table shows that total number of foreign investors is estimated to be 269 and the total land transferred for them is about 720524.01 ha which is 33 % the total land transferred to all investors in the country. On the other hand, there is no efficient system extended from Federal to the grass root level, which should support the investment sector adequately. As a result, various problems mainly related with land utilization have been observed (AISD 2012). Because of the prevailing, inefficient and ineffective management structure, which hampers the development of the investment sector, it is found that the follow-up and supporting service is not well organized and not accessible to the level where by the investors could achieve a better result in their endeavor to raise production and productivity.

To find the exact problems of the sector and define the cause and more over to get a solution for that, conducting of a detail research study is vital.

1.2 Statement of the problem

Ethiopian agricultural investment sector is at infancy stage. Though, to expand the destination of investors, the federal government has signed an agreement with regional governments to have the right to identify and administer large scale undeveloped land and transfer them to interested selected users. In Ethiopia's Constitution, regional governments are the actual owners of their land. Currently, Ministry of Agriculture delineated Agricultural investment land, verified and deposited in the federal land bank. After getting the official delegation from the regions to administer the land delineated, AISD has transferred nearly 500 thousand ha of land to investors.

On the other hand, when we look at the performance of the investors, to certain extent it is disappointing and needs to be improved, so as to bring the sector to the expected level and strengthen the impact of the sector in social and economic development of the country. In this regard to identify the problems in relation to land administration (identification and transfer of land; land utilization, technology adaptation etc) should be examined thoroughly and resolved as quickly as possible. On the international scenario of the global food crisis, reinforced by the ongoing global financial and economic crisis, had become a major challenge for development and the achievement of the Millennium Development Goals (MDG).

It has emerged in a situation of significant mal-distribution of the world food supply and lack of coherence in international policies, as well as unfavorable

environment towards development, including rural development, agriculture and food production. The challenges facing the agriculture sector are many, particularly in developing countries. The achievement of food security requires strengthening and revitalizing the agriculture sector in developing countries, (i.e. empowerment of women, indigenous peoples, rural communities, small and medium scale farmers, providing technical and financial assistance, access to land and transfer of technology, capacity building, research for food and agriculture, including research to adapt to and mitigate climate change and exchange of knowledge and experiences).

Table 3: Land transferred from Federal Land Bank and Regions

S.N	Investment Region	Land in Federal land bank	Land transferred by federal	Land transferred by region	Total land transferred to Investors
1	Afar	-	-	47744.25	47744.25
2	Amhara	6183	6183	165588.89	171771.89
3	Benshangul Gumuz	1148852	134431	495823	600253.9
4	Gambella	1226893	241012	183479.23	399491.23
5	Harar	-	-	7428.4	7428.4
6	Oromia	1079967	-	458,295.25	458295.25
7	Somali	6000	2000	16762	18762
8	SNNP	209725	70360	242142.1	311502.1
9	Tigray	-	-	109318	109318
10	Addis Ababas	-	-	17420	17420
11	Dire dawa	-	-	10819	10819
	Total	3,677,620	453986	1754820.12	2152806

Source: AISD (2013)

Table 3 shows that the total identified and deposited agriculture investment land at federal land bank is around 3.68 million ha of land, of which 453986 ha of land is transferred by MoA for both local and foreign investors.

1.3 Research objectives

This research addresses the following objectives:

1. to assess the trend of agricultural investment and the challenges encountered by investors in Oromiya regional states;
2. to assess the amount of land transferred to and developed by investors in different regions in Ethiopia;
3. to assess the performance of foreign investors in Oromia regional state; and
4. to assess the magnitude of employment opportunities created by foreign agricultural investment in oromiya regional state in Ethiopia.

1.4 Significance of the study

The findings of the research will have the significance of advising policymakers, practitioners and investors to take appropriate measures that will enhance the benefit of investment in commercial farming in Ethiopia to have win-win-win outcome (i. e, outcome that benefits local (hosting) community, government and investor).

CHAPTER TWO: LITERATURE REVIEW

2.1 The Ethiopian Land Policy Environment

2.1.1 Land Tenure Systems during the Derg Regime

The rise of the Derg to power in 1974 set the tone for land issues in the country today. In 1975, major land reform took place that abolished existing systems, replacing them with state ownership of land. These changes were enshrined in the 1987 Constitution. Farmers would receive free land in their place of residence with specific use requirements. From 1976-78, there were efforts to confiscate land from those families with more than 10 ha to redistribute equally to other farmers through Peasant Associations. Throughout the 1980s, there was a continued collectivization of land and agriculture, and then in 1989, the Derg announced its intent to move towards more market-based approaches to land (Adal 2002).

2.1.2 Land Tenure Systems of the Present Regime

Land tenure and certification specifics are determined by regional governments, and these vary from region to region. There are three main types of systems of arable land rights in practice in Ethiopia today: administrative based, market-based, and customary-based non-market arrangements.

1. Administrative-based

Under this system, eligible families have the right to land, subject to a size limit. These rights are usually unrestricted except for conservation and/or improvement requirements. There are increasing rental rights associated with this system. This is increasingly the most common system.

2. Market-based

This has largely occurred because the demand for land is outstripping the supply in many areas of the country. Farm sizes are dropping, whereas the populations are growing. Rent markets are based on supply/demand factors. The usual form is shared tenancy, short-term contracts, with very limited and specific uses. These rights usually are not transferable, and lands are rarely left fallow (resulting in further land degradation).

3. Customary-based non-market arrangements

This is the dominant system in the lowland areas where much of the current land investment is focused. It usually involves some claim to ancestral lands and hereditary rights are still dominant in this system. There are many variations of this system depending on the ethnicity of the people and the location (Tesfaye 2004). While PA-based land allocation is the basic rights system, there are emerging derivative tenure systems. Access to land through informal land rental markets (crop-sharing and cash rental) is gaining importance (Tesfaye 2004). Four factors contribute to this trend. First, the ability of the PAs to accommodate the continuous demand for land is diminishing, as is evident from diminution of PA-allocated farm size and growing numbers of farmers with no PA-land, especially newly formed young farm households. Second, the technical ability of the PAs to anticipate and correct change in factor proportion at the farm level is limited. There are households with equal allocation of PA-land based on family size, but with significant variation in factor intensity such as land per adult or land per oxen. Third, farmers who participate in land rental markets are able to combine land rent with other factor markets (e.g., labour, oxen, and credit) and overcome problems associated with missing or incomplete factor markets. Fourth, there is a move

towards relaxing restrictions that favour transacting in land rental in some regions. Access to rental land is subject to demand and supply factors. On the demand side are land constrained farmers, defined as those whose official land holdings are not sufficient to fully utilize their resource endowments including their own labor. On the supply side, there are land abundant farm households including the land abundant but poor households who often lease out land in exchange for labor and/or oxen and/or credit. Share tenancy is the dominant contractual arrangement, particularly among resident farmers with close social ties. The contracts are short-term and rarely exceed more than two crop seasons. Use rights in these contracts are restricted. Tenants rarely fallow and/or grow perennial crops and/or invest in land. Rental land is not transferable except to the original holder of the land.

2.2 Legal Basis for Land Investment

The 1995 Federal Democratic Republic of Ethiopia (FDRE) Constitution provides the foundation upon which all land investment-related legislation and policy is based. The 1995 rewriting of the Constitution reaffirmed state ownership of all land. It also affirmed the right of peasants to obtain free land, protection from eviction, gave rights to pastoralists, and enabled compensation in case of expropriation. The Federal Rural Land Administration and Use Proclamation (Proclamation 89/1997) enables regional governments to make laws to manage and administer their lands. Four regions have done in Ethiopia have developed their land administration policy. These are Tigray with Proclamation No. 23/89 (TNRS, 2006), Amhara with Proclamation No. 46/2000 (ANRS, 2006), SNNPR with Proclamation No. 53/2003 (SNNP, 2007), and Oromiya with Proclamation 56/2002 (ONRS, 2007). The land administration for Benishangul Gumuz Regional State will be completed shortly. These proclamations stress the importance of

public participation. They also outline the processes for land redistribution and expropriation, require compensation for expropriation (limited to improvements), enable the renting out of land and allow for the provision of communal, group, and individual holding rights. They also provide the basic enabling framework for land use planning to be undertaken.

The key enabling legislation for investment in Ethiopia is Proclamation 280/2002 (and amendments in 375/2003), which outline various laws and policies related to investment. The objectives of investment include increase of foreign exchange earnings by encouraging growth in export industries; transfer of technology and expertise, and to “render foreign investment play its proper role in the country’s economic development.” It also outlines the capital requirements for foreign investment (minimum US \$100,000). The Commercial Code of 1960 provides the legal basis to carry out business activities. Numerous proclamations and regulations have added further detail over time related to business and labor requirements. Investment Regulation 84/2003 outlines a slew of incentives (tax and duty exemptions, etc) available to investors and also outlines the different investment sectors that are reserved exclusively for domestic investors and/ or government. Wholesale trade of locally produced products, materials used as inputs for export products, and numerous value-added industries are reserved for domestic investors. All other land investment related areas are available for foreign or domestic investors. An important shift in the way lands are allocated to foreign investors came in 2009, when Proclamation 29/2001 enabled the federal government to carry out all aspects of foreign land investment for all lands over 5,000 ha. Prior to this, each regional government was responsible for all foreign and domestic land investment (for further information. This led to several

problems including inconsistency of process, lack of central planning and coordination, and concerns over corruption.

2.2.1 International Agreements

Ethiopia is a member of several large trading blocs, including COMESA (Common Market for Eastern and Southern Africa), which allows Ethiopian exports access to a market of almost 380 million people at preferential tariffs. Several large investors mentioned COMESA as a huge market opportunity for their products. Ethiopia is also a member of several key international agreements, which reduces risks for foreign investors. These include the World Bank's Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID), which details international arbitration procedures for disputes with foreign investors. Ethiopia is also a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA), which insures foreign investors against potential political risks including expropriation and war damages. Ethiopia's exports also qualify for preferential access to the lucrative EU market under the "Everything but Arms" (EBA) initiative, and to US markets under the Africa Growth and Opportunity Act (AGOA). The majority of Ethiopian exports are also entitled to preferential treatment under the Generalized System of Preference (GSP) for the EU and US. This results in no quota restrictions and duty levies for the vast majority of Ethiopian exports. Ethiopia has preferential bilateral trade agreements with 30 other countries. These countries include a diverse mix of major investors, many of who have made large scale investments in agricultural land in Ethiopia.

2.3 Agricultural Investment Incentives in Ethiopia

Ethiopia offers numerous incentives in place to encourage investment, which is one of the most attractive incentives packages in Africa including providing cheap land-lease rates. For example countries in Africa with land-lease rates ranging between US\$100 – 200per ha includes: Burundi, Malawi, Guinea-Bissau, Kenya. Other countries with land-lease rates between US\$300 – 500 per ha includes: Togo, Cote Devoir, Lesotho, Guinea while countries such as Angola, Senegal and Congo provide land-lease rates between US 500 – 1000. Gabon, Botswana, Namibia and South-Africa have a land-lease tariff above US\$1000 per ha (MoA 2010). Other types of incentives include tax holiday and duty free imports of machineries. These incentives are transparent, seemingly common to all land deals (although some reports suggest they are discretionary), and are communicated in numerous marketing brochures and presentations. Listed incentives focus on encouraging export, tax/duty/land rent holidays, improved access to financing, and streamlined processes.

The Investor can mobilize its laborer from region to region without any restriction with efficient, economic manner and standard benefit of the workers. Therefore, to provide a sufficient number of labors for the new investment, it is advisable to mobilize additional manpower from highly populated areas. And investors allow introducing or employing scientists and technicians in case of local unavailability from abroad who have practical experience to transfer the modern technologies and add value on productivity.

Any income derived from an approved new manufacturing, agro-industrial or agricultural investment is exempted from the payment of income tax ranging from

2-5 years depending up on the areas of investment, the volume of export and the location in which the investment is undertaken. Income derived from an expansion or upgrading of an existing manufacturing, agro-industrial or agricultural enterprise is exempted from income tax for a period of two years if it exports at least 50% of its products and increases, in value, its production by 25%. Even though the investor should pay the land rent which is cheapest as compare to other countries; the government gives 2 to 5 years grace period based on the commercial crop harvest period, which gives economic yield Loss Carry forward: Business enterprises that suffer losses during the tax holiday period can carry forward such losses for half of the income tax exemption period, after the expiry of such period.

A 100 per cent exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion or upgrading of an existing enterprise as well as spare parts worth up to 15 percent of the value of the imported capital goods; Investment capital goods imported without the payment of import customs duties and other taxes levied on imports may be transferred to investors enjoying similar privileges; exemptions from customs duties or other taxes levied on imports are granted for raw materials and packing materials necessary for the production of export goods. Taxes and duties paid on raw materials and packaging materials are drawn back at the time of exports of finished products. The voucher system and bonded manufacturing warehouse facilities are also in place. All goods and services destined for export are exempted from any export and other taxes levied on exports. The project is accepted by the Ethiopian Development Bank, if the investor secured (deposit) 30% of the investment (In cash) the Bank gives up to 70% loan.

Borrowers who wish to obtain financing for new export oriented and manufacturing projects are required to provide initial cash equity contribution of 30% of the total project cost. Projects under this category include: live animals, horticulture, leather products, textile and garment, horticulture and floriculture crops, cotton and other foreign currency generating projects.

Borrowers who wish to obtain financing for expansion of existing export oriented and manufacturing projects are required to provide an initial equity contribution of 30% of the total required expansion capital. This can be in form of cash or in form of the projects assets, provided that the project's assets are uncollateralized and valued at no less than 2/3 of the required loan amount. Any shortfall in the assets valuation has to be met with a cash contribution. The Banks gives its clients a maximum grace period that involves the period of implementation up to the commencement of operation. The grace period cannot exceed 3 years.

To encourage private investment and promote the inflow of foreign capital and technology into Ethiopia, the following incentives are granted to investors (both domestic and foreign) engaged in new enterprise and expansion in areas qualified for investment incentives. Ethiopia provides the following guarantees to foreign investors.

1) Repatriation of Capital and Profits

Capital repatriation and remittance of dividends and interest is guaranteed to foreign investors under the investment proclamation. Any foreign investor has the right, in respect of an approved investment, to make the following remittances out of Ethiopia in convertible currency at the prevailing rate of exchange on the date of

remittance. Profit and dividends accruing from investment, Principal and interest payments on external loans, Payments related to technology transfer agreements, Proceeds from the sale or liquidation of an enterprise, Proceeds from the sale or transfer of shares or of partial ownership of an enterprise to a domestic investor, Compensation paid to a foreign investor, Expatriates employed in an enterprise may remit in convertible foreign currency, salaries and other payment accruing from their employment in accordance with its foreign exchange regulation or directives of the country.

2) Investment Guarantees and Protections

The constitution of the Federal Democratic Republic of Ethiopia protects private property. The investment proclamation also provides investment guarantees against measures of expropriation and nationalization that only may occur when required for public interest and in compliance with the requirements of the law.

3) Market Access

Domestic Market

With a population of about 77 million, Ethiopia provides a steady and growing domestic market, which is one of the largest in Africa. With regard to agricultural growers can sell their own produces directly to international markets and/or local.

Price is determined either by the current market or by negotiations taking place between participants.

Regional Market

Ethiopia is a member of the Common Market for Eastern and Southern Africa (COMESA) agreement embracing 20 countries in Eastern and Southern Africa. Exports and imports with member countries enjoy preferential tariff rates.

Everything but Arms of the European Union (EBA)

Ethiopia is a beneficiary of Everything but Arms (EBA) of the European Union.

African Growth and Opportunity Act (AGOA) and the Generalized System of Preference (GSP). Under the African Growth and Opportunity Act (AGOA) program, Ethiopia is entitled to duty-free and quota-free U.S. market access and essentially all export products of Ethiopia are eligible for duty-free and quota-free U.S. market access.

Certification

Even though the absence of National Agricultural Certifier Institution, the country has organic farming proclamation, on the other hand there are about 6 international certifiers agents that certify the agricultural organic products.

Taxation

The principal taxes currently in place are profit tax; turn over tax (TOT), value-added tax (VAT), excise tax, customs duty and income tax from employment. VAT has replaced sales tax. TOT and withholding taxes have been introduced recently. Other taxes include corporate tax, dividend income tax, royalties and stamp duties.

The Government has recently been introducing a series of measures to reform the tax system with a view to encouraging investment and foreign trade. On the whole, the reform process is to reduce the rates but broaden the base.

Corporate Income Tax

The corporate income tax (tax on profit) in Ethiopia is 30 per cent.

1) Turn Over Tax (TOT)

A 2 per cent tax is payable from supplying of goods to the local market and rendering of construction, grain mill, tractor, combine harvesting services undertaken in the country. A 10 per cent tax is payable on other sectors excluding the above mentioned services.

2) Excise Tax

Excise tax is levied on selected items when produced locally or imported from abroad. The tax rate ranges from ten per cent to hundred per cent.

Customs Duties

Customs duties are payable on imports by all persons and entities which have no duty-free privileges. The main regulation on customs duty has introduced a harmonized system of classification of goods and the rate of customs duty ranges from 0 to 35 per cent.

Income Tax from Employment

Personal income tax is payable as per Proclamation No.286/2002. According to this law, the first Birr 150 of monthly personal income is exempted from payment of income tax. For monthly income of Birr 151 and above the marginal tax rates range from 10 per cent to 35 per cent with 7 income brackets as shown below.

Export Taxes

There are no taxes on export products and services from Ethiopia.

1) Withholding Tax

Withholding tax is payable on import of goods and is set at 3 per cent of the same cost, insurance and freight. In case of organizations, having legal personality, government agencies, private non-profit institutions, and non-governmental organizations (NGOs), the amount withheld is 2 per cent of the gross amount of payment.

2) Value Added Tax

Value added tax is levied on those businesses whose turnover is over and above Birr 500,000 per year. They are expected to pay 15 per cent VAT. All export goods and basic services, however, are exempted from VAT. In addition, some regional governments have additional investment incentives, which seem to be discretionary and differ among regions. For example, the Oromia Investment Commission has numerous grace periods for land rents, depending on the type of crop production. These are focused on encouraging investment in cash crops or in “under-utilized” lands. There are also provisions at the federal and regional levels to allow for transfer of lands to other persons or to use land leases as collateral to acquire financing from banks or other financial institutions.

2.4 Investment Climate in Ethiopia

Ethiopia has created a very attractive investment climate in recent years by providing potential investors with various tax breaks, access to affordable land, and a relatively efficient investment process. Ethiopia has also been very active in marketing these advantages to the world and to potential investors (Rahmato

2011), Land to Investors Large-Scale Land Transfers in Ethiopia, Addis Ababa, Ethiopia. The most commonly stated reasons include: affordable land rents (The minimum is 111 Ethiopia br which less than \$10 per ha and if it is near to Addis Ababa the maximum land rent per ha is 3333Ethiopia Br.), Suitable agro-climatic conditions, Low labor costs (labor is cheap and abundant), • Outstanding incentives, including tax holidays and duty free; Abundant amounts of “undeveloped” land, Proximity to foreign market centers; Abundant water resources; Right to export (not an option in India); Privileged access to other markets; Streamlined investment process. In addition, the Ethiopian government has established a “land bank,” further facilitating the process through which investors acquire land. Lands in the federal land bank are large contiguous blocks of land that will be given to foreign investors in lease areas of at least 5,000 ha.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Data sources, collection methods and survey plan

3.1.1 Secondary data

Secondary data from district offices, zonal and regional bureaus, and from the Ministry of Agriculture were collected and used for the study. Other secondary data like land regulations and policies were also collected from relevant government offices.

3.2.2 Primary data

Primary data collected from first hand sources like interviews, direct observation, and discussions. Interviews were made through questioners. The questionnaires were prepared based on relevant target groups: 1) For the owner of the company (Investor) or the representative of the company, in the vicinity of investment farms; 2) For the employers of the company; and 3) For the governmental body at district, zone and regional level. The major primary data collection tools used were: 1) interview and discussion with government officials at different level who are directly or indirectly involved in leasing land to the investors and who are responsible and accountable for land leased; 2) Key informant interview with people who are knowledgeable in the area; and 3) group discussion with employees of large-scale farms and interview with Company managers and owners. The company managers and owners have their own detail plan of actions and personal outlooks to investment strategies and leasing system, challenges & future prospects.

3.2 Data Organization and Analysis

The data entry exercise carried out using personal computers (PC's) using Excel-spread sheet. In order to check the quality of the entered data, verification was carried out. Data entered into the computer was checked for completeness, consistency and validity. Data analysis were done through qualitative and quantitative means. Among the class of qualitative techniques, content analysis, descriptions and narrative stories, presentation of case stories, and proportions were used as the major tools of analysis.

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 The Land Identification Approach in Ethiopia

The Ministry of Agriculture has delineated the land in a way that first, team of professionals at deferent level would be established. In most cases the team of professionals composed of Federal Offices such as the Ministry of Agriculture, Ethiopian Institute of Agricultural Research, National Soil Testing Center and Environmental Protection Authority are involved in the process. The team included professionals from the fields of Agronomy, Economics, Soils, Geographic Information Systems (GIS) and Land Use. At Regional and Zonal level experts from Investment Agency and Land Administration Bureau and at district level experts from Land Administration bureau were included. The team used four major approaches to collect the required information as summarized in Table 4 below.

Table 4: Major approaches used during the study for data collection

S.N.	Methodologies	Purpose	Tools used
1	Exhausting secondary information available at regional, zonal and district levels.	<ul style="list-style-type: none"> • To collect available socio-economic data. • To collect information on infrastructural facilities. 	<ul style="list-style-type: none"> • Data collection formats • Checklists
2	Group discussion with Heads, Directors, Professionals and Experts of different relevant offices at Regional, Zonal and District Level.	<ul style="list-style-type: none"> • To introduce the objectives and the mission of the team. • To collect information on investment potential of the regions, zone or district, availability and size of free land or sparsely occupied land for investment, opportunities for production of export commodities, potential risks/treats for investment, etc. 	<ul style="list-style-type: none"> • Guidelines
3	Field visits to potential areas that are suggested	<ul style="list-style-type: none"> • To have physical appraisal of potential investment areas and 	<ul style="list-style-type: none"> • Geographic Positioning

S.N.	Methodologies	Purpose	Tools used
	for agricultural investments.	<p>accessibilities.</p> <ul style="list-style-type: none"> • To estimate the area of potential investment land using GPS coordinates and appropriate GIS based soft wares. • To take soil samples and characterize the soil properties of suggested investment areas. • To assess irrigation potential of the area • To discuss with local communities on the agricultural and other aspects in the surroundings. 	<p>System (GPS).</p> <ul style="list-style-type: none"> • Topographic, aerial and different types of maps. • Satellite Imagery (spot 5, 2006) • Soil sampling implements and apparatus. • Digital cameras. • Guidelines.
4	Study team discussions, reflections and evening sessions.	<ul style="list-style-type: none"> • To discuss on the implementation status and outputs of the days. • Brainstorming on various issues and arrive at consensus. • To plan activities for the next day. 	<ul style="list-style-type: none"> • Guidelines.

Source: MoA (2008)

The field investigation was done to collect data about the physical features like land slope, soil texture, structure, color, consistency and depth; vegetation cover drainage class, surface stoniness. The auguring was made with “Edelman” auger to a depth of 30 to 120 cm and the results was recorded on the standard form for auger description. In total 126 auger observations were made and 14 composite samples were collected within the proposed area.

4.1.1 Challenges in Land identification

The following were the major finding from the identification of potential agricultural lands for large-scale farming (MoA 2008, MoA 2009a, MoA 2009b).

1) Poor Involvement of Local community

Investment efforts commenced in the proposed areas will be sustainable if the local community is consulted and closely involved on sensitive decisions related to delineation of investment sites, especially concerning shifting cultivation practice and traditional gold mining areas. Basically, the community is supportive for any such developmental interventions that intend to utilize the available resources and contribute for the development of national economy, in general, and the local economy, in particular. But the land identification process lacks such facts.

2) Limited Infrastructure

In some of the study districts, there are no access roads to the vast areas of proposed investment lands. This will create difficulty even to make detail feasibility study to assess the potential of the specific area for the type of investment it suits. Even though the regional government has plans to construct access roads in the next five years plan, urgent attention need to be paid and a priority should be given to implement in the beginning years of the plan period. Otherwise, it is challenging to utilize the proposed area for the required investment purposes.

3) Lack of detail Information

Detail physical and chemical properties of soils at the specific desired sites, assessment of ground water potentials, assessment of irrigation potential from neighboring rivers and ground water sources, identification of favorably adaptable high value crop varieties and perennials, market potentials of the products thought to be produced through investments, other aspects as per the needs of the investor under consideration.

The classification of the soils within the study areas was carried out based on field observation, auger observation and laboratory analysis. During the field assessment fifteen soil samples were collected from study areas (Districts). Field observation helped to identify major soil groups while laboratory analysis helped to characterize the soils based on their physical and chemical characteristics. According to the field observation, the major soil groups identified in the study areas included Nitisols, Vertisols, Fluvisols, Leptosols and Regosols. The soils were classified based on the revised FAO-UNESCO legend soil map of the world (1990). The depth of the dominant and well drained soil group, such as Nitisols, ranges from moderately deep to deep. The field soil investigation was conducted in two successive steps: 1) Field observation; 2) Auger observation; 3) Laboratory Analysis.

A field investigation was done to collect data like the slope, texture, structure, water logging, soil color, land cover, drainage class, surface stoniness, soil consistency and depth. After having the preliminary site, auger observations were made to study land and soil characteristics of the area. The auguring was made with “Edelman” auger to a depth of 30 cm. Auger observations were recorded on the standard form for auger description. In total 105 auger observations (in Benshangul Gumuze) were made to collect 15 composite samples within the proposed study areas.

The soil samples were air-dried and ground to pass through a 2-mm sieve before analysis. Soil analysis was carried out as outlines in Van Reeuwijk (1993) unless otherwise specified. Soil texture was determined by the modified Bouyoucos hydrometer method and the pH of the soils was potentiometrically measured by water (PH H₂O) in the supernatant suspension of soil to solution ratio of 1:2.5.

Organic carbon content of the soil was determined by the wet combustion procedure of Walkley and Black as outlined by Van Ranst et al. (1999). Total nitrogen content of the soil was determined by wet oxidation procedure of the Kjeldahl method (Bremner and Mulvaney 1982). The available phosphorus content of the soils was determined by 0.5 M sodium bicarbonate extraction solution (pH 8.5) method of Olsen. Exchangeable cations content and the cation exchange capacity (CEC) of the soils were determined by the 1M-ammonium acetate (pH 7) method according to the percolation tube procedure.

4) Length of the Study

It is clear that the task of land identification is somewhat time consuming activities. Here the task force took 30 days per region to finish their duties.

4.2 Conflicting Situations in the Land Transfer Process

In respect with land transfer activities, some regions are re-leasing the same land which is already transferred by the federal government to specific investors. This has created in one hand a conflicting situation among the investors owning legally the same investment land and also among MoA and regional states, which transferred the same land to different users. Such a paradox is frequently observed in Gambella Regional state districts such as Dimma, Goge and Itange, in Oromiya regional states district like Dollo mena, Berber, Gollolecha and Amegna, in Benishangul Regional state district like Guba, Dangure, Sherekole and Assossa). So as to solve such problem federal government; MoA has been arranging regular meeting and discussion with regional government at different level. The main reasons for this fact are the inadequate information among relevant stakeholders in the regions regarding the lands delineated and deposited at Federal land bank. Mainly, the agriculture investment offices at regional and district level should have

been introduced to transfer land by the experts at federal level. Moreover, the copy document which indicates the area, the boundary of the investment land, the lease agreement, the business plan and so on should have been provided to the respected land administration offices when the land is transferred. This was not given a serious attention and implemented and appears to be number one gap creating misunderstandings among the regions and the MoA . Though, experts of the regions are participating in the process of land delineation tasks, with their absence due to different reasons no one could indicate the boundary of the transferred land, so as not to violate the right of the investor who is the original owner of that specific land (Personal Communication to Tesfaye 2013).

The other gap contributing for the prevailing conflict situation among the investors and the community is inadequate involvement of the society in the process of land delineation activities. In accord with, the community developed enmity towards investment in general and in specific to the investor around their area of residence. As a result, they further violate the ownership right of the investors, which hampers the whole agricultural activities and leads to improper utilization of the transferred investment land. The violations from the side of the community/farmers expressed through disrupting the development activities by settling in the investment area belonging to specific investor and conducting farming activities. Besides, thefting or burning the investor's crop is the common interruption they are accustomed with to frustrate the investor and left the place for ever. Even though a lot of efforts have been delivered to calm down such conflicts among the investors and the surrounding farmers is still prevailing in the above listed highly potential regions identified mainly for large scale agricultural investment.

4.3 Administration Large-Scale Agriculture Investment

Before 2006/07 regions have been exercising the right to transfer agriculture investment lands for both foreign and domestic investors. On the process of evaluating the development status of the investment activities, which is conducted in 2008, the performance found to be very much discouraging. Accordingly, only 20 % of the transferred land was developed mainly under food crops though, the main strategically important interest of the country is focused on export and agro-processing crops. The major problems identified among the investment land administration process in the regions are:-

- The land allocated at regional levels were not mapped and transferred to the investors with supporting legal documents;
- Most of the investors have been provided with land without submission of a business plan describing the production and other related plans of the project, which in turn hampered the performance evaluation tasks;
- The regions were unable to screen and exclude the rent seekers and give a land provision service strictly only to the potential/developmental investors, which in turn has created a serious problem resulted with the under utilization and abuse of the lands transferred.
- Besides, it has been found that a big number of investors with large land holdings have inadequate financial capital to buy sufficient agricultural machineries like tractors, harvesters..etc, necessary to run on and off farming activities to the desirable standard, which is one of the major causes for poor land utilization status of the investment sector.
- In addition, most of the investment activities are run by none-professionals without relevant knowledge, skill and experience in the field of agriculture. This position of the investment companies has resulted with inefficient

management of the farms and at the final end with poor crop productivity and production level.

After the assessment, it was found that the main reason for the prevailing of the above listed problems is inadequate perception, capacity and experience of the regions to run such a big activity affecting seriously the economic and social development of the country. Accordingly, with the direct participation of the regions, it was decided to run the large scale land identification (more than 5000 ha.), transfer, follow up and support activities under the coordination of the federal government/MoA. Though, the coordination is from the federal government, in every process of the land administration activity the involvement of the regions is something to be given serious attention, so as to ensure the sustainability of the development of the sector. Moreover, all the benefits to be fetched as a result of investment activities belong to respected regions. Regarding the administration of large-scale agricultural investment, the major roles of the federal government are:

- facilitation and supporting of the same in area of land identification, promotion and screening of potential developmental investors;
- approval and registration of investment project proposals and transferring of the land to potential investors;
- Follow up and evaluation of the performance of the investors and in cooperation with stakeholder organizations provision of a support to strengthen their capacity in financial capital, human resource, agricultural machineries and inputs, and in infrastructure development.

Following the agreement reached with regions, MoA in cooperation with respected regions has delineated and allocate adjacent lands suitable for large scale investment with an area of above 5000 hectare and in some cases below 5000 where it deems necessary. These lands should be free from possession of any type

of users such as farmers/pastoralists and even the region which may already allocated that specific land for strategic important purpose.

The identified land various characters such as agro ecological and topographical data, soil character, socio-economic related information are collected and deposited in the land bank system. This information is very vital for the decision makers and the investors in determining agricultural investment lands suitable for development of one or on other type of agricultural crop.

The private agricultural sector has a supporting role to play in the fight against poverty. Therefore, mobilization of the private investment is imperative to promote broad based and sustained growth that will help drive poverty reduction. Those investors who received land from AISD are listed under table 5.

4.4 Social and Environmental Code of Practice

A sustainable agriculture is an environmentally friendly agricultural practice that involves the use of the limited natural resources to satisfy the present generation without compromising the interest of the future generation. Water, soil and biodiversity are the major objects of production that should wisely be utilized for sustainable agricultural practices. Unless these basic natural resources are conserved production and productivity of agricultural lands practically ceases to feed the population of our world.

Large scale agricultural investments has significant role in terms of labor security and other social factors related with investment. Employment procedures, labor administration and working environment are some other social factors that directly influence the investment sector.

The constitution of the Federal Democratic Republic of Ethiopia is the supreme law of the country and it imposes the right to live in a clean and healthy environment (AISD 2011) accordingly, the code of practice is abided by the supreme law. Social and environmental code of practice is important aspect of development in a sense that it creates a close cooperation between companies and the surrounding community. This helps to strengthen the participation of both parties in maintaining a healthy local security.

The major objective of the Code of practice is to provide a system/mechanism that enables the Agricultural Investment sector to conduct environmentally friendly agricultural practices, minimizing vulnerability of human and natural resources to the adverse impacts of aggravated depletion of the environment. To increase competitiveness of agricultural products in both internal and external markets and develop the exports of agricultural products provision of technically sound, and a sustainable set of operational standards is of paramount of importance.

According to the rule and regulation of the code of practice, agricultural investment enterprises working on irrigation farms of 3000 ha and above and all farms that are operational with in and near protected areas like; prioritized forests, national parks, sanctuaries and hunting reserve areas are obliged to undertake Environmental Impact Assessment (EIA) and implement as per the management plan designed. Complying with the ‘Code of Practice for Agricultural Investment’ is compulsory to all enterprises that are engaged in agricultural investment. This includes:

- a) undertaking environmental impact assessment,
- b) Giving attention to soil and water management of the farmlands.

- c) Protecting the biodiversity and/or habitats of the surrounding from fragmentation and complete destruction and favoring more attention to higher shrubs, endangered indigenous trees and rare species.
- d) minimizing detrimental impact on environment;
- e) implementing integrated pest management (IPM) and bio-pesticides/fertilizers and reducing the use of Agrochemicals;
- f) taking a responsible attitude towards health and safety of workers & the surrounding community;
- g) taking a responsible and a practical commitment towards consumer health and safety;
- h) providing an appropriate working environment;
- i) Developing a responsible positive attitude and active interactions towards and within the local community.

MoA with its relevant departments in general should facilitate and put in place the environment management code of practice implementation system, so as to assure a sustainable environmental impact assessment & implement mitigation measures set in the environmental management plan. This maintains the local environment, production & productivity of the farms and the well being of the farm laborers & the local community and keeps up competitiveness of the national agricultural products on local and global market.

With all these fact, the former EPA (Environmental Protection Authority) the now Ministry of Forest and Environmental Protection (MoFEP) has signed a memorandum of understanding with MoA which gives responsibility to MoA to follow environmental issues on the land identified and allocated for large scale

agricultural investment activities, which should be performed with environmental friendly ways .

The content of the agreement is, Ministry of Forest and Environmental Protection had given mandate for MoA. So those investors who have taken land from MoA are expected to submit Environmental Impact Assessment within three months on the date of having land. The submitted draft EIA document would be evaluated by six committee of the Agricultural Investment Support directorate with their educational background of Forestry and land Resource Management, Lawyer, Soil, Agronomist, Land Administration and Land Survey and then after the document being evaluated by the experts of the directorate, the investors will get acceptance letter from the office. And the MoA through Agricultural Investment Support Directorate evaluate investors' performance based on investors' Environmental Management plan. But on the implementation part there have been a lot of challenges, among which below listed are the major.

- ❖ Investors are unable to submit EIA document on time mentioned on the lease agreement document signed by both parties.
- ❖ More over those companies which has already endorsed their EIA document yet didn't start to implement the environmental code of practice in full fledged manner.
- ❖ The importance of implementing the code of practice is not well bought by the concerned government and regional administration, which is resulted with poor integration of concerned sectors both at federal and regional level responsible to ensure the safety of the environment in the agriculture investment areas.

- ❖ Experts at farm level are not well aware of the decisive role of code of practice in keeping the environment free of pollution, which in turn results long lasting and sustainable growth of agriculture investment production and productivity.
- ❖ The AISD and Regions do not have adequate organizational structure equipped with sufficient logistics and human power to carry out their responsibility to guide and follow-up the implementation of the code of practice vs. each and every investment areas. But at federal level there are experts with different background like Forestry and land Resource Management, Lawyer, Soil, Agronomist, Land Administration and Land Survey who are responsible for overseeing EIA.

Table 5: List of Agriculture Investment projects (greater than 4000 ha) submitted the EIA document

Project's Name	Land size (ha)	Land Acquisition Date	EIA Approved Date	Remark ²
Karuturi Agro-products Plc	100000	25/10/02	Dec 14, 2011	
S & P Energy Solutions (Shaporji)	50000	1/03/02	Not yet	Given Warning letter
BHO	27000	1/03/02	Nov30, 2011	
Ruchi	25000	05/04/02	Not yet	
Hunan Dafengyuan Agriculture	25000	25/11/02	Not yet	Dismissed
Saber Farms PLC	25000	9/05/03	Not yet	Given Warning letter
HORIZONE Plantation Plc	20000	7/06/04	Not yet	Given Warning letter
Adama	18516	17/12/02	Not yet	Given Warning letter
Hase Agro Industry	14704	30/11/03	Not yet	Given Warning letter
Whitefield	10000	1/08/02	Jan 30, 2011	
Sannati	10000	01/09/02	May3, 2011	
Saudi Star Agr. Development Plc	10000	25/10/02	May31, 2011	
Toren Agro Industries PLC	6000	01/12/04	Not yet	
Access Capital	5000	01/02/03	Not yet	Given Warning letter
Tracon Trading Plc	5000	10/07/03	Nov 28, 2011	
Mela Agricultural Development Plc	5000	07/07/02	March 12, 2012	
JVL OVERSEAS industries limited	5000	19/2/05	Not yet	Given Warning letter
Daniel Agricultural Development Enterprise	5000	20/12/01	March 19, 2012	
Green Valley Agro Plc	5000	8/11/03	Not yet	
Lucci Agricultural Development Plc	4003	30/03/02	Not yet	Given Warning letter

Source: AISD (2013)

² All investors are expected to start operation within 6 months on the date of land acquisition and those that did not start operation are given warning letter.

Even though the Environmental Impact assessment proclamation no 299/1999 obliged the investors to submit EIA document within 3 months starting from the date of land accusation, the majority of the investors submitted EIA document very late. There are also a big number of investors who has not yet submitted the document. In order to alert the investors to submit the EIA document, so far an awareness creation discussion was held with the same and besides administration measures had been taken by MoA. Even though, according to the agreement made between investors and MoA, the lessee is expected to start to develop the land within six months from the date of execution of the land lease agreement, information which indicates the date of start of the development activities on the above listed investment farms is not available.

4.5 Provision of Support Services to Agricultural Investors

Out of the total deposited land at the federal land bank, only 453986 hectares (12.34%) of land were allotted to 12 Ethiopian, 8 Ethiopian Diasporas, 11 Indian, 2 Saudi Arabia, 3 Turkish and China 1, Pakistan 1, Holland 1, totally to 39 investors. Besides, a number of new investors have applied for land acquisition. (MoA 2013). Because, the development performance of those investors who took land at federal level is so far below the projects' business plan, in accord with the direction given by the federal government, AISD has stopped transferring large size of land (5000 and above hectares) and decided to amend this scale to the maximum of 5000 hectares. In addition to this the investors who had performed the development to the desired level could apply for extra land to expand the scale of investment project (Capital News paper 2013). The general information regarding the investors who has got land at federal level is demonstrated on annexed 2.

To avert this situation and smooth the ground of investment for investors and to achieve the desirable result, the government is delivering supporting activities in various ways, which the following are the main ones.

1) At Federal Level

The overall performance of Agricultural Investment Support Directorate were evaluated monthly by export commodity coordination committee and passed relevant decision. Among the decision, some of them are listed below:- transferring of investment land to foreign investors has to be conducted at federal government level, land at Federal land bank which will be available for crops should not transferred for jateropha, the potential delineated land at regional level should be transfer with delegation to Ministry of Agriculture, those investors who have not developed their land within five year on the date of land acquisition from regions should return it for the region, MoA, MoFED, Industry Ministry and Development land should work together to solve the marketing problem of cotton, the minimum transferred land for foreign investors should be 8 ha, MoA has to transferred land for crops like sugarcane, cotton, rubber and palm oil, land which is available around river (easily irrigated land) should not be transferred for investors, official at regional level who abuse land should be accused and the like were the decision passed by the export commodity coordination committee. The members of the committee were 13 in number and used to be chaired by the late Prime Minister H.E Meles Zenawi. The committee was composed of: Minister, Ministry of Agriculture; Minister, Ministry Transport; Minister, Ministry Industry; Minister, Ministry of Trade, Minister, State Minister ministry of Trade; State Minister, Ministry of Transport; State Minister, Ministry of Industry; State Minister, Mnstry of Agriculture; Director of Custom and Duty Authority; Deputy Director of Custom and Duty Authority; and Director of Horticultural Agency.

But to date, the support given by the Export Promotion Committee is discontinued after the death of the late Prime Minister, His Excellency Meles Zenawi.

2) Financial Support

Investors are expected to deposit 30 % of their project costs. The remaining 70 % would be covered as a loan by the Development Bank of Ethiopia. The Bank has its own requirements to provide loan to investors and it works closely with Ministry of Agriculture to facilitate the service. So far, Development and Commercial Bank of Ethiopia provided loan for 12 investors around 1,263,972,431 amounts of Ethiopian birr of which nine of them are pure foreign investors, 2 are Ethiopians and 1 is a Diaspora.

Table 6: Amount of Loan taken by Large-Scale Farms from Development and Commercial Bank of Ethiopia

Name of the Company	Amount of loan
Lucy Farm PLC	106495000
CLC	124,394,558
White field	90149270
Verdanta	89,490,755.00
BHO	45,485,484
Tracon Trading	46476057
Mamay Meheret	15000000
Ruchi	410,070,356
Karaturi	127,269,956
Green Vally	99,897,689
Agro Peac	109,243,306
Total	1,263,972,431

Source • AISD (2013)

3) Duty Free Import Service

The government gives 100 percent exemption from the payment of import customs duty and other taxes levied on imports is granted to investment capital goods and construction materials necessary for the establishment of a new enterprise or for

the expansion or upgrading of an existing enterprise as well as spare parts worth up to 15 percent of the value of the imported capital goods.

The Case of Karuturi Agro. Products Plc in Ethiopia

As a support provided to Karuturi farm in Ethiopia, the Company was allowed to import duty free machineries of the following types: 16 Loaders, 15 Big – John Deere Tractors, 48 Small tractors, 8Harvestors/Combiners, 31 Excavators, 3 John Deere Boom Sprayers and 15 Beml – Bulldozers. While this is what is available at the AISD, the Company has imported more machineries and vehicles.

4.6 Development Status of Large-Scale Foreign Agricultural Investment in Oromiya Region

Employment opportunity and camp arrangement

During site observation, almost all visited investors provide permanent and temporary job opportunity for the local employee as well as for the employees from the neighboring regions. Here, the term temporary refers to harvesting and farming time. It is short period of time; may be for four months that the investors create job opportunity for temporary employers. Regarding the creation of suitable working environment to the employees of the companies, it is not given a reasonable attention and a lot should be done in facilitating offices, residences, recreation centers, toilet and shower and first aid services to the employees so as to improve the productivity of the same.

Such problems are also observed in previously state owned and transferred to private investors enterprises, characterized with very old camps which need a serious intervention so as to facilitate favorable working condition to the staff and laborers of the company. A lot of complaints are heard from the side of mainly the daily laborers regarding the wage they are paid with. It is because their daily wage is not faire. Some investors are paying small amount of salaries for their daily laborer which is 10 – 12 birr/day generally the average daily salary is 15 birr/day/laborer which is less than \$1 USA dollar. Regarding about employment legality issue, most of the company do not have formal agreement with the employees.

Farm Machinery Availability

Even though, the visited investors who are considered in the study except for coffee growers do have tractors with its accessories, it is not sufficient in number as compared to the size of land they own. In addition, most of the companies don't have a shelter where by the machineries could park and protected from various weather conditions, which are a serious cause for the shortening of active life time of the same.

Technology interventions

Various modern agriculture technologies like high yield seed varieties, chemical fertilizers, water harvesting and irrigation systems and others relevant interventions are not well taken and implemented, so as to boost production and productivity of different agricultural commodities.

Though, large scale agricultural companies/investors are encouraged and supported by relevant institutes to establish modern commercial farming which is characterized with intensive usage of technology, most of them considered and assessed under the research program are performing far below the desirable standard and accordingly they are found to be less productive versus the national average productivity. Most of them are unable to use improved varieties means that they commonly used local seed varieties, are not managing their farm with professional experts, they have limited farm machineries as compared with their farm size and so on are some of their constraint.

Production and productivity

Ethiopia has endorsed 5 years Growth and Transformation Plan (GTP) mainly focusing on development of the country through transformation of subsistence farming to commercialization through attaining modern farms with intensive implementation of relevant technologies and increased production and productivity. Expansion of such farming enterprises will increase share of marketed production and strengthen the pro-poor basic agriculture within the frame of the national food security program.

On the other hand, as a result of low standard of technologies prevailing in these farms, the productivity level is found to be not satisfactory. For example, the productivity of Coffee is 5-7qt/ha, Wheat 12 -18qt/ha, Soybean 15qt/ha, Sesame 6qt/ha, Sorghum 8qt/ha. Which is lower than the national average, which is 8, 26 qt/ha, 14.8qt/ha, 7.5qt/ha and 25.5 qt/ha respectively.

In general, agricultural investment development activities are actual and important in our endeavor to enhance the domestic market through ensuring and sustaining

the growth of crop production and productivity. This in turn will impact positively on the acceleration of economic growth of the country and living standard of its population at large.

The detail information about each company is attached as an annex 1.

4.7 Constraint observed in the regions

The government has created favorable conditions for investors of local and foreign origins to strengthen the agricultural investment sector by enacting investment proclamation. This act put in place various incentive mechanisms and establishes institutions both at federal and regional level, with a mandate to provide different support services to enforce the capacity of the investors. Due to these the inflow of both local and foreign private investors to the sector has increased highly from time to time. In this regard, the major regions accommodating most of the investors engaged in the sector are Oromiya, Amhara, SNNP, Benshangul Gumuz, Gambella and Tigray. Despite the high number of investors in these regions, the land utilization performance is found to be not to the level of the business plan endorsed by them. One of the major problems hampering the progress of the sector is inadequate organizational structure, logistics and human resource both at federal and regional to the grass root level, which is responsible to provide effective and efficient administrative and technical support to investors. As a result, most of the investors are incapable to run their business smoothly and coherently as per their business plan. Besides, there are observed different kinds of obstacles which should get a serious attention and resolved as fast as possible to attain the GTP of the agriculture investment sector. Some of them are listed below:

- ❖ Very loose integration of sectors at federal level (Ministry of agriculture, Trade, Industry; Various Financial Institutes, Telecom, Electric Power Corporation, Road Construction Authority etc...), which are directly or indirectly responsible to support investors.
- ❖ The same with the sectors at regional level like Investment Agency, Land Administration and Agricultural development offices which are responsible to follow up and support the investment sector.
- ❖ Though, the federal government passed a circular which prohibit regions not to transfer land for foreign investors, because it is its mandate, in practice it has been observed that these circulars does not implemented in some regions. For example in eastern Oromia region, Western Hararghe Zone two foreign investors are on the process to get land from the region.
- ❖ The region is unable to evaluate the performance of investors because do not have adequate vehicle. Even they do not have complete data about foreign investors.

4.8 Major Problems raised by Investors

- ❖ Illegal occupation of already leased and transferred investment lands by farmers. specially it is common in East and west Wollega , West Arsi and West Showa Zone;
- ❖ Repeated occurrence of theft on the property of the company specially in West show zone;
- ❖ Negative attitude of local farmers towards the commercial farms;
- ❖ Lack of infrastructure service like electricity, road, telecommunication and so on, around their farm such a problem is found to be very serious in East Wellega zone.

CHAPTER FIVE: CONCLUSION AND POLICY IMPLICATIONS

5.1 Conclusion

Agriculture is the most important economic sector of the country contributing about half of the GDP, 90% foreign earning and 83% of the population employment (MOARD, 2010, NMSA 2011). However, the production and productivities system of the country is low. The unavailability of adequate fertilizer and its high cost; drought and also the absence of improved seeds are among the many that contributed significantly to the low production (MOARD 2010).

The private agricultural sector has a central role to play in the war against poverty and mobilizing private investment is imperatives for promoting the broad based and sustained growth that will help to reduce poverty. In today's global economy, private investment is both domestic & foreign and takes many forms, from physical assets to intellectual capital.

Currently, Ministry of Agriculture delineated Agricultural investment land, verified and deposited in the federal land bank. After getting the official delegation from the regions to administer the land delineated, AISD has transferred nearly 500 thousand ha of land to investors. But their performance regarding about technology transferred, production and productivities, employment opportunities and the like is not attractive so to boost up the benefit of large commercial farm, the Federal government of Ethiopia has to strengthen it collaboration with relevant organization at federal and regional level, Agricultural investment support program should be done with well organized structure staffed and the like.

5.2 Policy Implications

In order to strengthen the performance of the foreign agricultural investors and to increase production and productivity of the farm the following recommendations are suggested.

- ❖ Ministry of Agriculture should work effectively in collaboration with relevant organization at federal and regional level to mobilize and support effectively the foreign investors/FDI;
- ❖ Agriculture investment support program should be spear headed by well organized structure staffed with sufficient logistics and skilled manpower at all administration levels, so that to bring transformation in agriculture investment sector and achieve a tangible increment of production and productivity.
- ❖ Frequent discussion forums should be organized whereby all stakeholders could come together and search for a possible solution ideas and practices against the problems encountered in the sector. Besides, extension of an effective follow-up and supporting system to ensure complete implementation and practicality of the agreed solutions outputted on the meetings conducted among the stakeholders is very crucial.
- ❖ According to country's land administration rules and regulations, transferring of investment land to foreign investors has to be conducted at federal government level. In contrast, if it is done at regional level, the investors will face a problem in using their right to get different services like tax free import of different machineries' and inputs, which is delivered strictly at federal level. Therefore, for smooth and

effective implementation of the mission of FDI, the regions should abide with the land administration rules of the country.

- ❖ There has to be some standard to grant additional land to foreign investors who acquired land previously and these standards have to be performance based standards which include developing the land previously acquired and it has to be given by the federal level after evaluating its performance.
- ❖ Federal Ministry of Agriculture with regions should work more on awareness creation programs so as to change the attitude of the concerned parties and convincing them about the benefit of large scale farming for the community and for the country's economy at large is very essential.

Annexes

Annex 1: Company's detailed information

No	Name of the company	Zone	District	Land received (ha)	Developed land (ha)	Undeveloped land (ha)	Reason for undeveloped	Comment forwarded
1	Green fox plc	East wollega	Gutogeda	2276	1500	776	For long period of time it had a problem with farmer but now resolved.	Communication with community is good, but the problem with farm management should be improved.
2	Sat katar hawaze	East wollega	Gutogeda	968	377	59	Because joint venture association is established recently	There are repeated theft problems which the district and surrounding community have reached to decision to minimizing the problems.
3	habte kitessa	west wollega	Nejjio	70	41	29	Due to weakness of the company	The developmental progress is not satisfactory
4	Amanuel Abesse	West wollega	seyionolle	200	50	150	They started land development recently	
5	Kepe abdulnasir coffe development	Jimma	Sekka cheqwore sa	60	60	0		
6	Jimma milk dung rearing	Jimma	Gamma city	38	36	2	2 ha of land is taken by city water development	The land was formerly owned by the state , however there is no improvement observed after transferred to the private sector .
7	Habena coffee plantaion	Jiamma	Gera woreda	300	222	78	They are Planed to cultivate next year	
8	Abddu aman aba jobbire	Jimma	Limmu kossa	100	55	45	They are Planed to cultivate next year	The development progress is not satisfactory
9	Lebel plc	Jimma	Limmu	350	210	140	They took 140ha of	

No	Name of the company	Zone	District	Land received (ha)	Developed land (ha)	Undeveloped land (ha)	Reason for undeveloped	Comment forwarded
			kossa				land in 2001 for further expansion.	
10	Seruffita modern farm	West arsi	Dodola	5000	1165	3835	They took additional 1198ha in 2005.	There is no tangible distinction with local farmers; poor productivity and management
11	Eleforra melege shallo	West arsi	Wondo enttayio	3099	1500	1599	They are exercising fallowing farming system	There are progresses to improve their performance.
12	Seasam and cotton farm	West harrege	Miasso	150	5	100	They took land in 2005	Even though they received the land in 2004, no camp constriction had been made; they developed only 5 ha of land.
13	mechere odi gibeya(karatori)	West shewa	Tibbe bakko	10980	4500	6480		The development progress is not satisfactory final notice has to be given.
14	Nienet agri plc	East wollega	Gubba neya boshee	4000	0	4000	They do not have reason for their underdeveloped	Unable to develop the land 2004 E.C. So final notice has to be given.
15	yikkero agro industry	jimma	Gerra	141.6	119	22.6	Problem of the company	No representative found at farm final notice has to be given to the company.
16	JJJ natural coffee development	Jimma	Gerra	145	-		Death of the owner of the company	The company could not pay bank loan
17	Zieffo agro limmeted campany	w/harrige	Boke tikko	300	0	300		The development progress is not satisfactory final notice has to be given.
18	alefora dewa cheffa agero	oromo national	Dawa cheffe	1773.7	1200	573.7	Water leggy problem	production and productivity is good

No	Name of the company	Zone	District	Land received (ha)	Developed land (ha)	Undeveloped land (ha)	Reason for undeveloped	Comment forwarded
	processing	administration zone (amhara)						
18	Wamma sugar project	East wollega	Sibu sire	3492	1826	1666	They got a problem in bordering of 945 ha of land with farmer but zone is on the way to solve the problem	
18	Morel agro industry	West arsi	Kokosa	357	225	132	They have been paying tax for 357 ha of land but they own only 225ha of land.	
20	Ethio agri seft	East Gojjame	Jabi tehenane	8851.5	7000	1851.5	32 farmers are found inside the farm.	
21	BDFC	Jimma	Lemmu kossa	5000	452	4548	The company who has poor capacity to develop 5000 ha of land	
22	gattam sugaliki	oromia	West wollega	500	0	500		The company who does not develop the land because they did not make proper feasibility study before they received the land
23	Mohedine ahemed abdella	Oromia	West wollega	500	0	500		The company who does not develop the land and they are now requested substitution land.
	Total							

Annex 2• Basic data of Investors , received agriculture investment land from MoA

No	Investor/Company Name	Nationality	Region	Investment Type	land size in ha	Agreement signed date	Capital registered (Mil. Birr)
1	Daniel Agricultural Development Enterprise	Diaspora (U.S.A)	SNNPR	Cotton& grains	5,000	1/11/2002	65
2	Reta	Diaspora (U.S.A)	SNNPR	Cotton	2,137	1/11/2002	12.77
3	Mela Agricultural Development PLC	Ethiopia	SNNPR	Cotton	5,000	3/10/2002	42.5
4	Lucci Agricultural Development PLC	Ethiopia	SNNPR	Cotton	4,003	3/30/2002	82.8
5	CLC (Spentex)	Indian	B/Gumuz, Amara	Cotton	25,000	4/17/2002	1177.2
6	Keystone	Diaspora (U.S.A)	B/Gumuz	Horticultural & Crops	431	4/26/2002	66.3

7	Tsegaye Demoze Agricultural Development	Diaspora (U.S.A)	SNNPR	Cotton, Sesame & Soybean	1,000	5/17/2002	8.58
8	Shaporji	Indian	B/Gumuz	Pongamia (Bio Fuel tree)	50,000	6/22/2002	984
9	Ruchi	Indian	Gambella	Soya bean	25,000	7/27/2002	1451
10	Verdanta	Indian	Gambella	Tea	3,012	8/13/2002	631.4
11	BHO	Indian	Gambella	Edible oil Crops	27,000	9/3/2002	918.4
12	Rahwa	Ethiopia	SNNPR	Cotton & Grains	3,000	9/7/2002	13.6
13	Hunan Dafengyuan Agriculture	China	Gambella	Sugar Cane	25,000	11/5/2002	2,973.06
14	White Field	Indian	SNNPR	Cotton	10,000	11//5/2002	32
15	Adama	Ethiopia	SNNPR	Cotton	18,516	12/8/2002	323.24
16	Sannati	Indian	Gambella	Rice	10,000	1/24/2003	160.4
17	Access Capital	Ethiopia	B/Gumuz	Sesame & beans	5,000	2/1/2003	60.7

18	Saudi Star Agricultural Development	Saudi	Gambella	Rice	10,000	2/22/2003	37,640
19	Karuturi Agro Products PLC	Indian	Gambella	palm,cereals, rice & Suger cane	100,000	2/26/2003	2,109.53
20	Kehedam Trading	Ethiopia	B/Gumuz	Oil Crop	3,000	3/28/2003	12.9
21	Bruhway	Ethiopia	B/Gumuz	Cotton,Soyabean	5,000	4/8/2003	60
22	Dr. Taeme Hadgu	Diaspora (U.S.A)	SNNPR	Cotton, Seeds	5,000	4/9/2003	74
23	ASKY Agricultural Development	Ethiopia	B/Gumuz	Cotton	3,000	7/13/2003	60.3
24	Tracon Trading Pvt. Ltd/ Co.	Ethiopia	B/Gumuz	Cotton	5,000	7/13/2003	61
25	Saber Farms PLC	Indian	Gambella	Cotton & Soya bean	25,000	9/2/2003	436
26	Getafan Mechanized Farming	Diaspora (U.S.A)	B/Gumuz	Cotton ,Fruits,Oil Crops & Pulses	3,000	11/4/2003	21

27	Toren Agro Industries PLC	Turkey	Gambella	Cotton &Soya bean	6,000	1/12/2004	1,012
28	Tigab Agro Industry	Ethiopia	B/Gumuz	Cotton, Oil Crops	3,000	12/3/2003	49
29	Tikimte Agricultural PLC	Ethiopia	B/Gumuz	Cotton	3,000	1/26/2004	56.5
30	Gashaw Bizu Takele	Diaspora (U.S.A)	B/Gumuz	Cotton	3,000	3/14/2004	44.3
31	Nega mamay mihret	Diaspora (U.S.A)	B/Gumuz	Cotton	3,000	1/12/2004	255
32	Hase Agro Industry	Ethiopia	SNNPR	Cotton	14,704		140
33	JVL OVERSEAS industries limited	Indian	Gambella	Cotton farming & Related Activity	5,000	41,085	172
34	LOTUS International Company L.T.D	Saudi	B/Gumuz	Cotton	3000	9/6/2012	150
35	OMO VALLEY FARM CooperationPLC	Turkey	SNNPR	Cotton	1,000	6/25/2012	10

36	HORIZONE Plantation PLC	Holland	B/Gumuz	Ground nut farming & related	20,000	9/1/2012	19
37	GREEN VALLEY AGRO PLC	Indian	Gambella	Cotton farming & Related Activity	5,000	1/25/2012	172.2062
38	AL-Mehadi Match Makers PLC	Pakistan	SNNPR	Match stick Tree plantation	1,000	30/7/2012	17.115
39	Agropeace Bio Eth PLC	Israel	Somalia	Production of Oil & cotton principal	2,000	24/8/2012	15

Source: AISD (2013)

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