

Ethiopia's Farm Investment Plans Falter on Flood Plain
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By William Davison

Nov. 25 (Bloomberg) -- Gleaming Deere & Co. tractors and harvesters are sitting idle five years after Karuturi Global Ltd. opened a farm in Ethiopia that was hailed as the poster child of the country's plan to triple food exports by 2015.

Eighty percent of the Bangalore-based company's land in the southwestern Gambella region is on a flood plain, meaning its 100,000-hectare (247,100-acre) concession is inundated by the Baro River for as much as seven months of the year, according to Managing Director Ramakrishna Karuturi. The company was unaware of the extent of the flooding when it leased the land, he said.

"Karuturi, like many other large-scale investors, underestimated the complexity of opening land for large-scale commercial agriculture," Philipp Baumgartner, a researcher at the Bonn, Germany-based Center for Development Research who wrote a doctoral thesis on agriculture in Gambella, said in a Nov. 20 response to e-mailed questions. "The land leased out wasn't properly assessed by either of the contracting parties."

Karuturi, the world's biggest rose grower, was one of the first companies to take advantage of a government plan to lease 3.3 million hectares (8.2 million acres) of farmland to private investors. Growing food on the unutilized land would help the Horn of Africa country address shortages that forces it to seek aid from international donors every year, former Prime Minister Meles Zenawi said at the time.

Agriculture investors are targeting African countries such as Ethiopia to meet growing global food requirements. The world's population will increase to 9 billion people by 2050, and agricultural production will need to increase 70 percent by then to feed everyone, according to the World Bank.

'Chaotic Fashion'

The Ethiopian program has got off to a poor start because of transportation and electricity problems, a lack of security and a shortage of funds and farming expertise, said James Keeley, a consultant for the International Institute for Environment and Development. The plots are located mainly in sparsely populated, heavily forested areas such as the western states of Gambella and Benishangul-Gumuz that border South Sudan and Sudan.

"Land investment in Ethiopia proceeded initially in a chaotic fashion," Keeley said. Leases in some regions were awarded without checks on investors, environmental-impact assessments or performance-monitoring plans, he said.

Ethiopia is Africa's biggest coffee producer and second-

biggest exporter of the beans. The country is also sub-Saharan Africa's largest wheat consumer and third-biggest corn consumer.

\$1 Hectare

The government in Addis Ababa began leasing land for as little as \$1 per hectare annually in 2008. The state owns all land in a nation dominated by subsistence smallholders who mostly farm on less than a hectare.

At the time, the government projected that within five years, commercial farmers would be producing food on about 900,000 hectares of land, according to Bizualem Bekele, an official at the government's Agricultural Investment Land Administration Agency. As of last month, only about 10,000 hectares of land have been developed, Prime Minister Hailemariam Desalegn said on Oct. 20.

"We've given more than 400,000 hectares of land to the private sector to engage in this agricultural production, but up to now the progress is very slow," Hailemariam said.

Karuturi isn't the only company struggling. Saudi Star Agricultural Development Plc, owned by Ethiopian-born Saudi billionaire Mohamed al-Amoudi, is growing rice on 350 hectares of a 10,000-hectare lease as it completes an irrigation canal started by Ethiopia's socialist military regime more than two decades ago that will allow it to ramp up cultivation.

Intensive Funding

The company is searching for "intensive funding" for the project and hopes the main canal will be finished before the rainy season in June, Saudi Star Chief Executive Officer Fikru Desalegn said in a phone interview on Nov. 18.

Shapoorji Pallonji and Co., based in Mumbai, India, plans to grow the biofuel-plant pongamia on 50,000 hectares in Benishangul-Gumuz. After signing the lease "several years" ago, it's farming on 2,500 hectares, said Keeley, who is preparing a report on the land program for the International Institute for Environment and Development based on research done for the Bill & Melinda Gates Foundation.

Ruchi Agri Plc, also based in Mumbai, obtained 25,000 hectares in Gambella. After three years, its growing soybeans on 1,000 hectares and has cleared another 2,000 hectares of scrub at a cost of \$1,500 a hectare, Technical Manager Rameshsingh Pardesi said in an interview. If all goes to plan, the operation may become profitable by 2020, he said.

China Project

Other major investors such as Hunan Dafengyuan from China, which took a lease to grow sugarcane on 25,000 hectares in

Gambella, have had their lease canceled, according to Keeley.

In November 2010, Karuturi said it would have “developed” the 100,000 hectares by June. In the final quarter of last year, it harvested its maiden corn crop from about 4 percent of the concession.

Karuturi’s stock has slumped to 1.55 Indian rupees on the National Stock Exchange of Mumbai from a peak of 36.30 rupees on Nov. 9, 2010. Plans announced in the past 18 months to raise funds from development banks and sovereign wealth funds have yet to materialize, according to Karuturi.

Most of Karuturi’s farm that runs either side of one of Gambella’s main roads for about 100 kilometers (62 miles) is still covered in a thick scrubland of bushes and trees. A plaque to commemorate its opening now lies in land taken back by the government after confusion over exactly where the company’s lease was.

Renting Tractors

The company was given 300,000 hectares of land by the regional government before officials in Addis Ababa reduced the plot size by two-thirds in 2010. There is a plan to rent out the idle tractors, harvesters and crop-spraying machines to other farmers, Karuturi said.

To encourage faster development of large farms, the government plans to use a “carrot and stick” approach to investors. Companies will be given government support and licenses may be withdrawn from those that fail to develop fast enough, Agriculture Minister Tefera Deribew said in an interview.

“If the failure is their failure then we will be obliged to take the measure,” he said. The government is now targeting production on all 3.3 million hectares of land by 2016, Tefera said. “At that time we will definitely have significant production.”

Crop Exports

Ethiopia planned to earn \$6.58 billion a year from agriculture exports in 2015, according to a five-year economic plan published in 2010, when total exports were about a third of that amount. In the 12 months through July 7, the end of the Ethiopian fiscal year, shipments fell 2 percent to \$3.08 billion from a year earlier.

The land-leasing program has also been beset by criticism from advocacy groups including Human Rights Watch, based in New York, that residents have been displaced in a relocation program to make way for the farms.

Karuturi rejects the allegations for the same reason that the farm project has failed to take off: flooding.

“We have been trying to convince people who’ve been making these allegations that these are floodplains where nobody stays, where nobody can reside or graze their cattle because most of the time they are under four or five feet of water,” Karuturi said.

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