COMMERCIALISATION OF FARMING IN ETHIOPIA: WHICH PATHWAYS?[1]

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Abstract

The paper considers the various and potential meanings of commercialisation (or market-oriented agriculture) for Ethiopia. Much attention has been paid recently to high-tech, large-scale, export-oriented enterprises such as floriculture: but international evidence and Ethiopian realities demonstrate that this is only one of many complementary pathways to commercialisation. Most of Ethiopia's small farm households are already engaged with markets to varying degrees: improving the terms of that engagement is likely to have a greater and more widespread impact on poverty than a few large ventures, and should be given equal policy attention.

Policy debates on commercialisation of agriculture are not new in Ethiopia: various approaches and strategies have been dominant in different periods of history. While improving productivity, increasing foreign currency earnings through export and developing a strong agro-industrial sector were the focus of policy attention in the 1950s and 1960s; accelerating growth and poverty reduction have been much more the focus of recent attempts to increase the commercial orientation of farm households.

We suggest that four types of commercial farms can currently be discerned in Ethiopia:

- *Farming households in marginal or remote areas who have had relatively little interaction with markets until now, but who have the potential and interest to benefit from greater commercialisation or more advantageous interactions;*
- *Farming households living in more productive and market-linked areas, and/ or growing highly commercialised crops (such as coffee and tea), who have a long*

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experience of production for the market;

- *Small investor-farmers, mostly educated and town-based, some of them agricultural professionals, who have begun to establish farming businesses in the last few years in response to the freeing up of land regulations; and*
- *Large capital-intensive business ventures.*

Different policy support is likely to be needed for different agro-ecological and socio-economic environments and for different groups of farming households, but all can benefit from (and contribute to) enhanced market oriented agricultural growth. Whichever pathways are followed, the destination should be increased income and improved quality of life for rural Ethiopians.

1. Introduction

Agricultural commercialisation has been in the policy spotlight in Ethiopia for the last two years, since it was given a central place in the country's second Poverty Reduction Strategy Paper (MoFED 2006; see also Amdissa 2006). The overall development strategy as set out in the 'Plan for Accelerated and Sustained Development to End Poverty' (PASDEP) for the next five years is built on eight pillars. The second pillar foresees a massive push to accelerate growth aiming at improving people's livelihoods and significantly reducing poverty. The two main thrusts to achieve this are (a) the commercialisation of agriculture, and (b) accelerating the development of the private sector, both within and outside agriculture. A major transformation of the agricultural sector is envisaged and farmers, both small and large, should be linked more strongly to markets by producing marketable farm products, both for export and domestic markets. The Government is well aware that such an agricultural transformation can only be pro-poor if initiatives to enhance market integration are accompanied by substantial measures to support more subsistence-oriented farm households (such as social protection and the development of non-farm income sources).

Although mentioned in the PASDEP, the meaning(s) of commercialisation, and the question of what type of commercialisation should be pursued, has been relatively little discussed by policy makers and development experts. The issue of small versus large farms, or how small a farm could be for sustainable commercialisation, is one that needs policy debate in Ethiopia. In addition, whether commercialisation focuses largely on non-food or food crops, and on export or domestic markets, has different implications for the economy.

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Recent high-profile agri-business investments (notably in large-scale export floriculture) have led some observers to worry that the new emphasis on commercialisation will mean the neglect of the country's approximately 11.5 million smallholders (MoFED, 2006), or the creation of a dualistic agricultural sector. Yet, on paper at least, the government remains committed to "market-oriented" agriculture for smallholders alongside the promotion of large-scale export-oriented ventures where opportunities exist.

Future Agricultures' thematic work on agricultural commercialisation(s) provides a conceptual and international context for the Ethiopian debate. Among the relevant issues Leavy and Poulton (2007) raise in view of current policy discourse around agricultural commercialisation, which are specifically relevant for Ethiopia, are the following.

- There is a tendency to simplification and separation of producers into different types of farms (small versus large farms) growing different types of crops (food versus cash crops) with a distinction made between "subsistence" and "commercial" or "export-oriented" agriculture. In reality, typical farms in Ethiopia, although they tend to be small, combine production both for own consumption and for the market. Even in areas highly favourable for growing export crops such as coffee, farm households usually have a diversified farm, including food crops for consumption and for sale on local markets and cash crops such as coffee, which is destined – depending on the quality – either for the domestic or for the export market.
- Whilst the degree of market participation in the output market lies at the heart of most definitions of agricultural commercialisation, other dimensions are also of relevance. These include the degree of participation in input markets, the degree of relying on hired labour, and the profit motive.
- Although farm size can have an important influence whether or not a household adopts a commercialised farming strategy, size alone is not the decisive factor. It is, however, a strong limiting factor in the absence of efficient food markets – in this case, households with smallholdings have to be assisted to achieve higher staple yield before they will begin to devote land to production of higher value market products. Once households can be reasonably sure that they can meet their food needs in a normal year over a longer period of time, investments in producing for the market starts making sense. Attention will thus have to be paid to increase the productivity of food staples alongside support provided to the expansion of commercial agriculture.
- Large farm bias may develop in practice, even when policy appears to be pro-smallholder on paper. Explanations for this are that large farms can prosper when the basic enabling environment (macroeconomic stability, banking sector, trunk infrastructure, political support for private enterprises, research and

development) is in place, as they can secure critical services for themselves. Smallholders, by contrast, need a much more pro-active service and support system (e.g. pre-and post harvest services related to extension, finance, inputs, knowledge and capacity). If these support services are not available – and this is an implementation, not a policy issue - then there is little prospect for the development of a viable commercially oriented smallholder sector.

- Lastly – a point that has been at least partly taken into account in PASDEP[4] – geography matters for any agricultural policy. Ethiopia is a vast country with a highly differentiated geography and diverse bio-physical and socio-economic endowments. From an agricultural development perspective, absolute and comparative advantages of different communities are fundamentally important frames for designing development strategies. The original differentiation, mainly based on moisture availability, has recently been expanded by including access to markets and infrastructure and population density resulting in 25 sub-categories based on combinations of four criteria: (i) moisture / rainfall (moisture reliable / drought prone / pastoralist) (ii) altitude (highland / lowland), (iii) access (high / low), and (iv) population density (high / medium / low) (Chamberlin et al., 2006).

This paper sets out to provide a brief narrative context to Future Agricultures' empirical and consultative work on commercialisation in Ethiopia. For specific analyses of two important but very different crops, tef and coffee, see Samuel Gebreselassie and Sharp (2007) and Samuel Gebreselassie and Ludi (2007), respectively. The issue of commercialisation has also been addressed in the series of regional consultations organised to develop and test an inclusive model of policy dialogue, and to generate indicative policy ideas and trends on the future of agriculture in Ethiopia.[5]

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[4] PASDEP (MoFED, 2006) defines four main four main zones: (i) areas with significant potential for commercialisation and diversification (i.e. areas with significant access to markets and infrastructure, high agro-ecological potential); (ii) drought-prone regions (emphasis on food security, reducing volatility of production, diversification away from food crops, increasing off-farm income, voluntary resettlement); (iii) regions with adequate rainfall (emphasis on improving infrastructure and basic input and market systems to facilitate increases in agricultural production), and (iv) pastoral areas (emphasis on providing appropriate infrastructure and social services and tailoring research and extension programmes more towards the needs of dryland agriculture and livestock).

[5] Six regional consultations were held in 2006 and 2007, culminating in a national workshop in June 2007 (see http://www.future-agricultures.org/ethiopia_national_consultation.html). The consultations were thematically structured around the scenarios proposed in Devereux et al. (2005), and each included a break-out group and plenary discussion on commercialisation.

2. Historical background

Debates on commercialisation are not new in Ethiopia. Especially since 1957, when various development strategies, economic policies and development plans were introduced in the formal economic planning process, there have been a number of attempts to improve the performance of the agricultural sector and to lower the dependency of the Ethiopian economy on smallholder agriculture. The first Five-Year Plan (1957-61) sought to develop infrastructure and human resources, and aimed to accelerate agricultural development by promoting commercial agricultural enterprises. The second Five-Year Plan (1962-67) signalled the start of a twenty-year programme to change Ethiopia's predominantly agricultural economy to an agro-industrial one. Based on the World Bank's agricultural modernization strategy, large-scale commercial farms were recommended. Increasing agricultural export was also one of the major objectives of the agricultural sector at that time (Dessalegn, 2005; EEA, 2005).

A study by Dessalegn (2005) found that during the Imperial Regime, Ethiopia's agricultural policies became increasingly outward oriented. In the late 1960s, large-scale mechanised farms began to emerge in the southern and eastern part of the country, producing mainly export crops and contributing to the already complicated structure of land tenure regimes.[6] Investors were supported by government policy which emphasised agricultural mechanisation to improve productivity, by offering tax and financial incentives to investors. The government itself was also involved in such mechanised enterprises and was the largest commercial operator at the end of the 1960s.

Many of the major donor agencies were, at least initially, quite enthusiastic about the prospects of commercial enterprises, both as a source of foreign earnings and as a catalyst for the modernisation of agriculture. There were a number of recommendations towards expanding commercial agriculture and greater investments in agro-industries. A favourable policy environment and a strong international demand for specific products provided positive incentives for investments into export-oriented agriculture. In the early 1970s, mechanised large farms were increasingly criticised. The World Bank, which had been a strong advocate of commercial agriculture in the 1960s, became concerned about the inefficiencies of many of the enterprises and saw instead considerable potential in smallholder agriculture by the end of the decade. Insisting that land reform was

[6] Alongside small-scale owner-cultivators, there were landholders who had often obtained their estates through political means. Such landholders were members of the nobility and local gentry. The church and the state itself were also large landowners who had their land worked by sharecroppers.

essential for a rapid increase in agricultural productivity, the World Bank recommended that policy makers provide strong support to the smallholder sector (Dessalegn, 2005).

Not only investors were engaged in export-oriented agriculture, but also owner-operators who had access to sufficient land. The spread of commercial agriculture in favourable areas (e.g. the Awash Valley, Rift Valley, Humera) in the 1960s opened up opportunities for farmers to engage in export-oriented production. In some areas, farmers were organised into cooperatives to access credit from the Agricultural and Industrial Bank. Commercially oriented farms were also important as they offered seasonal employment. Additionally, contract farming and outgrowing schemes emerged rapidly in some areas such as the Awash Valley (Dessalegn, 2005).

The revolution in 1974 led to significant institutional and policy reforms, including the nationalisation of all land and subsequent distributions among farmers, who lost whatever ownership rights they had, but were granted use rights. Large commercial farms were brought under state control, and most were transformed into state farms. Also small agricultural investors were affected by the land reform as they too lost their land. Furthermore, renting land as well as employing labourers was prohibited which meant an end to the emerging out grower schemes and contract farming arrangements.

The stylized summary in the table below highlights some elements of commercialisation policy that have dominated, and recurred, in different historical periods.

	Strategic concerns	Policy foci
1950s	Improving **productivity** Reduce economic dependency on agriculture	**Infrastructure & human resources** Accelerating agricultural development by promoting commercial enterprises
1960s	Transform predominantly agricultural to **agro-industrial** economy Increase **foreign earnings**	**Large-scale** commercial farms Investments in agro-industries Agricultural **mechanisation** Increasing export-orientation
1970s	Concerns about inefficiency of many large, mechanised farms, renewed **focus on smallholder** potential	Proposals for land reform for increased agricultural productivity
1980s (Derg)	Socialist agricultural development Central planning Collectivisation	State farms Suppression of land, labour & commodity markets Land distribution & fragmentation Control of **input & output markets**
1990s (Transitional Period)	ADLI (Agricultural Development-Led Industrialisation)	Liberalisation of output markets Gradual liberalisation of input, labour, land rental markets Privatisation / distribution of state farms Land policy debate

3. Recent policy on commercialisation

With the change of government in 1991, large parts of the agricultural sector were liberalised, most notably price controls over outputs were abolished, and state control over input and financial markets was gradually reduced. The system of state ownership of land, however, was retained, and only long-term usufruct rights were transferred to farmers. Restrictions on renting and inheriting land were abolished, but it is still illegal to mortgage or sell land. Some of the previous state farms were dismantled and distributed to farmers, while others were kept under state control with a view to selling them to private investors under the privatisation programme. The new government maintained a strong focus on smallholder farming and poverty reduction, and supporting agricultural intensification (e.g. stepping up the agricultural extension systems, providing fertilisers and improved seeds for major grain crops). Where options for agricultural intensification reached their limits, social protection programmes were scaled up, mainly supported through donor funding, including cash and food transfers to vulnerable and resource-poor farm households in rainfall insecure areas.

This agricultural-based poverty reduction strategy was the guiding principle in the first PRS and also shaped the second PRS, the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Alongside a strong growth focus, PASDEP, covering the period from 2005/06 to 2009/10, aims to "*capture the private initiative of farmers and support the shifts to diversification and commercialisation of agriculture*" (MoFED, 2006).

The Agricultural Development Led Industrialization (ADLI) policy framework, pursued since 1994, still guides current policy. ADLI reflects the importance of the agricultural sector for overall economic development, viewing agricultural development as the key driver for industrialisation by providing a market base. ADLI combines various components supporting agricultural growth, including technology, finance, rural infrastructure, internal and external markets and the private sector focusing on (1) improvements in food security, (2) the commercialisation of agriculture, (3) the extension of credit to small farmers and (4) industrialisation.

Although ADLI is widely regarded as generally going in the right direction, a number of problems and constraints have been raised regarding its different components and its implementation. The most important is that ADLI appears linear, beginning with agricultural development, which will contribute to industrialisation further down the line. However, Ethiopia could move on agro-industrial development now, concurrent with agricultural development and commercialisation alongside more subsistence-oriented agriculture, providing basically a safety net for the poor (Guinand, forthcoming).

The Rural Development Strategy (FDRE, 2001) defines in more detail how agricultural-centred rural development should work for Ethiopia and emphasises that rural development needs to be labour- rather than capital-intensive. It also addresses issues of (i) diversification and specialisation of crop and livestock production according to agro-ecological zones and market access, (ii) agricultural marketing (i.e. labelling, creating grades and standards, providing market information, establishing and strengthening cooperatives, and strengthening the private sector's role in marketing), (iii) improving the rural financial system, (iv) encouraging the private sector - both national and foreign - in agricultural development, (v) investing in necessary rural infrastructure, and (vi) strengthening links between rural and urban areas, and the farm and non-farm sectors. Overall, the rural development strategy intends to contribute to the transformation of the productive rural sector from a primarily subsistence-oriented to a more market-oriented sector, contributing to overall economic growth and poverty reduction.

The overall development strategy for the five years to 2010, as set out in the PASDEP, builds on these earlier strategies. As noted in the introduction, the second of its eight pillars is accelerated growth aiming at improving people's livelihoods and significantly reducing poverty. This is to be achieved firstly through commercialisation of agriculture, and secondly through accelerated private sector development.

The strategy depends heavily on transforming the agricultural sector via major efforts to support the intensification of marketable farm products - both for domestic and export markets, and by both small and large farmers. Elements of the strategy include a shift to higher-valued crops, promoting niche high-value export crops, focusing on selected high-potential areas, facilitating the commercialisation of agriculture, supporting the development of large-scale commercial agriculture where it is feasible, and better integrating farmers with markets (both local and global). The strategy is clear about who should drive these efforts - the private sector, which includes the millions of small farmers. However, given current weaknesses of the market, the state sees a clear role at the beginning of this transformation period, by providing public investments and services needed to help jump-start the process.

The Government is well aware that such an agricultural transformation can only take place in parallel with measures to support more subsistence-oriented farm households who lack the resources for substantial investments in alternative enterprises. In these cases, the main goal will remain higher yields of basic food grains. This will be pursued through a combination of intensified extension support at the *kebele* (sub-district) level, establishment of a network of demonstration centres, increased low-level veterinary services, support for small-scale irrigation and better use of ground water, complemented by Productive Safety Net schemes and off-farm income generating initiatives supported under the Food Security Programme. The PASDEP notes that agricultural development – whether by investors or family farms - can only be achieved by sustainably managing the natural resource base and protecting the environment.

Institutions and incentive systems must also be improved in order to transform the agricultural sector and the economy as a whole, according to a study for the Ministry of Finance and Economic Development (Weeks et al., 2004). For example, agricultural marketing remains constrained and inefficient. It is not backed by a strong transport sector, there are too few intermediaries and traders lack adequate capital and storage facilities; there are few links to agro-processing, and input markets have remained stifling rather than enabling. Diversification into alternative crops and expanding production of higher value goods, often for export, are seen as crucially important. Weeks et al. also observe that Ethiopia, thanks to its favourable agro-ecological conditions and rich pool of genetic diversity, has a large opportunity for diversification which is so far mainly untapped. Currently, successful expansion of horticulture and floriculture and well as dairy and poultry enterprises can be observed in the vicinities of major towns such as Addis Abeba, but there are other products, which show considerable potential such as bamboo, spices, and non-timber forest products.

4. Which pathways?

a. *Perceptions of "commercialisation"*

There are various definitions and measurements of commercialisation in the analytical literature: but what does it mean to farmers and agricultural practitioners? The series of regional consultations held by Future Agricultures in Ethiopia encountered some common (mis) perceptions or fears about the nature and effects of commercialisation. Participants in the regional discussions variously understood commercialisation to mean:

- **Large-scale** farming – raising fears of expropriation of land and displacement of small farmers, and even a return to feudalism;
- **Capitalist** farming – that is, extractive, owned by people from outside the farming community or even by foreigners;
- Focusing on **non-food "cash crops"**, which may exacerbate food insecurity by making poor farmers more vulnerable to markets, particularly to volatile or adverse terms of trade between food and cash-crop prices;
- **Export-oriented** – contributing little to the needs of Ethiopians;
- **Mechanised** and "modern" – displacing labour and relying on environmentally un-sustainable imported technologies; or
- **Capital-intense**, rather than labour-intense - again, squeezing out the poor both as workers and investors, and reducing the number of people able to make a living from agriculture.

As Leavy and Poulton (2007:3) point out, all these perceptions amount to a fear, that commercialisation will promote the interests of the rich and powerful, at the expense of small farmers. None of these fears is entirely unfounded, and clearly, they are partly shaped by experience of the various historical periods of commercialisation outlined above. Equally, none of them is necessarily a feature of more commercialised or market-oriented agriculture. Policy-makers need to guard against the risks that commercialisation may indeed disadvantage small farmers, and to promote participatory and inclusive policy-making processes in which such fears can be aired and understood.

A further perception recurring in the regional discussions of commercialisation is that farmers first need to change their attitude to markets and become more business-minded. We would take issue with this. Our experience suggests that farmers, even poor farmers in "subsistence-oriented" areas, are as entrepreneurial as any other group of people when they find opportunities (although, as with any population group, some will naturally be more business-minded and successful than others). Business acumen, like any skill, comes with practice and experience. While there is certainly a role for skills transfer and basic education in strengthening farmers' market position, the policy priority is therefore to change farmers' opportunity environment rather than their mentality.

b. Types of commercial (market-oriented) farmer

From preliminary research and consultations, we suggest that there are four different categories of farmer in Ethiopia who could benefit from, and contribute to, market-oriented agricultural growth. Different policy support may be needed for each group, representing four potential "pathways" for commercialisation.

1. Smallholder family farms

- (Type A) Farmers in remote, drought-prone or low-potential areas, generally regarded as "subsistence-oriented" but in fact interacting with markets as both buyers and sellers. The policy challenge posed by these farmers is to improve their terms of engagement with markets, as well as raising productivity and diversifying livelihoods. Where opportunities exist, farmers in these areas can be as entrepreneurial as anywhere else.
- (Type B) "Traditionally" market-oriented small farmers producing crops partly or wholly for sale, alongside crops for their own consumption. Such farmers tend to be in locations with favourable growing and marketing conditions, and to focus on specific high-value commodities (such as coffee and tef: see Samuel and Ludi (2007), Samuel and Sharp (2007)).

2. Small investor-farmers

- Individuals or small groups of partners, often educated and urban-based; sometimes agricultural professionals with a background in government or development agencies or former state farms; often investing in farming as a secondary activity. These farmers are referred to in World Bank terminology as "emerging commercial farmers", suggesting an expected trajectory from less-profitable smallholder farming towards larger-scale agri-business. However, we suggest that these investors are in fact a separate group. In Ethiopia they have only started to re-emerge in the last few years, when access to land for such investments has been made possible.

3 Large-scale "agri-business"

- Generally capital-intensive enterprises (though they can also generate employment); private or state-owned. Examples are export-oriented horticulture and floriculture.

5. Conclusion

Attempts to integrate farmers into the market have a long tradition in Ethiopia. Different strategies to increase the commercial orientation of farm households have been pursued, although with different motivations at different times. Whereas in the 1950s and 1960s productivity increases, agro-industrial development, and foreign export earnings were in the foreground of the debate, recent attempts towards a commercially oriented agricultural sector are more strongly oriented towards accelerated growth and poverty reduction.

We have proposed a typology of commercial farmers in Ethiopia ranging from smallholder family farms selling part of their production on the market to large-scale, generally capital-intensive farm enterprises. This typology is not meant to imply a temporal succession, but our preliminary findings rather show that these four types of farms can exist simultaneously, also based on their different advantages and disadvantages in relation to production and marketing (e.g. while smallholders are assumed to perform better in labour intensive crops where quality assurance and traceability are not yet that important, large-scale commercial enterprises are better able to engage in risky or capital-intensive enterprises). There is also the potential that these groups complement each other. All four groups can benefit from policies aiming at higher market integration or commercialisation, although the policy focus needs to be different for the different groups.

Policy interventions aiming at pro-actively supporting smallholder family farms to improve their engagement with markets are expected to have the greatest impact on poverty reduction. Great care, however, needs to be taken to avoid unintended large-farm bias during implementation. Measures to avoid this are proposed by Leavy and Poulton (2007) to be:

- Paying attention to food crops
- Pro-actively encouraging asset accumulation (e.g. in animal traction)
- Making markets work for poor farmers in poor (remote) areas.

Leavy and Poulton further conclude, based on international experience, that to support smallholder commercialisation, just focusing on creating an enabling environment is rarely enough, but that there needs to be a much more active provision of relevant pre- and post-harvesting services. This is certainly also the case in Ethiopia. Given the highly diverse landscape in terms of agro-ecology, infrastructure availability, market access, population density and farm types, policy orientation and implementation must take into account these differences.

While debating possible ways forward in agricultural commercialisation and devising the most promising policy options, we should not lose sight of the destination of proposed pathways to commercialisation: poverty reduction, improved income and quality of life for the millions of Ethiopia's farmers. There is nothing to be gained by policies aiming at increased commercialisation if commercialisation itself does not contribute to these ultimate goals.

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