Case Study: Improving the Investment Climate for Agriculture in Ethiopia

Objectives of this Primer
- Share an example of a successful USAID program that is improving the investor climate for agriculture by influencing policy and strengthening the support network for investors

Related documents:
- Case Study: Driving New Investments in the Edible Oils Sector in Tanzania (Knowledge Primer)

Country Context: Ethiopia
- Ethiopia’s agriculture sector makes up 34% of the country’s GDP\(^1\) and the primary products are coffee, dried pulses, hides from livestock and oilseeds\(^2\)
- Agriculture has grown by 8.6% per year\(^3\) over the past decade and employs 85% of the country’s workforce\(^4\)
- However, Ethiopia’s agriculture sector is not yet reaching its potential – there are inefficiencies across the system and 17% of the population is food insecure\(^5\)
- One major challenge is attracting investment in agriculture – there is limited appetite from the private sector largely due to macroeconomic challenges that have included foreign exchange shortages and currency overvaluations
- Currently, the majority of investments in agro-processing in Ethiopia are small and medium scale – over 95% below USD 1 million\(^6\) – which is not in line with the government’s vision of large anchor investments in the agriculture sector
- Based on these challenges, the Ethiopian government engaged USAID to identify and develop solutions to the key barriers that inhibit private sector investment in agriculture, with a particular focus on the agro-processing sector (an area which they have deemed as high potential)

USAID’s Approach
USAID designed a program which focused on the policy environment as the most critical barrier to further investment in the agricultural sector in Ethiopia,

Program Objectives
- Identify policy reforms that would stimulate investment in agro-processing
- Increase the government’s capacity to support new and existing investors
- Strengthen the overall support network for investors

Key Partners
- Ethiopia Investment Commission (EIC)
- Agricultural Transformation Agency (ATA)
- National Bank of Ethiopia (NBE)

USAID designed a three-part process to achieve the program objectives:

A. Identify investment constraints
- Convening and engaging with potential investors from around the world to identify the biggest constraints and opportunities for investments in agro-processing

B. Develop and prioritize solutions
- Proposing changes to address identified constraints within the regulatory environment as well as strengthen the broader investor support network

C. Catalyze action around proposed solutions
- Socializing the recommendations to gain buy-in and ownership for the proposed solutions
- Building up capacities of government agencies to better support investors
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Identify investment constraints

After engaging with more than 50 potential investors – including multinational companies, agro-processors and institutional investors – interested in investing in Ethiopia, the team identified four key constraints to investment:

1. Lack of investment incentives
   Investors often need incentives such as tax credits and access to local sources of capital before they will commit funds

   - **Capital constraints**: Investors can only borrow from the Development Bank of Ethiopia as much capital as they themselves contribute (1:1 debt-equity ratio) which inhibits their ability to make capital-intensive investments

   - **Technical disincentives**: Most industrial parks do not have the bio-safety and technical requirements necessary for many agribusinesses to operate, which means that agri-businesses cannot access the same tax credits available to those businesses that can locate in industrial parks

2. Structural shortage of foreign exchange
   Agro-processors need foreign currency to facilitate international value-chain transactions but are often faced with tight government forex regulations which causes delays

   - **Foreign exchange shortages**: Due to a decline in coffee prices globally (8% price decrease in a year\(^9\)), export revenue has diminished which in turn has led to prolonged foreign exchange shortages

   - **Constrained access to foreign funds**: Only businesses that export over 80% of their products are allowed to use foreign accounts to import raw materials, which is a disadvantage for companies serving local markets

   - **Conversion delays**: Investors have to wait in line (often up to 6 months) to convert local currency generated from sales, making it difficult for them to repatriate their earnings in a timely manner

3. Complex land acquisition processes
   Investors need land to build infrastructure, but the complexity of the land acquisition process delays the ability of businesses to scale efficiently

   - **Inconsistent decisions on land titling**: Multiple land tenure systems and decentralized information has led to inconsistent decisions on land allocation for investors (e.g., two agro-processors were both given the same land portions in an industrial park, but were notified later that the land was no longer available as it had been allocated to other investors by another agency)

   - **Delays in land acquisition**: Because demand for land far exceeds supply, there is a backlog of ~6,000 potential investors in Addis Ababa who have placed a request and are still awaiting a decision

4. Convoluted investment support ecosystem
   Investors need a strong and stable support environment to do business across the value chain and successfully navigate complex government agencies

   - **Unclear importation guidelines**: Bureaucratic processes at Ethiopian customs has frequently caused agro-processors to wait up to three months for their inputs to be cleared for use

   - **Fragmented after-care support**: Investment support services were separated across four agencies, leading to lack of clarity around ‘who to go to for what’ for investors as well as long waiting periods for investment registration
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The USAID team proposed a range of solutions to address key constraints facing agro-processor investors. These recommendations focused on both specific policies as well as the broader investor support network.

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<th>What was the desired outcome?</th>
<th>What were the proposed policy and regulatory solutions?</th>
<th>What were the proposed solutions to strengthen support for investors?</th>
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<tr>
<td>Tailored investment incentives that reward high-value, high-impact investments</td>
<td>• Relax debt/equity ratio for loans from the Development Bank of Ethiopia for agro-processing investors within industrial parks from a 50/50 debt-equity to 60-70/30-40 debt-equity ratio</td>
<td>• Finance industrial park training centers operated in Public Private Partnerships by multinational corporations</td>
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<td>Improved access to foreign exchange for agro-processing investments</td>
<td>• Allow investors to retain the foreign exchange they earn to enable increased flexibility to purchase and import the critical inputs they need for their operations</td>
<td>• Provide matching grants for the financing of last-mile rural roads by agro-processors</td>
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<td>Clarified/improved land acquisition process</td>
<td>• Allow firms in industrial parks to purchase local inputs in forex, thus allowing input providers to have greater access to foreign exchange</td>
<td>• Design new models of consultation between investors and local populations to promote responsible land acquisition and development</td>
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<td>• Allow investors in industrial parks to “swap foreign exchange” among themselves without going through the process of waiting in line for foreign exchange from commercial banks</td>
<td>• Develop land acquisition process maps for potential investors</td>
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<td>Improved investment support ecosystem</td>
<td>• Provide guarantees for land acquisitions from regional governments to reduce uncertainty</td>
<td>• Set up a public-private dialogue forum for surfacing and resolving investment constraints</td>
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<td>• Set time limits for the EIC and other investment support agencies for investment registration and other critical services to potential investors</td>
<td>• Develop investor guides to help agro-processing investors navigate Ethiopia's investment climate</td>
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To ensure political buy-in for the proposed solutions and to strengthen government agencies’ ability to streamline support services for investors, the USAID team invested time and effort in socializing the potential recommendations to key stakeholders. The team also invested in capability-building exercises to improve the capabilities of the EIC and ATA to implement non-policy recommendations.

### Socialization processes to secure stakeholder buy-in

- **There were bi-weekly meetings with the deputy commissioner of the Ethiopia Investment Commission (EIC) to review preliminary findings as well as provide project updates.** The close level of collaboration facilitated early buy-in and also helped the team identify other key stakeholders to engage on the project to help develop the policy recommendations.

- **A workshop with all stakeholders near the end of the process ensured that everyone was well-informed and prepared to present the recommendations to the EIC.** The earlier individual meetings helped ensure that the content of that workshop was not new to the participants.

- **The USAID team, in partnership with the EIC, convened a workshop of industry partners, political stakeholders and donors to brief them on the policy recommendations and ensure there was widespread buy-in and understanding.**

### Capacity-building activities to strengthen agencies’ abilities

- **The USAID team facilitated a customer relations training for EIC staff on best practices for working with private sector investors.** The team also provided relevant information on land-acquisition processes and other procedures pertinent to agricultural investments in Ethiopia.

- **The Ministry set up a Private Sector Development in Agriculture team (PSDA) which had the goal of helping potential investors navigate the policy ecosystem.** The USAID team provided intensive coaching to PSDA team members and embedded them in the day-to-day working of USAID to provide on-the-ground training.

- **A reporting template for the EIC project management unit was developed to improve the quality of data reporting on the investor climate and compliance.**

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A soybean farmer cleans his soybean seeds after threshing in Ethiopia

A malt barley farmer in Ethiopia

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What have been the main outcomes of the project to date?

Two new laws and two new investment support programs have been approved and implemented to date. Other proposed solutions are at various stages in the approval and implementation process.

Public policy reforms

1. **Relaxed debt-to-equity ratios and profit repatriation.** The National Bank of Ethiopia has relaxed the required debt to equity ratio from 50-50 to 60-40 and 70-30 in some instances, as well as facilitating investor fast-track profit repatriation in order to attract more investment across the agricultural value chain.

2. **Increased access to foreign exchange.** The Government of Ethiopia passed and implemented policy recommendations for facilitating access to foreign exchange. The new national policy on forex allows exporters of goods and services to retain up to 30% of the proceeds of their export indefinitely in their forex account (instead of the previous 10%).

Strengthening the support network for investors

3. **Adoption of land acquisition process maps.** The ATA, EIC and the Tigray Regional Government rolled out land acquisition process maps for the four regions that make up 85% of food processing investment projects by number to help facilitate responsible investments in land acquisition.

4. **Adoption of investor guides.** The Ethiopia Investor Commission now uses and distributes the investor guides that were developed during the project by the USAID team. EIC is now using these guides to help existing and potential investors navigate the investment ecosystem in Ethiopia.

What has been the impact of these recommendations to date?

- More than USD $130 million in new investment has entered the country, mostly in the malt barley and soybean processing sectors which are key industries in Ethiopia’s economy.

- The government has engaged with over 90 investors to potentially unlock an additional USD $150 million in new investment, including being in advanced conversations with 10 large-scale investors.

- New and pending investments are expected to directly stimulate direct job creation, more demand for smallholder products and increased trade.

A malt barley farmer in Ethiopia

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1. [12]
Concluding thoughts

- **Building personal relationships with specific influencers and decision-makers is critical for getting policy reforms enacted.** Getting the technical aspects of a policy recommendation right is important, but even more important is identifying the key decision-makers, building relationships with them (a process which generally requires an extensive amount of time) and deep listening. As part of this process, recognize that policy changes need to be driven by government officials, not outsiders.

- **Facilitating private sector investment requires building new direct connections among government ministries.** It is important to work with different government officials in parallel, but equally important is ensuring that government ministries are talking amongst themselves about the right topics with the right people at the right time.

- **Use feedback on preliminary analyses to get stakeholder buy-in.** Recognize that stakeholders will likely have extensive feedback on preliminary analytical work and use those conversations to incorporate their comments and build consensus. Solutions should be developed in collaboration with partners and not behind closed doors.

- **Recognize that influencing policy can be a lengthy process.** Ensure that you allow enough time for not only stakeholder conversations and buy-in but also socialization and implementation.

Sources

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