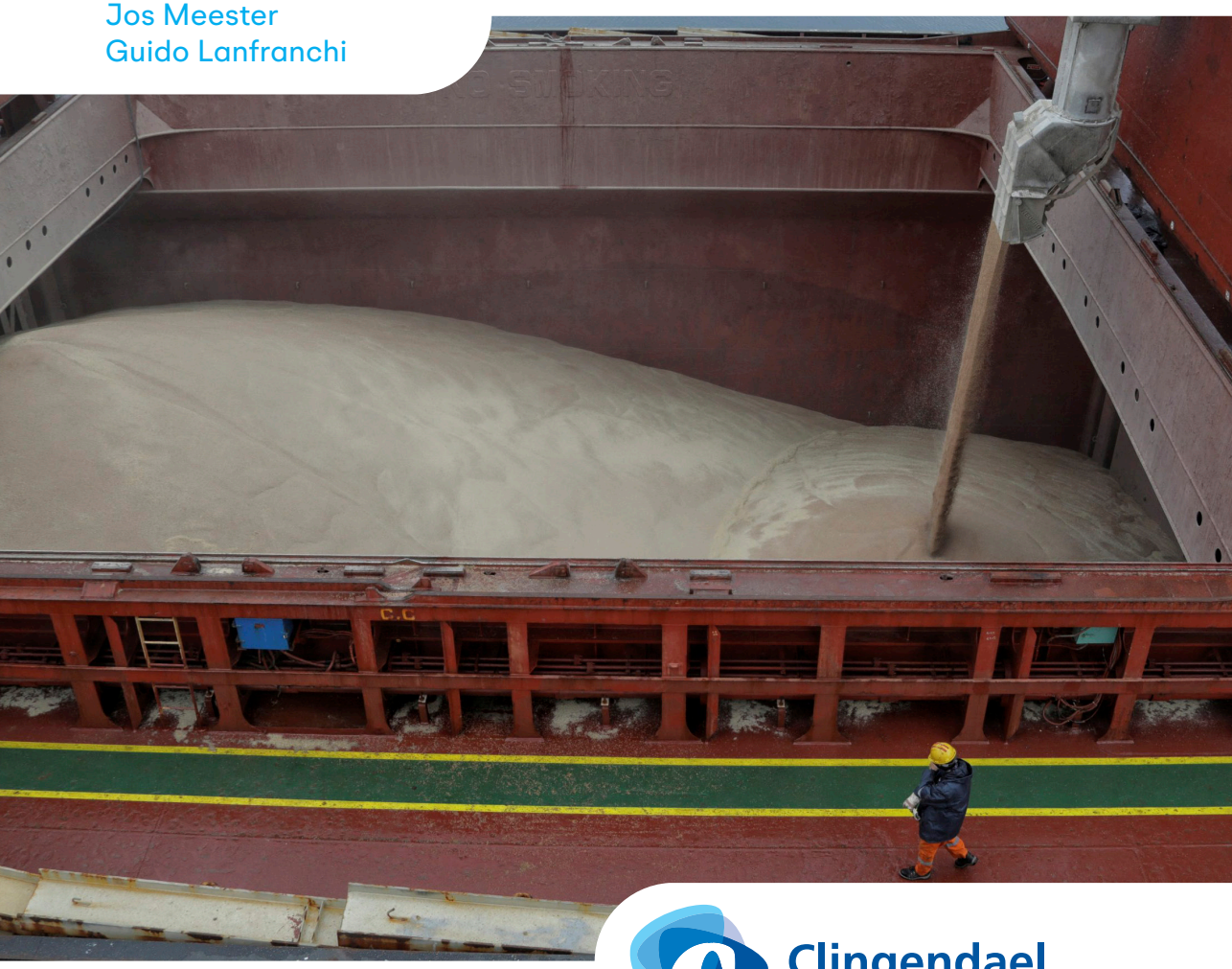
Food, power and politics

The political economy of wheat value chains in fragile settings

CRU Report

Jos Meester
Guido Lanfranchi



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Cover photo: A crew member of Liberian-flagged bulk carrier Valsamitis watches for loading wheat for Kenya and Ethiopia amid Russia's attack on Ukraine in a seaport of the Chornomorsk town, Ukraine 18 February 2023. © Reuters

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Acknowledgements

This report would not have been possible without the funding support of the Ministry of Foreign Affairs of the Netherlands. The authors are especially grateful to the participants in this study, who were willing to share their views on the ongoing transition in Ethiopia. Special thanks go to Ruerd Haringsma, Erik Slingerland and Tesfahun Belew for their insights and support. We would also like to thank the reviewers, among others Dr. Fana Gebresenbet (Institute for Peace and Security Studies, Addis Ababa University), Luuk van de Vondervoort (Dutch Ministry of Foreign Affairs) and David Dick (Agrisupply Inc.), who have invested their time and efforts in providing comments and suggestions for this report. Additionally, we would like to thank Isabel Remers, Florian Stuhldreier and Sarah Stuttaford for their support.

List of figures and boxes

Abbreviations

ABCDs	ADM, Bunge, Cargill and (Louis) Dreyfus
Covid	Coronavirus SARS-CoV-2
EABC	Ethiopian Agricultural Business Corporation
EPRDF	Ethiopian People's Revolutionary Democratic Front
ESLSE	Ethiopian Shipping and Logistics Services Enterprise
ETB	Ethiopian Birr
EU	European Union
FAO	The Food and Agriculture Organization of the United Nations
FCAS	Fragile conflict and affected states
LDCs	Least developed countries
NBE	National Bank of Ethiopia
SOE	State-owned enterprise
UNCTAD	UN Trade and Development
USD	United States dollar
WFP	World Food Program

Executive summary

The Russian invasion of Ukraine has been accompanied by unprecedented rises in the price of wheat on international wheat markets, yet little attention has been paid to how rising food prices depend on political economic dynamics that are more complex than supply and demand factors. This report explores how the political economic dynamics of both international and domestic food markets affect food security in fragile states.

- International markets have shifted from a focus on reliable and affordable food to maximising earnings for market participants.
  - This reflects a shift in power from national institutions (e.g., wheat boards) to commodity traders and financial institutions. The financialisation of these markets displaced power from productive actors towards investors.
  - As many fragile conflict and affected states (FCAS) rely on internationally traded wheat, the resulting price volatility affects food security.
  - Given volatile international market prices, domestic value chains may be the most impactful lever to promoting food security in FCAS.

- Domestically, fragility dynamics hamper production as well as distribution.
  - Vested interest prevents changes in the value chain to protect their own position at the expense of the food security of the population.
  - When improvements do occur, influential powerbrokers extract the majority of the value generated at the expense of others within the value chain and end consumers.
  - Increased economic activity may fuel conflict when proceeds are extracted by armed actors or when the distribution of profits aligns with existing fault lines between communities.
  - Food security interventions should move beyond technical approaches and work politically in order to account for political economic dynamics in order to achieve impact.
  - This report illustrates these dynamics through a case study of Ethiopia, a fragile state that features high agricultural production potential but struggles with persistent food insecurity, demonstrating that interventions focused on boosting production are not sufficient to improve food security outcomes.

Based on the analysis, this report advances the following recommendations:

- **International food market regulation should refocus on reliable and affordable food provision**
  Measures required to shift market dynamics in favour of consumers are known, but currently lack sufficient political backing for their sustainable implementation. In effect, trade in food related commodities in the major financial markets in the EU and USA could be refocussed through regulation focussed on:
  – Improving transparency;
  – Reducing speculation;
  – Reducing market concentration.

- **Food security interventions should address not only production, but also broader political and economic bottlenecks in the value chain**
  Food security interventions that focus solely on boosting agricultural productivity and total supply are unlikely to achieve their desired effect. To address the bottlenecks that prevent value chains from improving food security outcomes, interventions need to work politically – that is, they should actively engage with the power dynamics that ultimately determine who benefits from changes to the status quo. While specific measures will vary greatly from context to context, key broad steps in this regard include the following:
  – Improve understanding of political economy dynamics.
  – Target most relevant bottlenecks, be they technical, economic or political.

- **Programming in Ethiopia should rebalance power dynamics within the grain value chain**
  The main issues preventing Ethiopia from achieving food security are political and economic, rather than simply technical. In order to be effective, food security interventions should be coupled with efforts to address these broader challenges – most notably ongoing conflicts and the country's economic crisis. In addition, a restricted number of actors currently enjoy a particularly powerful position in the value chain and are likely to capture most of the benefits generated by changes to the status quo. This limits the possibility to raise production at the farm level. To address this donors should consider:
  – Strengthening access to finance for farmers and agri-processors.
  – Strengthening the role of cooperatives as aggregators and marketers.
  – Promoting a more bottom-up approach to agricultural decision making.

1 Introduction

The paramount importance of the right to food has been long recognised, being enshrined in the Universal Declaration of Human Rights (1948) and the International Covenant on Economic, Social and Cultural Rights (1966), but also in theories of just war dating back to the first Islamic Caliph (7th century).[1] In recent years, the topic has gained increasing traction on the back of the Sustainable Development Goal 2 (Zero Hunger), increasing attention to climate driven food insecurity,[2] but especially following the Russian invasion of Ukraine. Concepts such as the following excerpt from the North Atlantic Treaty Organization Committee on Democracy and Security are framing the Western policy and media debate: '*The world is currently in the grip of an unprecedented food security crisis.... [C]onflict continues to act as the main driver of food insecurity, despite the recognition and protection that the right to food enjoys under international law. Russia's criminal war against Ukraine has fuelled an alarming and rapid worsening of the already dire global food insecurity situation. The Kremlin's reckless and brutal actions have contributed to pushing millions of people to the brink of starvation.*'[3] From an African perspective, the obvious question arises as to why global food production is strongly centralised, rather than being diversified to mitigate supply risks.

The Russian invasion of Ukraine is credited with pushing global food prices to unprecedented highs by constraining Ukrainian exports on international wheat markets.[4] With food (and fertiliser) import costs rising an estimated 9 billion USD

1 Aly, H. 2014. 'Islamic law and the rules of war,' *The New Humanitarian*, 24 April, https://www.thenewhumanitarian.org/2014/04/24/islamic-law-and-rules-war (accessed 1 December 2023).

2 Belay, M. 2023. *Breaking the Cycle of Unsustainable Food Systems, Hunger, and Debt*, International Panel of Experts on Sustainable Food Systems.

3 Dzerowicz, J. 2023. *Food Security and Conflict: Harvesting Resilience in the Face of a Global Crisis*, *Committee on Democracy and Security Preliminary Draft Special Report*, North Atlantic Treaty Organization.

4 While global wheat prices surged by about 28 percent in the initial stages of the Russian invasion, prices over about a two-year period averaged a 2 percent increase. Devadoss, S. and Ridley, W. 2024. 'Impacts of the Russian invasion of Ukraine on the global wheat market,' *World Development*, 173.

for countries already facing food insecurity,[5] the human cost is vast. Hunger in the world is at historically high levels, with an estimated 345 million people facing high levels of food insecurity in 2023. Conflict is cited as the main driver, as some 70 percent of the world's hungry live in areas affected by violent conflict.[6] Low income countries, especially those located in Africa, appear to be most affected.[7] Recognising the impact of climate change, conflict and Covid and spurned on by the salience of the war in Ukraine, numerous governments have renewed their food security programming and increased contributions to crisis responses. Most visibly, this has led to substantial efforts to reopen wheat export routes from Ukraine under the recently collapsed Black Sea Grain Initiative.[8] Yet, food insecurity is expected to remain high.[9]

The focus on the impact of the war in Ukraine, however, risks obscuring the fact that the high prices of food staples and the rising food insecurity depend on broader political economy dynamics that are more complex than supply shortages or rising demand. As observers have noted, the sudden price spikes following the beginning of the war are not in line with market fundamentals.[10] Prices are significantly exceeding those expected from a market analysis taking into account reduced supply. Rather than an immediate hunger crisis following

5 Rother, B., et al. 2022. *Tackling the Global Food Crisis: Impact, Policy Response, and the Role of the IMF?* International Monetary Fund (IMF) Note 2022/004, Washington, DC, IMF; Konders, B. 2022. *AIV Briefadvies 36: Urgentie van een nieuwe Nederlandse Afrikastrategie*, Brief, Den Haag, Adviesraad Internationale Vraagstukken.

6 World Food Programme (WFP). 2023. 'A global food crisis,' https://www.wfp.org/global-hunger-crisis (accessed 2 February 2024); Delgado, C. and Tshunkert, K., 2022. 'Food Security in Conflict and Peacebuilding Settings: Beyond a Humanitarian Concern,' *Puti k Miru i Bezopasnosti*, 2(63), https://doi.org/10.20542/2307-1494-2022-2-38-61 (accessed 2 February 2024).

7 Georgieva, K., et al. 2022. 'Global food crisis demands support for people, open trade, bigger local harvests,' *IMF Blog*, 30 September, ; (accessed 1 December 2023); Food Security and Information Network and Global Network Against Food Crises. 2023. *Global Report on Food Crises 2023*, Rome, https://www.fsinplatform.org/report/global-report-food-crises-2023/.

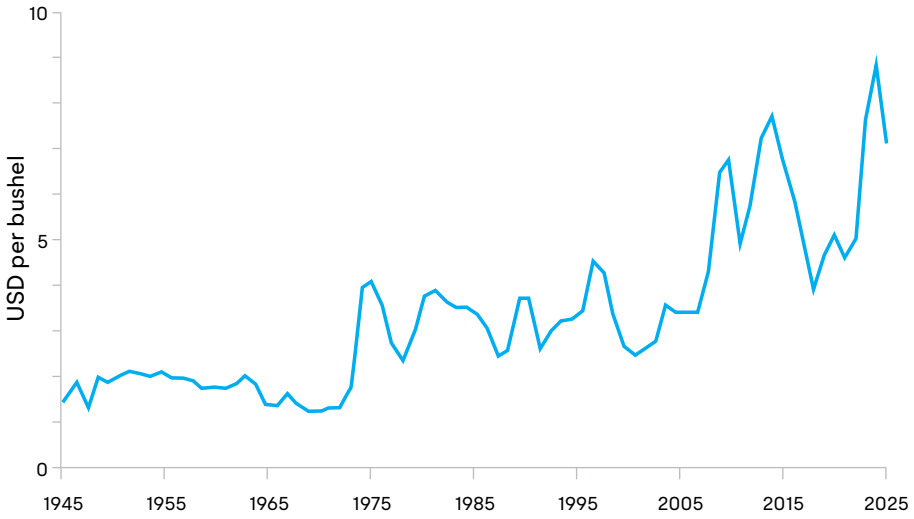
8 Berman, N., et al. 2024. 'How Ukraine overcame Russia's grain blockade,' Council on Foreign Relations, 27 February, https://www.cfr.org/article/how-ukraine-overcame-russias-grain-blockade (accessed 10 March 2024).

9 Schreinemacher, L., and Adema, P. 2022. *Kamerbrief stappenplan mondiale voedselzekerheid*, Ministerie van Buitelandse Zaken; Konders, B. 2022. *AIV Briefadvies 36: Urgentie van een nieuwe Nederlandse Afrikastrategie*, Brief, Den Haag, Adviesraad Internationale Vraagstukken; WFP. 2023. 'A global food crisis,' https://www.wfp.org/global-hunger-crisis (accessed 2 February 2024).

10 Hekman, L., et al. 2022. 'The hunger profiteers,' Lighthouse Reports, https://www.lighthousereports.com/investigation/the-hunger-profiteers/ (accessed 2 February 2024).

an unpredictable sudden rise in food prices, a longer term perspective shows the end of decades of low and stable food prices, giving way to substantially increasing price volatility.[11] Similarly, existing research on famine reminds us that although a range of structural factors can contribute to rising hunger,[12] rising mortality due to hunger is a longer term process reflecting the affected group's structural marginalisation.[13] In many cases, while the reduced availability of food may occur incidentally, the lack of action to redress the situation is a factor of political decision making, while vulnerability is often a preexisting condition.[14] This relates both to global food markets and to domestic production and distribution.

Figure 1 International grain prices (1945-2023)[15]



11 Negasa, A., et al. 2013. *The Potential for Wheat Production in Africa: Analysis of Biophysical Suitability and Economic Profitability*, 14; Isakson, S. 2014. 'Food and Finance: The Financial Transformation of Agro-Food Supply Chains,' *The Journal of Peasant Studies*, 41(5), https://doi.org/10.1080/03066150.2013.874340.

12 Examples of such factors are rapid population growth, food production shortfalls, livelihood shortfalls and/or poorly functioning food markets leading to local price spikes. See de Waal, A. 2018. 'The End of Famine? Prospects for the Elimination of Mass Starvation by Political Action,' *Political Geography*, 62(1), 184-195, https://doi.org/10.1016/j.polgeo.2017.09.004.

13 Ibid.

14 de Waal, A. 2018. *Mass Starvation: The History and Future of Famine*, Cambridge, Polity Press.

15 Sowell, A. 2024. 'Wheat data: All years,' 13 June, U.S. Department of Agriculture, https://www.ers.usda.gov/data-products/wheat-data/ (accessed 11 November 2024).

1.1 Research objective and approach

This report seeks to grapple with the changing political economy of food security in fragile settings. Rather than looking into technical approaches to increase food production in the face of climate change, it investigates political economy dynamics of both international and domestic food markets, showing how these dynamics affect food security in fragile settings. By focusing on fragility, the report seeks to go beyond the vast literature focusing on the interplay between food security and conflict. Rather, it explores the broader set of factors that influence food security outcomes (e.g., exclusionary governance, elite capture, socioeconomic inequalities, etc.), even in the absence of active conflict.
In doing so, the report largely focuses on wheat value chains. This commodity was selected due to its substantial presence in diets across the globe and its significance to food security, which is also derived from its ease of storage and mobility to cover shortages. Besides its importance to consumers, wheat also has a high political salience and a long history of trade politics through well-developed international markets. In other words, the current dynamics allocating wheat across the globe can hardly be considered a consequence of happenstance, given the extensive political and economic capital employed to influence these dynamics.

This report concludes that food security focused interventions should move beyond technical objectives and work politically. The significant efforts towards reducing food insecurity have catalysed into a concerted effort to improve the supply of food aid. Yet the commercial supply of wheats through international trade and domestic production likely outstrips the impact that can be achieved through food aid or development aid aimed at improving farm yields in many FCAS by a wide margin. As such, this report does not explore the successes and failures of aid markets, but instead explores the functioning of international food markets and their (historical) effects in FCAS (chapter 2) and discusses the political economy of domestic production in FCAS (chapter 3). The conceptual work thus set out is subsequently contextualised through a case study of Ethiopia (chapter 4).[16] This case has been selected as an exemplar of a country noted

16 Fieldwork in Ethiopia focused on organisations operating out of Addis Ababa and surrounding areas and took place from November to December 2023. Overall, researchers spoke to 30 subject matter experts with expertise in various facets of the industry such as international commodity trading, imports/exports, domestic production Ethiopia, government policy, academic research, financing and private sector actors.

for its highly fertile land making domestic production viable, yet still being food insecure. Finally, the report concludes and presents recommendations for policy and programming (chapter 5), drawing from the analysis in the preceding chapters.

2 Fragile states in international wheat markets

2.1 Introduction

As food prices spiked up to 28 percent during the first few months of the Russian invasion of Ukraine, urgent efforts to bring food prices down commenced.[17] This resulted in the Black Sea Grain Initiative, a partial reopening of Ukrainian ports, making the export of wheat stocks partially feasible again to ease global supply shortages.[18] The sudden price hikes echoed the dramatic volatility that food prices experienced during the 2007-2008 and 2010-2012 world food price crises.[19] Following decades of steadily declining food prices, these crises showed how varying structural and immediate causes triggered episodes of high price volatility following a similar pattern. As noted by the UN Special Rapporteur on the Right to Food: '*The shortfall in global exports caused by the invasion amounted to around 7m tonnes – less than 1% of the global crop.... What explains that price is the effect of the speculation: the financial markets, the hedge funds, etc.... It didn't reflect real world supply and demand, real world readjustment to find new supply routes, real world concerns – it reflected the needs, desires and function of the financial market*.'

This chapter provides an exploration of price dynamics on international food markets. It traces how a changing market system moved from a trend of stable and falling global food prices into one of increasing food price volatility. It argues that the way food market systems are currently structured is geared towards highly liquid, efficient and at times profitable markets but not necessarily towards human needs such as reliable affordable food stocks. This poses risks especially to least developed countries (LDCs) and FCAS, given their lower capacity to cover sudden price shocks, as well as their less developed domestic supply chains and domestic agricultural finance systems. This chapter thus

17 Devadoss, S. and Ridley, W. (2024), 'Impacts of the Russian invasion of Ukraine on the global wheat market,' *World Development*, 173.

18 The initiative took effect on 22 July 2022 but was suspended again by 17 July 2023.

19 Note that 2020 food crisis is generally attributed to different factors than the previous crises, primarily supply chain disruptions due to Covid-19 rather than global price surges.

briefly traces historical change in the global food market system, explores the financialisation of commodity markets and, finally, zooms in on the way these changes affect food security, especially in fragile and conflict affected states.

2.2 From a centralised imperial system to free trade

Food systems are in essence solutions to an age-old distribution problem of moving various kinds of food staples from a large number of individual producers to an even more vast amount of individual consumers. While the start and end points have remained relatively constant, the methods and actors involved in the intermediary steps have shifted dramatically over time. These shifting structures have reflected different political economic power relations between actors and territories, and hence they reflect shifts in the place where profits, costs and risks are allocated. Understanding these shifts gives a better insight into the role played by a variety of actors involved in the wheat trade up until today and hence the positions of FCAS in this market.

From a historical perspective, international foods systems were largely colonial in character until roughly the 1930s. Relations were geared towards moving various kinds of crops from (former) colonial territories towards more industrialised European states.[20] This system subsequently started to shift away from European colonial powers positioned as the central players to a wider range of nation-state actors predominating by the 1950s. International trade largely centred around national wheat boards, which bought and sold stocks for entire states.[21] Following the changing geopolitical dynamics of the cold war and decolonisation, the colonial system reorganised. Newly independent countries were integrated into a new division of labour through transnational value chains, while LDCs were tied to their geopolitical alliances through access to food exports from their political patrons (especially in the case of the USA).[22]

As a result of these shifts, a more pluralistic global market for food stocks gradually emerged, whose complexity and opacity created space for

20 McMichael, P. 2009. 'A Food Regime Genealogy,' *The Journal of Peasant Studies*, 36(1), 139-169.

21 Ahmed, G., et al. 2014. *Shifting Governance Structures in the Wheat Value Chain: Implications for Food Security in the Middle East and North Africa*, Durham, NC, Duke University Center on Globalization, Governance and Competitiveness at the Social Science Research Institute, 3.

22 McMichael, P. 2009. 'A Food Regime Genealogy,' *The Journal of Peasant Studies*, 36(1), 139-169.

international traders to emerge at the expense of the position of national wheat boards. This new group of actors came to prominence initially in the 1972 great grain robbery, when Russia bought approximately 30 percent of the US grain harvest to cover for domestic shortfalls in Russia. As Russia struck sizeable deals to import wheat with several of the major international traders, none were aware of the total volume and the scarcity this would create on global markets. As a consequence, the scramble by traders to buy stocks to honour their commitments effectively turned the Russian production shortfall into a global price shock, with prices rising up to 60 percent and tripling the next year. While these shortfalls marked an initial signal of the risks posed by the newly emerging market structure, some traders were able offset their losses in the grain trade through speculation on future grain prices, thus also marking the onset of speculation on food prices.[23]

Despite the price shocks in the early 1970s, the subsequent 'green revolution,' starting from the 1980s, again reshaped relations. New production techniques, agricultural subsidies in developed countries, as well as the emergence of a range of countries (especially in South America and Asia) as major food exporters drastically increased the global availability of various food stocks. As a consequence, real prices for most stocks declined and remained stable at low levels.[24] For many LDCs, especially in the Middle East and Africa, low and stable international food prices made it unattractive to invest in domestic production, leading instead to a shift towards imported food stocks.[25] From the perspective of international development actors, investments in LDCs domestic

23 Blas, J., and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press, 41.

24 Soria-Lopez, A., et al. 2022. 'Challenges for Future Food Systems: From the Green Revolution to Food Supply Chains with a Special Focus on Sustainability,' *Food Frontiers*, 4(1), 9-20; Singh, A., and Tabatabai, H. 1990. 'Facing the Crisis: Third World Agriculture in the 1980s,' *International Labour Review*, 129(4), 479-500; Helming, J., et al. 2016. *Exploring the Effects of the Common Agricultural Policy on Food and Nutrition Security Indicators in Developing Countries in the Past, Present and Near Future*, FOODSECURE Working Paper 56.

25 Singh, A., and Tabatabai, H. 1990. 'Facing the Crisis: Third World Agriculture in the 1980s,' *International Labour Review*, 129(4), 479-500; The Food and Agriculture Organization of the United Nations (FAO). 2009. 'What happened to world food prices and why?' The State of Agricultural Commodity Markets.

food systems similarly made limited sense, given the availability of cheap imports as a less complicated solution to hunger.[26]

This period also witnessed a shift of responsibilities from public to private actors. For many LDCs, organisations such as national grain boards remained important instruments to manage imports, often supplying an inefficient but predictable government controlled (and often subsidised) distribution system.[27] Yet, international trends towards the liberalisation, globalisation and commodification of the international food system positioned private actors such as traders as the main actors (over state-based actors) internationally. While these new market structures may have contributed to more efficient international markets providing low priced goods, they raised the risks for smaller import-dependent states, as prices became more volatile and these states' bargaining power vis-à-vis an increasingly oligopolistic market was reduced (see below).[28]

While food markets changed, so did demand in many LDCs. Not only did total demand for various food stocks grow as populations gradually grew, in many states diets changed as well. Factors such as increasing incomes led to a shift towards wheat consumption rather than a wider range of other wheats. Similarly, increasing urbanisation placed especially many men outside of family living situations, leading to an increase in bread consumption in order to avoid the more time-consuming preparations required by many other wheats (e.g., sorghum, teff). Yet while demand for especially wheats increased in many LDCs, the persistently stable and low prices on the international market faded into memory. With increasing weather disturbances as climate change advances and more frequent supply chain disruptions as geopolitical tensions rise, international markets are increasingly characterised by disruption rather than stability. Additionally, such disruptions are leading to increasingly large price shocks due to changing market dynamics discussed in the subsequent chapter.[29] This leaves LDCs in particular

26 Note that several developing countries instead emerged as leading wheat producers. China and India, for instance, are the two largest wheat producers in the world, yet they primarily produce for domestic consumption and are minor exporters. U.S. Department of Agriculture. 2024. *Production – Wheat*, https://fas.usda.gov/data/production/commodity/0410000 (accessed 11 November 2024).

27 Technical Centre for Agricultural and Rural Cooperation and Eastern Africa Grain Council. 2013. *Structured Grain Trading Systems in Africa*, Wageningen, CTA, and Nairobi, EAGC.

28 Ahmed, G., et al. 2014. *Shifting Governance Structures in the Wheat Value Chain: Implications for Food Security in the Middle East and North Africa*, Durham, NC, Duke University Center on Globalization, Governance and Competitiveness at the Social Science Research Institute.

29 Helbling, T., and Roache, S. 2011. 'Rising Prices on the Menu,' *Finance & Development*, 48(1), 24-27.

in a weak position, given a substantial reliance on imported stocks and a limited capacity to absorb shocks through either domestic stocks or financial reserves.

2.3 From reliability and affordability to profitable trade

The increasing integration of LDCs into the global food market, as well as somewhat related improvements in domestic distribution systems (e.g., infrastructure and regulation) have significantly reduced hunger. Localised price volatility due to regional inaccessibility and localised price fixing or speculation have reduced, as local markets have become more closely connected to international markets.[30] Through their connection to the larger international market, even small national markets benefit from the increasingly efficient production driven by commercialisation and more efficient price finding methods (e.g., through the use of financial instruments to cover risk) that are available to sufficiently large and well capitalised markets.[31] Yet, while shortages associated with poorly functioning local markets may have eased, globally integrated food prices are presenting new threats. Price spikes on the global market may be triggered by (perceived) supply disruptions, and the size and impact of these disruptions on global prices is increasingly a factor in the role of financial markets in international commodities trade.[32]

As markets liberalised, commodity traders' earning model shifted from overcoming market failures by moving physical stocks from places of abundance to places with shortages into a role increasingly focussed on leveraging financial instruments capable of generating earnings by taking financial positions on

30 de Waal, A. 2018. 'The End of Famine? Prospects for the Elimination of Mass Starvation by Political Action,' *Political Geography*, 62(1), 184-195, https://doi.org/10.1016/j.polgeo.2017.09.004.

31 See for instance the sentiments voiced in Mark D. Young, Kirkland & Ellis LLP, on behalf of Futures Industry Association, Hearings on Energy Position Limits and Hedge Exemptions, 28 July, 29 July and 5 August 2009, at the Commodity Futures Trading Commission.

32 Blas, J., and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press, 96 and 226; de Waal, A. 2018. 'The End of famine? Prospects for the Elimination of Mass Starvation by Political Action,' *Political Geography*, 62(1), 184-195.

market failures.[33] This shift was initiated as new financial products to reduce risk (and thereby increase trade) became available to commercial actors in the production chain. Financial instruments such as futures had been available for producers for a long time to allow them to cover for production risks and raise capital during the planting season. Yet, the extension of the usage of futures and related instruments (e.g., derivatives and options) to actors unrelated to the physical production, distribution or sales of agricultural goods opened a whole new market for traders and speculators.[34] The availability of these financial instruments opened up a new area of profit besides the slow transport of physical goods from producer towards consumer, as financial positions speculating on changing food stock prices could now be bought and sold without ever needing to handle the physical goods. This dramatically raised the importance of collecting and understanding vast amounts of market information, as well as the ability to quickly raise large amounts of funds to finance deals to capitalise on perceived disturbances. The large traders operating many steps in most agricultural value chains across the world were able to leverage their information position especially well.[35] This allowed them to set up some of the largest hedge funds in the world, and the bets they placed on expected over- and under-supply became the key drivers of their profitability.[36] In many cases this made betting on market failures more important than moving goods to compensate for them. The record profits achieved during the Russian invasion of Ukraine in 2022 provide a prime example.[37] In other more exceptional cases where traders

33 Blas, J., and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press; UN Trade and Development (UNCTAD). 2012. *Don't Blame the Physical Markets: Financialization is the Root Cause of Oil and Commodity Price Volatility*, Geneva, UNCTAD.

34 Blas, J., and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press, 93; Kaufman, F. 2011. 'How Goldman Sachs created the food crisis,' *Foreign Policy*, 27 April, https://foreignpolicy.com/2011/04/27/how-goldman-sachs-created-the-food-crisis/ (accessed 1 December 2023).

35 Isakson, R. 2014. 'Food and Finance: The Financial Transformation of Agro-Food Supply Chains,' *The Journal of Peasant Studies*, (41)5, 749-775.

36 Blas, J., and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press, 217; Meyer, G. 2015. 'Cargill to wind down $7bn hedge fund arm,' *Financial Times*,' 29 September, https://www.ft.com/content/3fe0d584-663d-11e5-97d0-1456a776a4f5 (accessed 1 December 2023); Thomas, H. 2023. 'Murky world of global food trading is too important to ignore,' *Financial Times*, 20 June, https://www.ft.com/content/481f3646-6b0f-4512-a0f8-f4746fc4c7ab (accessed 1 December 2023).

37 Harvey, F. 2023. 'Top 10 hedge funds made £1.5bn profit from Ukraine war food price spike,' *The Guardian*, 14 April.

established very strong market positions, they stimulated market failures by advocating for protectionist measures in order to sell stocks elsewhere at elevated prices driven by fears of global supply shortages. One example of this is the advocacy for a Russian grain export ban, which would have served to sell stocks in the Middle East at higher prices.[38]

The financialisation of food markets also allowed for an influx of various of actors into food speculation, such as pension funds, banks and automated traders. In many cases, these actors are attempting to diversify their investment portfolio with commodities (especially grain and gold) to hedge against inflation.[39] Their entry into the sector influences its structure. Firstly, commodity portfolios established by several actors are repackaged into exchange traded funds and sold on. The trade in these products effectively couples supply and demand for many commodities, thus translating market dynamics from one commodity to others. Most notably, this reinforces the connection between oil prices and grain prices, which is felt doubly in LDCs. Oil prices already heavily influence the price of fertiliser and also affect the costs of wheat distribution.[40] This raises the price volatility of wheats substantially.

Secondly, it should be noted that the highly oligopolistic nature of commodities trade and its poor market transparency inhibits its functioning. The four biggest traders (ADM, Bunge, Cargill and [Louis] Dreyfus, collectively known as the ABCDs) have captured approximately 75 percent to 90 percent of the global wheat market and keep data on trade activities obscured in order to their give own trading divisions an edge.[41] This means that most of the non-ABCD investors have poor visibility on market fundamentals. This reduces the ability of non-ABCD traders to trade based on actual demand-supply dynamics and relegates them to speculating based on the sentiment of other investors or minor price fluctuations. Such speculation, focussed on the behaviour of other investors, amplifies price

38 Blas, J. and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press, 221.

39 See for instance Credit Suisse. 2023. *Introduction into Commodities*, Zurich, Credit Suisse Ltd.: '*Credit Suisse advises investing a total of 5% in commodities, with 2.5% in various commodity markets and 2.5% in gold*"?

40 FAO. 2009. 'What happened to world food prices and why?' The State of Agricultural Commodity Markets.

41 Lawrence, F. 2011. 'The global food crisis: ABCD of food – how the multinationals dominate trade,' *The Guardian*, 2 June 2.

swings significantly beyond what is justified based on demand and supply dynamics, thus aggravating price volatility.[42]

Given the largely unregulated market dynamics, states' ability to insulate themselves from such fluctuations has decreased. Due to the market's intransparency, no actor (besides the major commodity traders) has a good view of current market dynamics and thus of the extent to which sufficient stocks are available (and where).[43] This makes proactive actions by state actors to curb shortages difficult. Worse yet, policy measures such as export bans may frequently create or exacerbate (perceived) risks stemming from the commodities sector because it translates potential production shortages in a producing country into global price spikes, as importing nations fearing shortages may start establishing stocks in response.[44] Furthermore, while stocks kept in (over)producing countries may be highly effective at curbing speculation (as they can be released when prices spike), national surpluses and stockpiling programs were largely abolished in western countries during the 1990s. Finally, attempts have been made to impose position limits (maximum amounts of commodities under contract) on speculative instruments on key goods in several commodity markets. Yet, in most cases, such limiting measures in the USA and EU have failed to provide hard limits to speculation or have been abolished following lobbying efforts from market actors.[45] As a consequence, the commodities market for wheats remains largely unregulated, prompting even countries with sizeable financial reserves to take measures to cover price risks.

42 Greenberger, M. 2012. 'Closing Wall Street's Commodity and Swaps Betting Parlors: Legal Remedies to Combat Needlessly Gambling Up the Price of Crude Oil beyond What Market Fundamentals Dictate,' *George Washington Law Review*, 81(3), 707-748; Frenk, D., and Turberville, W. 2011. *Commodity Index Traders and Boom/Bust in Commodities Prices*, Washington, DC, Bettermarkets.

43 European Commission. 2019. *Improving market transparency in the agricultural and food supply chain*, Memo, Brussels, European Commission; Gardner, T.A., et al. 2019. 'Transparency and Sustainability in Global Commodity Supply Chains,' *World Development*, 121(1), 163-177, https://doi.org/10.1016/j.worlddev.2018.05.025.

44 Welton, G. 2011. *The Impact of Russia's 2010 Grain Export Ban*, Oxfam Research Report.

45 Heiligers, O. 2022. 'Politiek legde de rode loper uit voor speculatie op energie,' Follow the Money, 6 May, https://www.ftm.nl/artikelen/voedselspeculatie-graanprijzen-bewust-omhoog-gemanipuleerd (accessed 1 December 2023); Kaufman, F. 2011. 'How Goldman Sachs created the food crisis,' *Foreign Policy*, 27 April, https://foreignpolicy.com/2011/04/27/how-goldman-sachs-created-the-food-crisis/ (accessed 1 December 2023); Blas, J., and Farchy, J. 2021. *The World for Sale: Money, Power, and the Traders Who Barter the Earth's Resources*, Oxford, Oxford University Press, 226.

Examples include state investments in major commodity traders, such as China Oil and Foodstuffs Corporation, Louis Dreyfus (by the United Arab Emirates) and Olam Agri (by Saudi Arabia).[46] Unfortunately, such policy options are rarely available to LDCs.

2.4 Fragile states vis-à-vis international markets

Changing dynamics in international markets are leading to increasingly volatile wheat prices. While such dynamics affect all actors in the market, they have an especially pronounced impact on fragile states. On the one hand, fragile states are somewhat insulated from the unregulated oligopolistic tendencies prevalent in international markets. The frequently low disposable incomes in FCAS makes their domestic markets too small to attract the attention of the major traders that may be able to influence global commodity prices. Instead, fragile states frequently rely on a much smaller subset of specialty traders that are able to tackle the bureaucratic and logistic specificities required to supply a niche market.[47] Considering the small volumes sold in these markets, even if they offer margins higher margins than larger markets they do not generate profits that are material to the bottom line of any of the major traders.[48]

While fragile states are thus somewhat insulated from international competitive dynamics, the volatility of international prices does significantly impact FCAS in a number of ways. Firstly, it should be noted that most fragile states have relatively limited financial reserves. This severely limits the ability of national agencies and wheat boards to influence domestic prices. A policy aimed at capping consumer prices through subsidies is often prohibitively expensive. Meanwhile, policies establishing price caps at consumer level without associated subsidies are frequently unenforceable as such measures may severely restrict available supply when only a few suppliers can cover costs while others cease production at these price levels.[49] Such supply restrictions will in turn give rise to an emerging informal trade at elevated prices to address remaining market demand.

46 Thomas, H. 2023. 'Murky world of global food trading is too important to ignore,' *Financial Times*, 20 June, https://www.ft.com/content/481f3646-6b0f-4512-a0f8-f4746fc4c7ab (accessed 1 December 2023).

47 Interview with a commodity trader; Rotterdam, September 2023.

48 Interview with a commodity trader; Rotterdam, September 2023.

49 Interview with a business owner in flour processing; Addis Ababa, November 2023.

On the supply side, if wheat boards have a smaller volume of working capital, which severely limits their ability to find larger volumes to reduce prices, as they cannot source efficiently. With low volume tenders, only shipments sourced from locations close by may be competitive, as transport costs start to drive up the prices per tonne for small shipments.[50] This reduction of potential sourcing locations also limits the amount of traders willing and able to respond to the tender, thus reducing an importing agency's buying power. Furthermore, less working capital limits the amount of stocks the agency is able to maintain, and hence limits the agency's ability to defer purchases while awaiting lower prices. It thus limits their ability to build up stocks to cover periods featuring elevated prices.[51]

Thirdly, many fragile countries are plagued by a weak balance of payments. Frequent export disruptions due to insecurity and conflict may contrast starkly with stable and continued expenses related to state debt and food and fuel imports. As a result, foreign currency reserves at times dwindle. While this obviously limits the ability to import wheats, it also limits the ability to import the inputs necessary for domestic production (notably fertilisers and pesticides).[52] As such, foreign exchange shortages risk translating high food prices into reduced domestic production during subsequent harvesting seasons. The imperative to shore up foreign exchange reserves, not only to finance inputs but also for its wider economic function, in turn creates incentives for switching agricultural land from domestically eaten crops to exportable crops. Such dynamics may especially affect rural populations relying on domestically produced staples in their diet. Furthermore, as attempts to bolster either production or foreign exchange reserves become more pronounced, land policies may be significantly liberalised, leading to concentration amongst either domestic or foreign investors speculating on future value increases of agricultural lands.[53]

50 Interview with a commodity trader; Rotterdam, September 2023.

51 Mallett, R., and Slater, R. 2012. *Growth and Livelihoods in Fragile and Conflict-Affected Situations*, London, Secure Livelihoods Research Consortium Overseas Development Institute; Rother, B., et al. 2022. *Tackling the Global Food Crisis: Impact, Policy Response, and the Role of the IMF?* IMF Note 2022/004, Washington, DC, IMF.

52 Rother, B., et al. 2022. *Tackling the Global Food Crisis: Impact, Policy Response, and the Role of the IMF?* IMF Note 2022/004, Washington, DC, IMF.

53 Mousseau, F., and Devillers, E. 2023. *War and Theft: The Takeover of Ukraine's Agricultural Land*, The Oakland Institute.

Finally, further distortions may occur during transport as insecurity rises. Transport costs tend to rise as the number of check points and the fees required to pass along a route rise, and as certain roads become completely inaccessible. Detours to avoid dangerous areas add significant additional costs. This may compound price rises, with rising energy costs becoming a bigger component of final prices as detours and hence gas costs as a share of consumer prices increases. Especially as energy prices tend to correlate with rising fertiliser costs and hence to some extent with international food prices, energy price rises may translate into consumer prices rises rather heavily.

2.5 Conclusion

This chapter explored the development of international food trade regimes, the impact of the financialisation of the commodity trade and the position of fragile states vis-à-vis international markets. It highlighted how many states switched to a reliance on internationally traded wheats as an efficient way to source food, while low international prices became increasingly volatile. Food systems thus shifted from a design focussing on reliable and affordable food supply to a market dynamic focussed around competition over maximising earnings for market participants. It also explored how power shifted in the wheat markets from national institutions (e.g., wheat boards) to commodity traders and financial institutions seeking to speculate on price changes. While the increasing access to financial instruments may contribute to efficient price-finding and smooth access to finance for productive actors in the value chain, the increasing financialisation also introduces trading and speculation considerations that move power from productive actors towards investors. Finally, this chapter showed how fragile states are impacted by international price dynamics and to what extent they are insulated from global competitive dynamics. By exploring the incentives, power structures and trading relations affecting the position of fragile states (and their consumers) in the international market, this chapter highlights the importance of the structure of the wheat supply chain for food security. The impact of the organisation of both international supply chains and their relation to national trade on food security is likely to considerably outstrip the impact that can be achieved through food aid or development aid aimed at improving farm yields in many FCAS. The organisation of domestic wheat value chains may thus very well be one of the most impactful levers when it comes to food security in FCAS. This is the topic under discussion in the next chapter.

3 The political economy of food security in fragile settings

3.1 Introduction

The previous chapter has explored the international segment of wheat value chains and the impact that international market dynamics have on food security in fragile settings. Although dependency on international markets is high for many fragile settings, in many cases domestic production and distribution mechanisms play a major role in meeting (or failing to meet) the population's demand for food.[54] As a result, any engagement on food security should be grounded in a thorough understanding not only of international markets but also of these domestic dynamics.

Relying on a review of relevant literature and examples from over a dozen countries,[55] this chapter explores the main challenges faced by fragile states in achieving food security through domestic production and distribution mechanisms. First, it looks at how fragility and conflict disrupt activities along all stages of agricultural value chains (including, but not limited to, wheats), thus making it difficult to ensure the availability and affordability of food for the population. In addition to these disruptions, the chapter explores the political constraints that negatively affect food security in fragile settings. In particular, it shows how powerful elites instrumentalise food security and business activities in the agri-food sector to serve their own interests, often at the expense of food security for the population more at large. Finally, the chapter looks at how the development efforts in agricultural value chains risks inadvertently stirring up tensions and conflict if it does not take into account the underlying (and often

54 This, however, does not apply to all countries – in some cases, the geographic conditions make it impossible for countries to satisfy their food demand domestically. This is the case, for instance, for several Middle Eastern countries, such as Iraq or Egypt.

55 The examples used in this chapter come from different fragile settings, as diverse as Sudan, the Central African Republic, Mali, Myanmar, Nigeria, Somalia, South Sudan, Ethiopia, Pakistan, Kenya, Ghana, Sierra Leone, Tanzania and the Philippines. While most examples are related to grain value chains, a few of them are related to other value chains that are also relevant.

informal) power dynamics that characterise the agri-food sector in fragile settings.

By exploring these challenges, this chapter highlights how food security debates and interventions need to take into account political economy dynamics, rather than focusing primarily on technical issues. Too often, efforts to improve food security are largely technical in nature, focusing for instance on how to boost production or minimise post-harvest losses. Although these efforts do have the potential to improve food security, they risk failing to do so if broader political economy dynamics are not considered. For instance, in contexts where powerful elites manipulate food for their own political and economic gains, boosting production may enrich only a few powerful actors, rather than increasing the availability and affordability of food for the population at large. Similarly, in contexts where activities along an agricultural value chain are tied to conflict dynamics, stimulating these activities risks exacerbating tensions and conflict. Awareness of political economy dynamics is therefore critical to ensure successful food security programming in fragile settings.

3.2 Disruptions along the value chain

In fragile settings, and even more so in situations of active conflict, the development of functioning agricultural (and wheat) value chains faces significant challenges. This section first outlines the structural challenges that have an impact across the whole chain, such as widespread insecurity, a complex governance environment and infrastructural and policy deficiencies, as well as challenges in accessing finance. Then, it delves more specifically into how these challenges affect different stages of the value chain (from input sourcing and production to transport, processing and sales), providing concrete examples from a wide range of fragile settings. Overall, these examples show how fragility and conflict make it difficult to develop domestic systems of production and distribution that are able to meet the population's demand for food.

When looking at the impact across the whole value chain, widespread insecurity is arguably the most significant challenge for actors at all stages.[56] In times of active hostilities, workers can become victims of armed attacks, be forced to abandon their businesses in search of safety or be recruited by armed factions. Moreover, conflict often destroys key assets (e.g., farmers' land, stocks of agricultural inputs and produce, processors' factories, traders' trucks, etc.), as well as the infrastructure on which various actors depend (e.g., irrigation systems as well as transportation, electricity and telecommunication networks). Even when the active conflict subsides, the destruction and displacement brought about by conflict often lingers for some time, as it takes time for displaced people to go back to their activities, as well as for assets and infrastructure to be rebuilt or repaired. Even in the absence of active conflict, fragile settings are characterised by pervasive insecurity, for instance in the form of sporadic attacks and robberies, which threaten activities along the whole value chain. Overall, this threat to the physical security of workers and assets often leads to a focus on short-term, survival-oriented solutions. In turn, this results in limited incentives to engage in longer term investments, thus hampering the sector's productivity in the medium- to long-term.

Besides insecurity, activities across the entire span of agricultural value chains are complicated by various challenges typical of fragile settings. Frequent disputes, most notably over the ownership of land, can complicate business activity. Moreover, governance often relies on a mix of formal and informal structures which are not always aligned with each other, thus potentially creating confusion and tensions. For instance, a business may secure access to land or to a certain market through formal structures, but face resistance by local actors for whom informal, customary rules are more important than the formal state laws. Crucially, in fragile settings the state often enjoys limited authority, legitimacy and/or capacity.[57] As a result, it often struggles to mediate

56 Delgado, C., and Tshunkert, K., 2022. 'Food Security in Conflict and Peacebuilding Settings: Beyond a Humanitarian Concern,' *Puti k Miru i Bezopasnosti*, 2(63), https://doi.org/10.20542/2307-1494-2022-2-38-61 (accessed 2 February 2024); Hiller, S., et al. 2014. *Value Chain Development in Fragile Settings*, Occasional Paper 14, Wageningen, Wageningen University.

57 Schultze-Kraft, M., et al. 2014. *What Works for Rural Development in Fragile States? Evidence from Afghanistan, the Democratic Republic of the Congo, Yemen, Nepal and Bolivia*, Brighton, International Development Studies; Swisspeace. 2015. *Agribusiness: Risks and Impacts in Conflict-Affected Areas*, International Alert, London, Swisspeace; Hiller, S., et al. 2014. *Value Chain Development in Fragile Settings*, Occasional Paper 14, Wageningen, Wageningen University.

disputes, as well as more broadly to enforce contracts and uphold the rule of law. Moreover, limited state capacity also results in struggles to develop and maintain the physical infrastructure needed across the value chain (e.g., roads, electricity, telecommunications), as well as in the lack of policy frameworks (e.g., quality standards, etc.) that are conducive to value chain development.[58] Last, but not least, in fragile settings businesses across the value chain tend to suffer from challenges in accessing finance. This often results in constraints on working capital and a limited ability to expand their activities to achieve economies of scale.

The structural impacts of fragility and conflict described above have repercussions for actors throughout the whole value chain, as becomes evident from a number of examples coming from many different fragile and conflict-affected settings.[59] At the production level, farmers in conflict areas are often unable to prepare and plant their land. In Sudan, for instance, 40 percent of farmers have reported being unable to prepare their land due to the ongoing war.[60] In the Central African Republic, conflict-affected areas have reported a 10 percent reduction in the amount of land prepared for agriculture.[61] Moreover, conflict makes it extremely difficult for farmers to source necessary inputs (e.g., quality seeds, chemical fertilisers, fuel, machines, etc.), at times due to logistical challenges, at times due to lack of finance to buy them. For instance, during the conflict in northern Mali in 2011-2012, farmers were unable to travel to other cities to get fertilisers, and their water pumps were stolen by rebels, who also took control of gas supplies, while the government reduced the supply of fertilisers to the area for fear that it would be used to manufacture explosives.[62] In Sudan's current conflict, over 60 percent

58 For instance, quality monitoring mechanisms are essential for the export of agricultural products. They are also key for third-party managed storage systems which reduce post-harvest losses, while stabilising prices for consumers and for incomes for producers. However, such systems do not work without clear quality standards, social trust and impartial governance.

59 See, for instance, Hiller, S., et al. 2014. *Value Chain Development in Fragile Settings*, Occasional Paper 14, Wageningen, Wageningen University.

60 Kirui, O., et al. 2023. *Impact of the Ongoing Conflict on Smallholder Farmers in Sudan*, Working Paper 7, Khartoum, International Food Policy Research Institute (IFPRI).

61 Blankenspoor, B., et al. 2020. *Estimating the Effect of Conflict on Agricultural Activity in the Central African Republic with Remotely Sensed Data*, Washington, DC, American Geophysical Union.

62 Kimenyi, M. 2014. *The Impact of Conflict and Political Instability on Agricultural Investments in Mali and Nigeria*, Working Paper 17, Washington, DC, Africa Growth Initiative at Brookings.

of surveyed smallholders reported the lack of finance to buy seeds, fertilisers and labour as a major challenge.[63]

The result of these challenges is usually lower productivity at best and inability to produce at worst. In Myanmar, for instance, the escalation of conflict after the 2021 military coup led to a four percent decrease in rice productivity, with an comparatively stronger effect for poorer farmers.[64] During the conflict in northern Mali in 2011-2012, rice production reportedly decreased by almost half in a single year.[65] The conflict in northern Nigeria had an even stronger impact, with farmers reporting extremely large drops in the average production of rice (50 percent), millet (80 percent), maize (80 to 85 percent) and sorghum (70 to 100 percent).[66]

Besides hampering production, fragility and conflict also disrupt access to markets, severing some of the crucial links that allow food products to reach consumers. In Sudan's current conflict, for instance, around 30 percent of the smallholders surveyed reported market disruptions due to the conflict, with the rate being particularly high in areas where violence is occurring (e.g., 56 percent in Khartoum).[67] These disruptions can make it hard for farmers to access markets, forcing them to rely on spot sales at the individual level with traders.[68] At the same time, traders themselves are victims of frequent disruptions. Attacks and looting by armed actors (or the threat of such attacks), unreliable supply and demand dynamics, deficient and/or damaged infrastructure and the sprawling presence of checkpoints make it extremely challenging to move products across regions. As a result of these challenges, traders face considerably higher risks, long delays and higher costs, leading many of them to either pass on the increased cost to consumers, or to be driven out of business. In Somalia, for instance, checkpoint taxes constitute the largest share of transport costs,

63 Kirui, O., et al. 2023. *Impact of the Ongoing Conflict on Smallholder Farmers in Sudan*, Working Paper 7, Khartoum, IFPRI. Around half of the smallholders surveyed reported increases in the cost of both labour and fertilizers.

64 IFPRI. 2023. *Conflict and Agricultural Productivity: Evidence from Myanmar*, Working Paper 30, Washington, DC, IFPRI.

65 Kimenyi, M. 2014. *The Impact of Conflict and Political Instability on Agricultural Investments in Mali and Nigeria*, Working Paper 17, Washington, DC, Africa Growth Initiative at Brookings.

66 Ibid.

67 Kirui, O., et al. 2023. *Impact of the Ongoing Conflict on Smallholder Farmers in Sudan*, Working Paper 7, Khartoum, IFPRI.

68 Hiller, S., et al. 2014. *Value Chain Development in Fragile Settings*, Occasional Paper 14, Wageningen, Wageningen University, 33-34.

including for agricultural goods, resulting in higher prices for consumers.[69] In Nigeria, the conflict in the country's north reportedly resulted in a 20 percent rise of transportation cost, leading many traders to quit their business.[70] Similarly, during the conflict in northern Mali, many traders had to scale down their operations, if not abandon them altogether, due to the severity of the challenges they faced.[71]

Overall, these disruptions tend to result in highly fragmented food markets. While models often assume that products can be moved from areas where there is a surplus production to those where there is higher demand, in reality this is not the case in many fragile settings. In Sudan, for instance, even before the outbreak of the current war, markets for staple cereal crops in the western region of Darfur were only loosely connected to those in other areas of the country.[72] The ongoing war has further reinforced the fragmentation, with the peaks of food insecurity concentrated in hard-to-reach areas in Darfur and Khartoum, while other areas (e.g., *Gedaref*) are still expected to run a food surplus.[73] This means that food security interventions in fragile settings should be highly area specific and not assume that any increase in supply will be allocated based on demand thanks to market forces.

In addition to production and transport, fragility also has a significant impact on downstream activities such as the processing of agricultural products. Widespread insecurity, challenges in accessing finance (including extremely high interest rates on loans, when such loans are available) and deficient infrastructure (e.g., in terms of access to electricity) raise significantly the cost of doing business and make it much less appealing to make long-term investments

69 Schouten, P. 2023. *Paying the Price: The Political Economy of Checkpoints in Somalia*, Report, Nairobi, Rift Valley Institute. While the specific characteristics of the checkpoints vary both within and across countries, checkpoints tend to play a major role in many different fragile settings. See,for instance, Schouten, P. 2022. 'Roadblock Politics,' in: *Roadblock Politics: The Origins of Violence in Central Africa*, Cambridge, Cambridge University Press.

70 Ibid.

71 Kimenyi, M. 2014. *The Impact of Conflict and Political Instability on Agricultural Investments in Mali and Nigeria*, Working Paper 17, Washington, DC, Africa Growth Initiative at Brookings.

72 Abay, K.A., et al. 2023. 'Evaluating Cereal Market (Dis)integration in Less Developed and Fragile Markets: The Case of Sudan,' *Food Policy*, 114 (2023), https://doi.org/10.1016/j.foodpol.2022.102399.

73 Famine Early Warning Systems Network (FEWS NET). 2024. *Sudan's Worsening Food Security Emergency Leads to a Risk of Famine in Some Areas*, February.

on productive machinery. Moreover, the drop in agricultural production induced by conflict often results in shortages of inputs for processors, who are forced to operate below capacity and thus incur higher production costs. Examples of shortages of agricultural inputs in times of conflict have occurred in northern Nigeria[74] and Ethiopia,[75] as well as in Sudan.[76] In Sudan's case, for instance, a majority of agri-processors surveyed in 2023 reported being closed, either permanently (13 percent) or temporarily (50 percent), with a number of them operating at reduced volumes.[77] Decreased availability and increased price of inputs was reported as a main challenge for these businesses – together with the lack of financial services and the damage suffered by physical assets.[78]

Finally, conflict tends to lead to a rise in the price of agricultural and food products for consumers. In northern Nigeria, for instance, the conflict reportedly led to a steep increase (45 to 130 percent year-on-year) in the price of wheat, and a reduced tendency of farmers to provide wheat for charitable purposes.[79] Sudan's current conflict also led to major price hikes for wheats, such as wheat (74 percent year-on-year), sorghum (120 percent) and millet (120 percent).[80] This rise in prices is all the more troublesome because conflict also tends to cause a drop in the purchasing power of large segments of the population. The combination of these two factors makes it extremely difficult for many households, particularly poorer ones, to meet their food needs – leading to a major negative impact on food security.

74 Kimenyi, M. 2014. *The Impact of Conflict and Political Instability on Agricultural Investments in Mali and Nigeria*, Working Paper 17, Washington, DC, Africa Growth Initiative at Brookings.

75 See chapter 4.

76 Kirui, O., et al. 2023. *Armed Conflict and Business Operations in Sudan*, Working Paper 11, Khartoum, IFPRI.

77 The situation is worse in areas most affected by conflict, such as Khartoum, where 75 percent of agri-processors reported being closed.

78 Kirui, O., et al. 2023. *Armed Conflict and Business Operations in Sudan*, Working Paper 11, Khartoum, IFPRI.

79 Kimenyi, M. 2014. *The Impact of Conflict and Political Instability on Agricultural Investments in Mali and Nigeria*, Working Paper 17, Washington, DC, Africa Growth Initiative at Brookings.

80 IFPRI, 2023. *Bulletin on Food Price Dynamics, Inflation, and the Food Security Situation in Sudan: January 2023*, Policy Note 5, Khartoum, IFPRI. These price hikes stand in stark contrast with the relative stability of the international market price of cereals, which grew only by five percent over the same period (January 2022 – January 2023).

3.3 Elite interests vs. food security

While the disruption of agricultural value chains is the most evident way in which fragility makes it harder to achieve food security, it is not the only one. Even in absence of active conflict, fragile settings tend to be characterised by exclusionary governance frameworks, with power often concentrated in the hands of a few people. In this context, powerful elites and political actors often instrumentalise food (security) and economic activities in the agricultural sector in order to further their own interests, rather than to ensure the availability and affordability of food for the population. In particular, this section shows how political elites shape food systems in a way that advances their own agenda, while large and well-connected businesses exploit their privileged position to engage in lucrative activities in the agricultural sector. This results in food systems that are often geared towards serving the interests of a few powerful actors, rather than the population at large. In such a context, efforts to boost production and develop value chains risk further empowering existing powerbrokers, rather than improving food security outcomes.

Given food's nature as a basic need for the population, food security is intimately tied to political stability. Over the past decades, a growing body of evidence has emerged regarding the relation between food insecurity on the one hand and instability, unrest and conflict on the other. For instance, it has been shown that a rise in the price of (non-substitutable) food staples, particularly in urban areas, can trigger conflict, especially when taking place in combination with other exacerbating factors (e.g., preexisting political tensions).[81] There are several examples of this trend, including for instance the uprisings across the Middle East during the 2011 Arab Spring,[82] successive revolutions in Sudan in 1985 and 2019[83]

81 Delgado, C., and Tshunkert, K. 2022. 'Food Security in Conflict and Peacebuilding Settings: Beyond a Humanitarian Concern,' *Puti k Miru i Bezopasnosti*, 2(63), https://doi.org/10.20542/2307-1494-2022-2-38-61 (accessed 2 February 2024); Bruck, T., and d'Errico, M. 2019. 'Food Security and Violent Conflict: Introduction to the Special Issue,' *World Development*, 117(1), 167-171, https://doi.org/10.1016/j.worlddev.2019.01.007 (accessed 2 February 2024); Sova, C., et al. 2023. *Dangerously Hungry: The Link Between Food Insecurity and Conflict*, Report, Washington, DC, World Food Program USA, 26-27.

82 Soffiantini, G., 2020. 'Food Insecurity and Political Instability During the Arab Spring,' *Global Food Security*, 26(1), https://doi.org/10.1016/j.gfs.2020.100400 (accessed 2 February 2024).

83 Resnick, D. 2021. *Political Economy of Wheat Value Chains in Post-Revolution Sudan*, Working Paper 01, Khartoum, IFPRI.

and protests in Pakistan in the late 2000s.[84] In some cases, food shortages have also been shown as boosting the recruitment of armed groups.[85] For instance, violent extremist organisations such as the Islamic State and Boko Haram have reportedly offered not only money, but also food to lure prospective recruits.[86]

Aware of food's importance for political stability, ruling political elites are often eager to actively intervene in the food and agricultural sector. This is particularly common in the case of crops that are important for national subsistence and food security (often wheats, like wheat, rice and maize), which are therefore crucial for electoral politics and regime stability.[87] Food subsidies of different kinds – ranging from direct support to consumers to more indirect mechanisms such as price controls – can be seen in countries as diverse as India,[88] Egypt[89] and Venezuela.[90] The case of Sudan provides an extremely illustrative example of the political use of food by ruling elites. Over the past few decades, successive Sudanese rulers relied on large wheat subsidy schemes to guarantee low bread prices for the urban middle class. Dissatisfaction amongst the urban middle class

84 Khan, A. 2014. 'Pakistan's Food Security from Wheat Value Chain Perspective,' PhD diss., University of Auckland, 241.

85 Negassa, A. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, Arlington, VA, USAID Food Security Service Center II; Sova, C., et al. 2023. *Dangerously Hungry: The Link Between Food Insecurity and Conflict*, Report, Washington, DC, World Food Program USA, 20-21.

86 Yaron, S. 2017, 'ISIS tries to recruit child refugees by offering them food, cash,' *New York Post*, 6 February, https://nypost.com/2017/02/06/isis-tries-to-recruit-child-refugees-by-offering-them-food-cash/ (accessed 2 February 2024); Meagher, K. 2014. *Beyond Terror: Addressing the Boko Haram Challenge in Nigeria*, Policy Brief, Norwegian Peacebuilding Resource Centre.

87 Chinsinga, B., and Naess, L.O. 2022. *The Political Economy of Agricultural Commercialisation: Insights from Crop Value Chain Studies in Sub-Saharan Africa*, Working Paper 87, Accra, Agricultural Policy Research in Africa, 7.

88 Ansari, H.T. 2019. 'Role of food subsidy in poverty alleviation in India,' in *Environment and Social Development*, Glasgow, Keystone Publishing, 215-224.

89 Moustafa, A., and Al-Shawarby, S. 2017. 'The Tamween Food Subsidy System in Egypt: Evolution and Recent Implementation Reforms,' in: *The 1.5 Billion People Question*, eds. Alderman, H., Gentilinni, U. and Yemtsov, R., Washington, DC, World Bank Group.

90 Pinerua, I. 2024. 'Price controls and food access: Lessons from Venezuela,' Agriculture, Nutrition and Healthy Academy, 1 May, https://www.anh-academy.org/community/blogs/price-controls-and-food-access-lessons-from-venezuela (accessed 1 May 2024).

was considered as the main threat to the country's stability by the ruling elites.[91] On the other hand, the population from the country's vast peripheries traditionally suffered from acute food insecurity, as the government's subsidies scheme heavily relied on the exploitation of labour and natural resources from these areas to finance the subsidy scheme.[92] In addition, successive Sudanese regimes also directed foreign investments in the agri-food sector in a way that rewarded their political allies and punished their opponents,[93] and strategically used food aid towards neighbouring countries (e.g., South Sudan) as a resource to gain political leverage and influence abroad.[94]

While ruling elites have the power to shape food policies, non-state actors (e.g., insurgents, armed groups) can also turn food into a political tool in their own ways. At times, non-state armed groups may extort money from firms engaged in the trading of agricultural products. In Somalia, for instance, both Al Shabaab and a wide array of local militias use checkpoints to collect revenues from traders, with agricultural products accounting for a significant share of the taxed goods.[95] Insurgents can also instrumentalise food insecurity by diverting or misappropriating food aid – a practice that governments also often adopt. Accusation of aid diversion by both the government and rebel groups has been a feature of several humanitarian crises, including for instance during the famine in Ethiopia in the mid-1980s.[96]

91 Gallopin, J., et al. 2021. *Sudan's Political Marketplace in 2021*, London, London School of Economics Conflict Research Programme. This assumption turned out to be well founded: in late 2018, a rise in the price of bread triggered widespread unrest across the country's urban centres, eventually bringing al-Bashir down in 2019.

92 The government exploited natural resources (land, oil, gold) and labour in the peripheries to export commodities in the international markets in exchange for foreign currency. This foreign currency was then used to pay for the subsidies scheme.

93 See, for instance, the actions of the Nimeiri regime during the inflow of Gulf investment in Sudan's agricultural sector in the 1980s. Meester, J., et al. 2018. *Riyal Politik: The Political Economy of Gulf Investments in the Horn of Africa*, The Hague, Clingendael, 20-23.

94 In the late 2010s, both the government and some prominent businesspeople offered food aid to South Sudan to gain political leverage and influence abroad.

95 Schouten, P. 2023. *Paying the Price: The Political Economy of Checkpoints in Somalia*, Report, Nairobi, Rift Valley Institute.

96 Plaut, M. 2010. 'Ethiopia famine aid "spent on weapons,"' BBC, 3 March, http://news.bbc.co.uk/2/hi/8535189.stm; Bradley, M. 2023. 'Drought and Famine in Ethiopia, 1983–1985,' in *The Politics and Everyday Practice of International Humanitarianism*, Oxford Academic, 45-58.

In extreme cases, the politicisation of food can even give way to its weaponisation. History has witnessed several examples in which hunger has been used as a weapon of war, from the Biafran famine in the 1960s to more recent examples in the conflicts in South Sudan, Sudan and Ethiopia.[97] More in generally, as extensively argued over the past decades, starvation is a policy outcome, rather than a natural disaster.[98] This means that the inability of people to feed themselves is not the result of an inevitable outcome, but rather the product of political choices, such as for instance the extreme political and economic marginalisation of certain segments of the population.[99]

Besides being a key commodity for political purposes, food is also extremely relevant from an economic perspective.[100] In fragile settings, food systems are often the largest segment of the private sector, as well as the most important provider of jobs (in most countries classified as fragile, over half of the labour force is employed in agriculture alone, with peaks of over 90 percent in some countries).[101] Moreover, in cases when agricultural products are exported, they can become a precious source of foreign currency earnings, making them attractive from both a business and a macroeconomic perspective.[102]

97 Roth, K. 2022. 'Confronting Ethiopia's abusive siege,' Human Rights Watch, 31 August, https://www.concern.net/news/hunger-as-a-weapon-of-war-timeline; https://www.hrw.org/news/2022/08/31/confronting-ethiopias-abusive-siege (accessed 2 February 2024); Hoffmann, A. 2024. *From Catastrophe to Famine: Immediate Action Needed in Sudan to Contain Mass Starvation*, The Hague, Clingendael.

98 Conley, B., and De Waal, A. 2019. 'The Purposes of Starvation: Historical and Contemporary Uses,' *Journal of International Criminal Justice*, 17(4), 699-722, https://doi.org/10.1093/jicj/mqz054.

99 For instance, food shortages are less likely to turn into starvation if the population is not already poor and excluded from the provision of basic services and from governance structures.

100 McKechnie, A., et al. 2018. *Economic Development in Fragile Contexts: Learning from Success and Failure*, London, Supporting Economic Transformation.

101 This figure includes only the labour employed in agriculture, thus excluding people working in other sectors of the value chain (e.g. transport of agricultural commodities). The World Bank. 2021. *Future of Food: Building Stronger Food Systems in Fragility, Conflict, and Violence Settings*, Washington, DC, World Bank Publications, 5; Holden, J., and Pagel, M. 2012. *Fragile States' Economies: What Does Fragility Mean for Economic Performance?*, London, Department for International Development, 4.

102 See, for instance, the relevance of coffee for the foreign exchange situation of countries like Ethiopia, Ivory Coast or Ghana, e.g. Africa Intelligence. 2023. 'Ethiopia Coffee Sector Hobbled by Drive for Foreign Currency,' *Africa Intelligence*, 16 November.

Given this economic relevance, it is perhaps unsurprising that elites and their networks of cronies tend to be heavily engaged in business opportunities in the agri-food sector. Political elites are often among the most active and powerful players – at times through an official engagement on behalf of the state (e.g., through their role in public companies and state-owned enterprises, SOEs), other times in their private capacity (e.g., through private business empires and/or networks of private companies managed by family, friends and allies of various sorts). Alongside these political elites, a number of private businesspeople – both domestic and foreign – are often engaged in the sector, leveraging their connections to political elites to engage in lucrative business activities.

These well-connected actors tend to enjoy a number of privileges. To begin with, they are usually in a better position than the average company to address some of the challenges typical of fragility and conflict (see section 3.2). For instance, they may be able to negotiate directly with the warring parties to avoid being targeted or have enough money to pay for security for their assets.[103] At times, these actors can even manage to profit from instability, for instance by buying land or agricultural outputs when prices are low, at times re-selling them at a profit after prices rise.[104] Through their connections and their lobbying power, these well-connected businesses can shape policies and regulation in their favour and benefit from breaks on taxes and custom duties, as well as get preferential access to key inputs such as land, finance (including forex), utilities (e.g., water, electricity), labour or agricultural inputs (seeds, fertilisers). Overall, these advantages allow these companies to significantly improve their performance, for instance by achieving economies of scale, integrating vertically along the value chain whenever profitable, or implementing technological upgrades to increase their profits (e.g., by using irrigation systems for production, machinery for farming and processing, modern storage systems, etc.).

Examples of these power imbalances can be found across a wide range of countries and (grain) value chains. In Pakistan's wheat sector, for instance,

103 For instance, a source with knowledge of Sudan's private sector reported that military-linked businesses in the livestock sector would transport livestock across the country in military vehicles, thus reducing security risks while also cutting costs.

104 This trend, for instance, has been a very prominent feature of successive conflicts and crises in Somalia. Jaspars, S., et al. 2020. *Food and Power in Somalia: Business as Usual?* London, London School of Economics Conflict Research Programme, 25-26.

power has traditionally been concentrated in the hands of a few well-connected businesspeople, who own large amounts of land and at times benefit from illegal assistance from irrigation officials.[105] In Sudan's wheat market, military-linked businesses and large family-owned conglomerates have enjoyed a strong oligopoly, including for instance on wheat and sorghum. For example, under al-Bashir, a single company belonging to a large agro-industrial conglomerate was estimated to supply over 70 percent of the country's consumption wheat flour.[106] In 2015, the company managed to get subsidised currency exchange rates by effectively strong-arming the government, threatening to shut down production. Similar dynamics took place in Kenya's sorghum sector, where a large brewery successfully leveraged its prominent position within the value chain to negotiate a major (albeit temporary) tax exemption with the government.[107]

In this context, interventions aimed at strengthening agricultural value chains and food security outcomes risk being blocked or hijacked by these powerful actors, who are often more concerned with maintaining their own dominant position than with developing an efficient value chain. At times, these actors may want to prevent domestic value chains from developing in order to protect their vested interests. In Tanzania, for instance, strong political and business interests opposed the increase of domestic rice production because it would have curtailed the import of cheap rice, from which they used to profit.[108] Eventually, these powerful interests managed to hamper the implementation of some of the policies that were put in place to scale up domestic production. In other cases, powerful actors managed to unduly benefit from policies that had been originally implemented to strengthen domestic value chains. In Nigeria, for instance, the government had limited the import of foreign maize to support domestic production. However, the opportunities generated by these policies

105 Khan, A., 2014. 'Pakistan's Food Security from Wheat Value Chain Perspective,' PhD diss., University of Auckland, 252-273.

106 Resnick, D. 2021. *Political Economy of Wheat Value Chains in Post-Revolution Sudan*, Working Paper 01, Khartoum, IFPRI.

107 Resnick, D., et al. 2022. *The Political Economy of Kenya's Agricultural Transformation: A Comparative Value Chains Approach*, Michigan State University Department of Agricultural, Food and Resource Economics Food Security Group, 20 December.

108 Chinsinga, B. and Naess, L.O. 2022. *The Political Economy of Agricultural Commercialisation: Insights from Crop Value Chain Studies in Sub-Saharan Africa*, Working Paper 87, Accra, Agricultural Policy Research in Africa, 14; Mdoe, N., and Mlay, G. 2021. *Agricultural Commercialisation and the Political Economy of Value Chains: Tanzania Rice Case Study*, Accra, Agricultural Policy Research in Africa.

(e.g., input subsidies) were largely captured by a few well-connected private sector actors.[109] Moreover, due to the huge profits made through illicit trade of maize, political actors connived with their cronies in the private sector to allow for selective opportunities for illicit trade.[110]

Besides powerful elites and well-connected businesses, at times other actors enjoy significant power thanks to the specific position or role that they play within a given value chain. In agricultural systems dominated by smallholder farmers, for instance, traders and middlemen often enjoy a powerful position. Leveraging their ability to bridge the gap between smallholder producers selling small quantities of produce and large-scale processors eager to buy in bulk, these actors are often able to play a key role in price setting, ensuring that their own profit margins are preserved – even if this squeezes out other actors along the chain.[111] Middlemen are in a particularly strong position when they enjoy access to liquidity and storage capacity, allowing them to buy products when prices are lower and keep them in store until prices rise. This game was played, for instance, by middlemen in Sudan's grain markets during the al-Bashir era.[112] Information advantages can further strengthen the middlemen's position. This was the case in Sudan's gum Arabic value chain, where local traders used their knowledge of prices in central markets to increase their bargaining power vis-à-vis their suppliers, who generally did not have such information. Besides the middlemen, exporters of agricultural commodities can also wield significant power thanks to their ability to generate foreign currency, which is often much needed in fragile settings. This has been the case, for instance, for some of the large agricultural conglomerates in Sudan, who have replenished the government's treasury with hard currency in exchange for subsidies for their purchases and facilities to export their products.

109 Chinsinga, B., and Naess, L.O. 2022. *The Political Economy of Agricultural Commercialisation: Insights from Crop Value Chain Studies in Sub-Saharan Africa*, Working Paper 87, Accra, Agricultural Policy Research in Africa, 14; Amaza, P., et al. 2021. *The Political Economy of the Maize Value Chain in Nigeria*, Accra, Agricultural Policy Research in Africa.

110 Ibid.

111 In these contexts, farmers seldom have information about the markets for their products, while processors are often unable or unwilling to deal with a multitude of small-scale suppliers.

112 In this case, middlemen exploited inefficiencies in the government-run wheat purchasing system to their own advantage, buying wheat directly from farmers and then re-selling it at a higher price to the government later on. Resnick, D. 2021. *Political Economy of Wheat Value Chains in Post-Revolution Sudan*, Working Paper 01, Khartoum, IFPRI.

Overall, these observations show that agricultural value chains in fragile settings feature significant power imbalances, as a limited amount of powerbrokers are able to wield a disproportionate amount of power vis-à-vis their competitors. In this context, interventions aimed at supporting agricultural value chains and food security risk inadvertently reinforcing the position of these powerbrokers, rather than achieving their original aims. A thorough understanding of the political economy of these value chains is necessary to devise measures to mitigate this risk.

3.4 Agricultural value chains and conflict

Given the close link between food security and agriculture on the one hand and power and politics on the other, it may not be surprising that the development of agricultural value chains is frequently intertwined with conflict dynamics. This section explores how increased economic activity in the agri-food sector can exacerbate conflict – be it by directly funding armed factions or by exacerbating tensions among societal groups due to a (perceived) unequal distribution of benefits. Awareness of these dynamics is critical to ensure that interventions aimed at developing agricultural value chains do not end up stirring tensions and conflict, thus undermining their original goal of improving food security.

The most direct way in which activities along agricultural value chains can fuel conflict is when the businesses active along these chains are (more or less directly) linked to conflict actors, and thus an increase in their activity actively funds the fighting. In Sudan, for instance, the warring parties to the current conflict have for a long time enjoyed control over vast economic empires, with a very strong presence in the agri-food sector.[113] In this case, not only have the proceeds from these economic activities been used to fund the war effort, but competition among the warring parties' business empires has also contributed to fuelling the conflict.[114] In other cases, such as that of the Philippines, an increase in agricultural production has been shown to lead to more conflict, as insurgents

113 Hoffmann, A., and Lanfranchi, G. 2023. *Kleptocracy versus Democracy: How Security-Business Networks Hold Hostage Sudan's Private Sector and the Democratic Transition*, The Hague, The Clingendael Institute.

114 Abushama, H., et al. 2023. *Political and Economic Drivers of Sudan's Armed Conflict: Implications for the Agri-Food System,* Khartoum, IFPRI.

sought to get control of large banana plantations to fund their operations.[115] This phenomenon is more likely to take place when the increase in agricultural production happens in areas affected by an active insurgency and when it concerns the large-scale cultivation of cash crops geared to export.[116]

In addition to this direct connection to conflict, it is crucial to consider how the development of agricultural value chains can affect conflict by creating winners and losers and hence impacting existing power balances. For instance, if the benefits of this development are concentrated in the hands of a restricted elite, rather than benefiting the population more at large, this could generate resentment and unrest. Similarly, if the increase in economic activity is perceived as benefiting only certain segments of the population while excluding others, this is likely to create discontent among the latter group. The risk of this discontent leading to conflict is particularly high if the division between beneficiaries and excluded communities is framed along identity lines, and if it plays on preexisting tensions regarding unequal opportunities, marginalisation and exclusion.[117]

The past decades have witnessed several cases in which the scaling up of agricultural activities has fuelled conflict through these mechanisms. In late 1980s' Sudan, for instance, the implementation of mechanised farming schemes in the Nuba Mountains came at the expense of the livelihoods of local pastoralists and farmers, who were often displaced from their ancestral land.[118] This prompted many people to join armed movements in the region fighting against the central government, thus exacerbating existing conflicts. More recently, in Sierra Leone, the implementation of palm oil cultivations led to an increase in the value of land, and it pushed local communities to set fixed boundaries, something that had not been part of their customary land

115 Crost, B., and Felter, J. 2020. 'Export Crops and Civil Conflict,' *Journal of the European Economic Association*, 18(3), 1484-1520, https://doi.org/10.1093/jeea/jvz025.

116 Ibid.

117 According to existing research, high levels of horizontal inequality, that is, inequalities between groups that have different cultural identities (e.g., ethnicity, religion, etc.), increase the risk of violent conflict. Hillesund, S., et al. 2018. 'Horizontal Inequality and Armed Conflict: A Comprehensive Literature Review,' *Canadian Journal of Development Studies*, 39(4), 463-480, https://doi.org/10.1080/02255189.2018.1517641.

118 Swisspeace, 2015. *Agribusiness: Risks and Impacts in Conflict-Affected Areas*, International Alert, London, Swisspeace, 7-8; Pantuliano, S. 2009. *Uncharted Territory: Land, Conflict and Humanitarian Action*, Warwickshire, Practical Action Publishing, 154-157. Similar land issues were also at the heart of the conflict in Darfur and eastern Sudan.

management system.[119] These developments led to a rise in conflicts over land among different communities. In addition, local youth felt largely excluded from the palm oil deals. They saw them as an obstacle preventing them from accessing land, while they were not gaining any of the benefits, as profits from the deals were pocketed by local elders. These dynamics exacerbated the youth's feeling of exclusion, which had been one of the factors contributing to the decade-long civil war in Sierra Leone.[120]

Although preventing the risk of conflict requires ensuring a broad distribution of benefits, it is also important to carefully handle the way in which existing power brokers are affected by any change to the status quo. If the powerful actors dominating a value chain feel threatened by this change, they are likely to resist it. As noted earlier, for instance, Tanzanian business elites in the rice sector successfully blocked a shift towards increased domestic production in order to protect their vested interest in the rice import business.[121] To mitigate the risk that these frictions lead to tensions and conflicts, changes to the status quo should be handled in a sensitive way, ensuring a degree of buy-in from existing power brokers to prevent them from turning into spoilers.

3.5 Conclusion

This chapter has explored the complex interplay between fragility and conflict on the one hand and food security and agricultural value chains on the other. On the one hand, in fragile settings it is often difficult to achieve food security outcomes through domestic production and distribution mechanisms, as fragility and conflict disrupt economic activities along the whole value chain. Other times, the development of domestic value chains is hampered by political constraints, as powerful elites block changes to the status quo in order to preserve their position of power, with little to no regard for the well-being of the population more at large. On the other hand, developing stronger agricultural value

119 Ibid.

120 Ibid.

121 Chinsinga, B., and Naess, L.O. 2022. *The Political Economy of Agricultural Commercialisation: Insights from Crop Value Chain Studies in Sub-Saharan Africa*, Working Paper 87, Accra, Agricultural Policy Research in Africa, 14; Mdoe, N., and Mlay, G. 2021. *Agricultural Commercialisation and the Political Economy of Value Chains: Tanzania Rice Case Study*, Accra, Agricultural Policy Research in Africa.

chains does not automatically lead to improved food security incomes for the population. Leveraging their connections to powerful elites or their privileged positions within the value chain, existing powerbrokers often stand ready to reap most of the profits arising from the increased economic activity, leaving little benefits for their competitors or for end consumers of food products. Moreover, increased economic activity along agricultural value chains risks inadvertently fuelling conflict – not only when profits are directly used to fund armed actors, but also if an unequal distribution of benefits exacerbates existing tensions among communities.

Overall, this analysis showed the importance of moving beyond technical approaches when devising interventions aimed at improving food security by developing agricultural value chains. Rather, these interventions should be grounded in a thorough understanding of the political economy of the context in which they are implemented. Most crucially, this entails taking into account existing power structures in order to understand who stands to benefit or lose from the proposed interventions and how they may react to them. Such understanding can inform the design and implementation of interventions that deliver inclusive economic development and improved food security outcomes, rather than empowering existing powerbrokers or exacerbating local conflicts.

4 Case study: Ethiopia's wheat value chain

4.1 Introduction

Ethiopia's food system is characterised by a puzzling paradox. On the one hand, the country has a strong agricultural potential. With around 38.5 million hectares of agricultural land, generous water resources and a wide variety of agroecological zones, Ethiopia has the potential not only to feed its own population but even to become a major exporter of food products.[122] On the other hand, however, over the past few decades the country has been struggling with widespread and persistent food insecurity. For decades, Ethiopia has been importing large quantities of food, both commercially and in the form of food aid, to meet local demand.[123] Currently, an estimated 20 million people (around one of every six citizens) are in need of food assistance,[124] and deaths by starvation are increasingly reported in different areas of the country.[125] Most puzzlingly, this happens while the government announces plans to export wheat[126] and receives praises by the Food and Agriculture Organization of the United Nations (FAO) for

122 World Bank Group. 2021. 'gricultural land (sq. km) - Ethiopia,' https://data.worldbank.org/indicator/AG.LND.AGRI.K2?locations=ET (accessed 2 February 2024); Dorosh, P., and Rashid, S. 2021. *Food and Agriculture in Ethiopia*, Philadelphia, University of Pennsylvania Press; Yigezu Wendimu, G., and Tejada Moral, M. 2021. 'The Challenges and Prospects of Ethiopian Agriculture,' *Cogent Food & Agriculture*, 7(1), https://doi.org/10.1080/23311932.2021.1923619 (accessed 2 February 2024).

123 Shambel Endris, G., and Sokora Nenko, A. 2013. 'The Food Aid Scenario in Ethiopia: Pro-Poor or Pro-Politics,' *Developing Country Studies*, 3(5), 167-174, https://core.ac.uk/download/pdf/234681086.pdf (accessed 2 February 2024).

124 WFP. 2024. 'WFP Ethiopia country brief,' 1 May, https://www.wfp.org/countries/ethiopia (accessed 1 May 2024).

125 Addis Standard. 2024. 'In-depth: Famine haunts Tigray, again; weak response, conflicts and drought threaten millions elsewhere in Ethiopia,' 31 January, https://addisstandard.com/in-depth-famine-haunts-tigray-again-weak-response-conflicts-and-drought-threaten-millions-elsewhere-in-ethiopia/ (accessed 2 February 2024).

126 Herbling, D. 2023. 'Ethiopia is producing surplus wheat for export after drive to boost output,' Bloomberg, 8 September.

its efforts to develop the agricultural sector.[127] This paradox begs the question of why, despite its potential and the progress achieved over recent decades in terms of increasing agricultural production, food security concerns regularly persist in multiple areas of Ethiopia.[128]

Building on the previous chapter, this chapter uses a concrete case study to illustrate how efforts to increase agricultural production do not necessarily translate into improved food security for the population. Through an analysis of Ethiopia's wheat value chain, the chapter shows how food security outcomes largely depend on the political economy context in which crops are produced, traded and brought to the market.[129] The focus on wheat is motivated by several factors, including its (growing) importance for food security in Ethiopia, the political value it has acquired over the past years and the linkages between domestic and international markets. By focusing on a country with a strong domestic production potential, this analysis adds to the literature on food security in fragile settings, which has often focused instead on food insecure countries with a limited ability to grow food domestically.

To provide a picture of the relevant political economic dynamics, this chapter explores a number of factors that have a significant impact on the wheat value chain in Ethiopia. The first section looks at how Ethiopia's conflicts disrupt activities along the value chain, as well as at how economic activities along the chain can fuel tensions and conflicts. The second one explores how Ethiopia's governance structure – particularly the heavy presence of the state in the agricultural sector – shapes the functioning of the wheat value chain. The third section focuses more specifically on the wheat policies adopted by successive Ethiopian governments, showing how these policies are often more geared towards satisfying political imperatives rather than food security ones. The fourth section looks at how Ethiopia's economic crisis shapes the functioning of the

127 Addis Fortune. 2023. 'Ethiopia's award-winning agriculture faces reality check as millions hunger,' https://addisfortune.news/ethiopias-award-winning-agriculture-faces-reality-check-as-millions-hunger/ (accessed 2 February 2024).

128 Dorosh, P., and Rashid, S. 2021. *Food and Agriculture in Ethiopia*, Philadelphia, University of Pennsylvania Press.

129 The analysis is based on a review of relevant literature, as well as interviews with over 25 key informants with knowledge of Ethiopia's agricultural sector, including researchers, businesspeople (traders, millers, bankers, etc.), former and current government officials, development workers and diplomats. For more information on the methodology, see annex 1.

wheat value chain, introducing market distortions that undermine food security. Finally, the fifth section explores the power imbalances within the value chain and how these impact potential food security interventions. As a context for this analysis, annex 2 provides a more descriptive overview of the various stages of Ethiopia's wheat value chain. Overall, understanding these dynamics is critical to design effective food security interventions, mitigating the risk that they end up being ineffective or achieving unintended negative effects.

4.2 The impact of conflict, the impact on conflict

Over the past years, multiple, recurring conflicts have had a strong negative impact on food security in many regions of the country. Only seven months into the war that started in northern Ethiopia in November 2020, the conflict had already led to an estimated 37 percent increase in the probability of people being affected by moderate or severe food insecurity in conflict-affected areas.[130] According to these estimates, the presence of a battle in a specific geographic area had led to a one percent increase in the probability of moderate or severe food insecurity for residents of that area.[131] Not coincidentally, the regions most affected by conflict are also among the regions facing the worst level of hunger, with reports of deaths by starvation in both Tigray and Amhara and acute food insecurity in conflict-affected regions of Oromia.[132] While conflict is rarely the only cause of food insecurity (which can also depends on other factors such as droughts and pests), it often plays a major role in it.

In line with the examples described in the previous chapter, Ethiopia's multiple conflicts have severely disrupted activities along virtually all stages of agricultural value chains, including that of wheat. The effects have been particularly strong in areas affected by high-intensity fighting, most notably Tigray. For instance, according to a survey conducted among smallholder farmers in the region, more than 81 percent of the household crops were

130 Abay, K., et al. 2023. 'Near-Real-Time Welfare and Livelihood Impacts of an Active War: Evidence from Ethiopia,' *Food Policy*, 119(1), https://doi.org/10.1016/j.foodpol.2023.102526.

131 Ibid.

132 FEWS NET. 2023. 'Food security emergency persists across Ethiopia in aftermath of severe shocks,' FEWSN, August, Food security emergency persists across Ethiopia in aftermath of severe shocks | FEWS NET (accessed 2 February 2024); Addis Standard. 2024. 'In-depth: Famine haunts Tigray, again; weak response, conflicts and drought threaten millions elsewhere in Ethiopia,' 31 January.

devastated – often deliberately – by fighting, burning and looting.[133] In addition, almost half of the surveyed smallholders reported suffering from damage or looting of their agricultural tools, such as ploughing tools, irrigation infrastructure and other farm equipment.[134] This means that the conflict has damaged not only the available stocks of food, but also the farmers' capacity to work on future agricultural seasons. In addition, the siege suffered by Tigray during the war meant that no food or necessary agricultural inputs (e.g., fertilisers, improved seeds) could come in from the rest of the country, while fuel shortages prevented the transport of inputs or products within the region. This further worsened the food security situation in both the short and long term.

While the impact of the war has been particularly strong in Tigray, other conflict-affected regions have also suffered significantly. With widespread insecurity in Ethiopia's two largest regions (Oromia and Amhara),[135] it has been extremely difficult to transport crops, food products or key agricultural inputs (most notably fertilisers) in many areas of the country. For instance, growing insecurity in Oromia and in the area around the capital Addis Ababa – the regions where most wheat is produced and milled – has made it increasingly challenging to transport wheat and wheat flour.[136] With the fighting between the Fano and government forces escalating in Amhara regions, millers who used to sell their wheat flour there had to stop their deliveries in the region or rely on more risky and thus expensive transport, driving prices up for the end consumers.[137]

While on the one hand conflict has impacted agricultural value chains, on the other hand economic activities along these value chains have grown increasingly enmeshed with conflicts. The most prominent example of these dynamics is arguably that of sesame in Ethiopia's northern regions, where control over the production and trade of this lucrative crop has become a key issue of contestation at multiple levels, including locally (among Amhara political elites),

133 Manaye, A. et al. 2023. 'The Effect of the War on Smallholder Agriculture in Tigray, Northern Ethiopia,' *Cogent Food & Agriculture*, 9(1), https://doi.org/10.1080/23311932.2023.2247696. The warring parties – and most notably the Eritrean and Ethiopian defence forces – were singled out by responders as the main perpetrators of the destruction in the region.

134 Ibid.

135 Ethiopia Peace Observatory. 2024. 'Interactive map: Political violence in Ethiopia,' Armed Conflict Location & Event Data Project, https://epo.acleddata.com/ (accessed 2 February 2024).

136 Interviews with multiple key informants, including millers and government officials; Addis Ababa, November 2023.

137 Interviews with Ethiopian wheat millers; Addis Ababa, November 2023.

across regions (between Amhara and Tigrayan political elites) and across state borders (involving Sudan and Eritrea).[138] While the wheat value chain has not intersected with conflict in such a direct way so far, the risks of increased economic activity fuelling conflict should not be discounted. For instance, as the government pushes for expanding wheat cultivation to lowland areas traditionally not used for this purpose (see section 4.4 below), there is a risk of land-related tensions and conflicts erupting among local communities.[139] Land-related conflicts are not an uncommon feature in Ethiopia,[140] and the risk is particularly high when the expansion of cultivated land takes place along contested border areas that already feature preexisting political and often ethnic tensions, such as the border between Oromia and Somali regional states.

This risk is particularly strong given Ethiopia's political setup, in which regional states are defined on an ethno-linguistic basis and are often in strong competition against each other. In this context, competition among regional states in the agricultural domain risks feeding into broader political and identity grievances and conflicts. In particular, regions whose ruling elites enjoy more influence in the federal government (mostly Tigray until 2018 and Oromia now) are often resented by the population of other regions for being able to obtain privileges, such as preferential access to key agricultural inputs.[141] In Amhara region, for instance, delays in the distribution of fertilisers in 2023 have been attributed by some to deliberate political choices by the federal government.[142] This has tapped into existing resentment among large segments of the Amhara population, who see the federal administration as unduly dominated by Oromo elites. In a context where ethno-political competition is a major driver of conflict,[143] these competition dynamics in the agricultural domain risk exacerbating political tensions and conflicts.

138 Soliman, A., and Demissie, A.A. 2024. *The 'Conflict Economy' of Sesame in Ethiopia and Sudan*, London, Chatham House.

139 Interview with Ethiopian peacebuilding professional; Addis Ababa, November 2023.

140 Tekle, A. 2023. 'Land so prized, so much blood spilled,' *The Ethiopian Reporter*, 24 June.

141 Interview with former government advisor; Addis Ababa, November 2023.

142 Berhanu, G. 2023, 'Time is on Fano's side,' Borkena, 23 July.

143 Necho, A. 2023. *Ethiopia Conflict Trends Analysis: Amhara Region*, Nairobi, Rift Valley Institute.

4.3 An intrusive, complex state

Besides the impact of conflict, the state's traditionally heavy-handed intervention in the agricultural sector also plays a major role in shaping the functioning of Ethiopia's wheat value chain. Over the past several decades, successive Ethiopian governments have traditionally taken an activist approach to agricultural policy – starting with Haile Selassie's creation of agricultural development units and continuing with extensive land reforms under the *Derg* regime. Two devastating famines in the early 1970s and the 1980s left a profound mark on the country, also contributing to the fall of the imperial and *Derg* regimes respectively.[144] Mindful of this past, when the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) took power in the early 1990s, it quickly made agricultural development a top priority, with a view to provide food for a growing population, promote economic development and eradicate poverty, while also securing the government's own political stability.[145] To this end, the government drafted a number of successive agricultural strategies and came to allocate 10 percent of its annual expenditures to the agricultural sector.[146]

Under the EPRDF, the government's approach to agriculture featured a significant focus on supporting smallholder farmers, who represented (and still represent) the backbone of the country's agricultural system and who had

144 Alemayehu Tegegn, D. 2023. 'The Trigger of Ethiopian Famine and Its Impacts from 1950 to 1991,' *Cogent Arts & Humanities*, 10(1), https://doi.org/10.1080/23311983.2023.2264017; Interview with an Ethiopian academic, Addis Abeba, November 2023.

145 Woolfrey, S., et al. 2021. *Political Economy Analysis of the Ethiopian Food System: Key Political Economy Factors and Promising Value Chains to Improve Food system Sustainability*, Rome, FAO, 13-19; Alemu, D., and Berhanu, K. 2018. *The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediment*, Future Agricultures Consortium. The commitment to food security was even referenced as an important factor underpinning the government's Foreign Affairs and National Security Policy and Strategy of 2002.

146 Ibid. The government's efforts were for a long time guided by the 1992 Agricultural Development Led Industrialization strategy, followed by a succession of five-year plans, the Growth and Transformation Plans.

historically formed the bulk of armed contestation movements in the country.[147] While the focus on smallholders prevented the concentration of land in the hands of a few private actors, it also led to a growing fragmentation of land plots, increasingly limiting the profitability of smallholder farming. In principle, under Ethiopia's land policy, all adults have the right to use rural land. In practice, however, population growth has put pressure on this system, with family-controlled plots of land getting increasingly fragmented as they are passed over to the next generations.[148] As a result, Ethiopia's wheat production (similarly to that of many other crops) is largely dominated by farmers who own extremely small plots of land, cultivated without the help of irrigation or mechanised systems.[149] Overall, this has resulted in low productivity levels: although wheat yields in Ethiopia have increased significantly over the past two decades (from 1.1 to 3.03 tonnes per hectare between 2000 and 2020), they have remained well below those of many other African countries (e.g., 4.14 tonnes per hectare in South Africa and 6.57 in Egypt).[150]

In addition, the established policy of state ownership of all of the country's land means that farmers do not formally own the land they work on. This policy

147 Ibid.; Vaughan, S., and Gebremichael, M. 2011. *DFID Research: Rethinking Business and Politics in Ethiopia: The Role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray*, London, Department for International Development. It should be noted, however, that the government's policies have been criticised for the lack of meaningful bottom-up participation by relevant stakeholders (e.g., smallholders, supposedly the main beneficiaries of the government policy, were often instructed on what to do in a top-down fashion and coopted, rather than consulted and meaningfully included in policy making), as well as for an occasional policy incoherence (e.g., the focus on smallholders was at times diluted by efforts promoting large scale commercial farming, with the aim of increasing productivity).

148 Cochrane, L. 2023. 'Rural Ethiopia in transition,' *Logan Cochrane Blog*, 12 July, https://www.logancochrane.com/blog/rural-ethiopia-in-transition (accessed 2 February 2024); Interviews with Ethiopian agricultural researchers, Addis Ababa, November 2023.

149 The average size of wheat farmlands was reported at only 0.34 hectares in 2014 and has been decreasing over time. As of 2015, less than one percent of wheat cultivated area was irrigated and around one percent was cultivated using tractors. Though both irrigation and the use of tractors have increased over the past years, their use remains limited. Although some large-scale commercial wheat farms do exist (particularly in the so-called 'wheat belt' in Oromia's Bale and Arsi zones), they have traditionally accounted for a limited share of wheat production (five percent in 2013). See annex 2.B for more detailed information and references.

150 Other reference figures include Zambia (7.37 tons per hectare) and Namibia (6); see Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance and Yield Gap Closure,' *Heliyon*, 9(10), https://doi.org/10.1016/j.heliyon.2023.e20720.

was first established by the *Derg* in 1975 and later enshrined by the EPRDF in the 1995 constitution.[151] While the declared aim of the policy was to prevent the concentration of land into the hands of a few private actors, this approach has also resulted in some significant side effects. Most notably, due to their lack of formal ownership over land, farmers cannot use land as a collateral to get finance – a bottleneck that is cited by many key informants as a significant obstacle for the development of well-functioning agricultural value chains.[152] Unable to get finance through formal channels, smallholder farmers often end up getting credit from downstream actors in the value chain, most often (local) traders. While this credit allows them to buy necessary inputs (e.g., seeds, fertilisers), it also creates a power imbalance vis-à-vis traders, diminishing farmers' bargaining power and hence their incomes (see section 4.6 below). In an effort to address this issue, in August 2024 the government has passed a law that makes it possible to collateralise land based on its "maximum potential,"[153] though it is too early to analyse how the law will be implemented and the impact that it will have.

Besides formally owning all of the country's land, the state also plays a key role in the distribution of key agricultural inputs, most notably seeds and fertilisers (for further details, see annex 2.A). In the seeds sector, the state's engagement takes place through state-owned enterprises active at both the federal and regional levels.[154] As for fertilisers, the distribution system is extremely centralised, with the federal government acting as the sole purchaser of

151 See Article 40 of the Constitution. Intergovernmental Authority on Development, 2023. *Land Governance in IGAD Region: Ethiopia*, IGAD.

152 Interviews with senior agricultural researcher, two experts on land and land-related conflicts and two banking representatives, Addis Ababa, November 2023.

153 Federal Democratic Republic of Ethiopia. 2024. *Rural Land Administration and Use Proclamation*, Proclamation No. 1324/2024.

154 Seed enterprises controlled by regional administrations manage the distribution in their own regions, though they can also trade seeds with other regions according to availability. In addition, a federal entity (formerly the Ethiopian Seed Enterprise, now incorporated under the Ethiopian Agricultural Businesses Corporation, EABC) is tasked with coordinating the activities of regional enterprises. More information in annex 2.A.

fertilisers and distributing them to farmers via cooperatives.[155] Overall, however, these state-led, centralised mechanisms have traditionally struggled to ensure the availability and affordability of agricultural inputs. For instance, recurring shortages of seeds have traditionally affected Ethiopia's wheat sector.[156] Significant price hikes in recent years (50 percent season-on-season) have made it even more difficult for many farmers, especially smallholders, to buy improved seeds.[157] The use of fertilisers has similarly been limited by both availability and affordability issues, due to a mix of domestic challenges (dwindling foreign exchange reserves) and international ones (major price hikes in international markets) (for further details, see annex 2.A).[158] As a result, the price of fertilisers has risen significantly (170 percent between 2021 and 2022), and many farmers have been unable to access the required amount of fertilisers.[159] Following the government's decision to float the currency in July 2024, higher and more volatile prices for fertilisers are expected, although the government has pledged subsidies to offset the impact.

Finally, in certain cases, the complexity of Ethiopia's governance structures complicates the functioning of agricultural value chains, including that of wheat. Reflecting Ethiopia's federal arrangement, the agricultural sector is regulated through a complex set of interactions between federal, regional

155 Cooperatives gather requests from farmers and pass them up to the government, first at the regional and then at the federal level. Upon receiving these requests, the Ministry of Agriculture decides on how to allocate fertilisers to different regions, based on the requests received and on agricultural performance over the past years. The fertilisers are then purchased by the government, to be then channeled to lower levels of administration and, via the cooperatives, to the farmers. More information in annex 2.A.

156 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 6.

157 Between the 2020-21 and the 2021-22 seasons, the price of a quintal of improved wheat seeds rose by almost half, from ETB 2.3k to ETB 3.4k. Negassa, A. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, Arlington, VA, USAID Food Security Service Center II, 25.

158 Wageningen University and Research, 2023. 'Ethiopia fertilizer alert,' Wageningen, Wageningen University.

159 Ibid. An Ethiopian agricultural researcher consulted for this study estimated that farmers get around 1/4 of the amount of fertilisers they would require.

and local authorities.[160] Although this structure allows for a much-needed degree of consistency and coordination among different regions, it also features shortcomings. First, federal authorities tend to privilege a top-down approach, which contrasts sharply with the widely held wish for a more inclusive, participatory approach to policy making – a wish shared by several businesses, experts and development actors consulted for this study.[161] Moreover, disagreements and coordination problems across the different levels of governance can also affect the implementation of policies.[162] Besides these vertical coordination issues, the wheat value chain functioning is also hampered by the difficult horizontal coordination among the ministries in charge of different activities along the chain (e.g., Ministry of Agriculture for production, Ministry of Trade and Regional Integration for storage and exports, Ministry of Industry for milling, Ministry of Health for food safety, etc.).[163] According to some, these coordination difficulties have contributed to a situation in which the benefits of increased wheat production have been limited by bottlenecks at other stages of the value chain (e.g., post-harvest losses during storage, lack of market linkages, etc.).[164]

160 Directives generally emanate from the federal government – particularly the prime minister, the Ministry of Agriculture, as well as the Ministry of Finance – and then cascade down to lower levels of government in a top-down fashion. Regional administrations (and especially their bureaus of agriculture) play a particularly relevant role, liaising not only with lower level administrations (at the zone, *woreda* and *kebele* levels), but also with unions and cooperatives, as well as universities, regional research institutes and regional seed enterprises. Interview with a former government advisor, Addis Ababa, November 2023.

161 Interviews with Ethiopian researchers, businesspeople and development actors, Addis Ababa, November 2023.

162 For instance, these problems led to serious issues in early 2023: the price set by the federal government as the minimum farm gate price for wheat was used by the regional administration in Oromia as a fixed price, thus forcing farmers to sell well below market prices and creating distortions and widespread discontent. Interview with Ministry of Agriculture official, confirmed by other stakeholders with knowledge of the events, Addis Ababa, November 2023. See also Addis Standard. 2023. 'Analysis: Farmers endure market sabotage, inflation and price disorientation as government wheat export story takes news headlines by storm,' 15 May.

163 Interviews with researchers, traders and processors, Addis Ababa, November 2023.

164 Interviews with agricultural researchers, Addis Ababa, November 2023.

4.4 Wheat policies, political motives

Owing to its importance as a food staple for the Ethiopian population, wheat has had a strong political value over the past decades. As noted in the previous chapter (see section 3.3), ruling elites are often eager to actively regulate the value chains of crops that are important for national food security and hence for regime stability.[165] Aware of these dynamics, for a long time the EPRDF government implemented a scheme to import wheat and subsidise its consumption in order to bridge the gap between a growing demand and a limited domestic production. In this period, imports of wheat and wheat products accounted for an estimated 20-35 percent of local demand.[166] These imports included not only the government's commercial purchases used to implement its subsidy scheme but also food aid (for more information on food aid, see Box 1).[167]

The government's subsidy scheme relied on a centralised system for the procurement and distribution of wheat. A government-controlled agency would buy wheat in international markets by issuing tenders.[168] While these tenders

165 Chinsinga, B., and Naess, L. 2022. *The Political Economy of Agricultural Commercialisation: Insights from Crop Value Chain Studies in Sub-Saharan Africa*, Accra, Agricultural Policy Research in Africa.

166 Estimates of the share of wheat consumption covered by imports include the following figures: 20 percent (interview with official from the Ministry of Agriculture, November 2023); 25 percent (Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 74); 30 percent (Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance and Yield Gap Closure,' *Heliyon*, 9(10); 25-35 percent (Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy).

167 According to available estimates, food aid accounted for between 30 percent and 60 percent of the volume of wheat imports, with the exact share varying significantly from year to year depending on the performance of the domestic harvest (Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 42). The wheat purchased by donors as food aid tended to be more expensive (Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 74-75).

168 The purchase used to be managed by the Public Procurement and Property Disposal Service under the Ministry of Finance, and involved officials from the Ministry of Trade and the Ethiopian Trading and Business Corporation. Before 2008, private traders had been engaged in the purchase of wheat from international markets. The food crisis of 2008, however, prompted the government to take control of those purchases through a state entity, the Ethiopia Grain Trading Enterprise (which was later merged, together with other state entities, into the Ethiopian Trading and Business Corporation). (Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 74; Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 43.)

were nominally open, some traders complained about particularly complicated processes, requiring foreign businesses to work with the state-owned Ethiopian Shipping and Logistics Services Enterprise and arrange by themselves the land transport from Djibouti's port to Ethiopia.[169] As a result, bids were reportedly won only by a limited number of companies that enjoyed good contacts with partners within Ethiopia.[170] Following this purchase, the government would distribute wheat to selected mills at heavily reduced prices and then set fixed margins for the different actors (mills, bakeries, retailers) and products (flour, bread) along the whole value chain, down to the consumer level.[171]

While in principle this subsidy was aimed at protecting consumers from price shocks, in practice it led to a number of controversial effects. For instance, mills and bakeries often bought both subsidised and non-subsidised wheat. This made it difficult for the government to enforce its price controls, as mills and bakeries could mix the two types of flour and then sell their products at the (higher) market prices, profiting at the expense of consumers and the government.[172] Moreover, the subsidy scheme tended to favour urban populations (by lowering the price of their consumption), at the expense of domestic wheat farmers (who lost out from the subsidy-induced drop in market prices), as well as of a large bill for the federal government (estimated at between USD 0.7 and 1 billion per year, to be paid in foreign currency).[173]

These controversies eventually led the government of Prime Minister Abiy Ahmed to gradually phase out the subsidy. To offset the impact on the poorer segments of the population, the Addis Ababa city council partnered with the Shegger

169 Interview with an international wheat trader, Rotterdam, October 2023.

170 According to an international wheat trader consulted for this study, the large ABCD businesses did not engage in Ethiopia, largely due to difficulties in repatriating profits outside of the country. The bids were thus won by smaller companies that would engage in higher-risk markets shunned by the larger companies.

171 Government directives at the consumer level included setting not only the price, but also the weight and the quality of the bread produced with subsidised wheat. Addis Fortune. 2021. 'Government stops wheat subsidies, pushes for new distribution scheme,' 25 December.

172 Minot, N. et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 38.

173 For an estimate of the impact of the subsidy scheme, see Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 52-54; Tegegn, E. 2022. 'Smuggling threatens efforts to substitute wheat,' *The Ethiopian Reporter*, 5 November.

Bread Factory, a large, industrial-scale wheat processing factory owned by the MIDROC conglomerate, to provide bread at subsidised prices in the capital. However, despite the support received in the form of subsidised wheat, Shegger ended up suffering from wheat shortages and financial losses, which forced it to temporarily close down.[174] In addition, the government, together with the First Lady's office, has supported the launch of 12 factories across the country.[175] While some of these factories have been inaugurated, their impact remains difficult to assess at the moment.

Box 1 Wheat as food aid

In addition to the purchases made by the government to support its wheat subsidy scheme, international aid agencies have traditionally purchased wheat from abroad and used it to provide humanitarian assistance in Ethiopia. According to 2015 estimates, at that time food aid accounted for between 30 percent and 60 percent of the volume of wheat imports, with the exact share varying significantly from year to year depending on the performance of the domestic harvest.[176] Food aid is normally stored in designated warehouses spread across the country and then used for distribution – most often to the large population of refugees hosted by Ethiopia, as well as to Ethiopian citizens via the Productive Safety Net Program, Ethiopia's main social safety net program.[177] In situations of emergency, aid agencies can use the government's wheat reserves, under the agreement that they will then replenish them later on.

Recently, Ethiopia's food aid sector has been rocked by a large scale diversion scandal. According to various investigations conducted over the past year, food aid provided to war-torn Tigray was systematically

174 Nesre, Y. 2023. 'Wheat-less Addis Ababa's loaf life gets toasted by inflation,' Addis Fortune, 22 July.

175 Fana BC. 2024. 'PM, First Lady inaugurate Jigjiga Flour and Bread Factory,' 13 February, https://www.fanabc.com/english/pm-first-lady-inaugurate-jigjiga-flour-and-bread-factory/ (accessed 9 October 2024).

176 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 42.

177 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 41-42.

diverted and misused, ending up being sold in commercial markets or in the hands of various military forces.[178] The diversion scheme reportedly saw the involvement of a wide range of actors, including both federal and regional officials, as well as Eritrean troops, with some diplomats accusing the World Food Programme's (WFP's) staff to be '*either negligent or complicit*.'[179] Wheat was one of the main commodities involved in the scandal, with over 7,000 tonnes of produce reportedly misappropriated during the war, including for re-sale in commercial markets in Ethiopia and abroad.[180] As of now, no conclusive evidence is available regarding the impact that the diversion of wheat aid may have had on wheat markets. Anecdotal evidence and conversations with experts, however, suggests that this impact may have been significant at the local level (i.e., in the proximity of markets where aid was re-sold), but not very significant for Ethiopia's wheat market more at large.[181] The scandal led to the temporary suspension of food aid to Ethiopia, putting further strain on vulnerable communities dependent on food aid.[182] Since November 2023, the provision of aid has restarted, with WFP touting a '*robust set of safeguards and controls*' to ensure better accountability in the distribution of aid.[183]

In addition, the war in northern Ethiopia generated a large amount of criticism on the international aid system and its response to the (food) crisis. On the one hand, a widely publicised book by former WFP country director in Ethiopia Steven W. Omamo accused high-level UN figures of

178 Miolene, E., and Lynch, C. 2023. 'Exclusive: "Rot is so much deeper" — decades of Ethiopia aid manipulation,' Devex, https://www.devex.com/news/exclusive-rot-is-so-much-deeper-decades-of-ethiopia-aid-manipulation-106060 (accessed 2 February 2024); Paravicini, G. 2023. 'Many culprits stole food aid in north Ethiopia, investigation finds,' Reuters, 18 June; Tekle, T. 2023. 'Enquiry team: Ethiopia officials, Eritrean troops "stole" Tigray food aid,' *The East African*, 16 June; Anyadike, O. 2023. 'USAID suspends all food aid to Ethiopia over massive diversion scheme: Reports,' *The New Humanitarian*, 8 June.

179 Anyadike, O. 2023. 'USAID suspends all food aid to Ethiopia over massive diversion scheme: Reports,' *The New Humanitarian*, 8 June.

180 Welsh, T. 2023. 'Devex dish: Ethiopia's food theft runs deep,' Devex. https://www.devex.com/news/devex-dish-ethiopia-s-food-theft-runs-deep-106125 (accessed 9 October 2024).

181 Interviews with agricultural researchers, Addis Ababa, November 2023.

182 The Guardian. 2023. '"We blame government and aid agencies": Ethiopia food relief thefts leave those in need with nothing,' 29 June.

183 WFP. 2023. 'WFP launches new operating model to restart food distribution to millions of vulnerable Ethiopians,' https://www.wfp.org/news/wfp-launches-new-operating-model-restart-food-distribution-millions-vulnerable-ethiopians (accessed 2 February 2024).

inflating and politicising figures on food security, using famine warnings to attract more funds and advance specific diplomatic agendas.[184] On the other hand, a 2024 assessment of the humanitarian response during the war in northern Ethiopia highlighted different criticisms, including leadership divisions, as well as a failure to define and implement red lines in its interactions with the government.[185]

Over the past few years, wheat has become even more politicised than before, as the government has made a strong push to achieve self-sufficiency in wheat production. This push had started already in the late EPRDF period, as the government sought to reduce the high economic costs imposed by the subsidy scheme.[186] More recently, the administration of Abiy Ahmed has doubled down on these efforts to increase wheat production. The current push relies on a combination of different measures, including expanding the area dedicated to wheat cultivation, developing irrigation systems (thus allowing for production in areas and/or seasons with limited rain availability, such as Ethiopia's lowlands), as well as improving productivity and yields (through, for instance, an improved use of inputs and agricultural technologies, to be achieved via improved extension services or cluster farming).[187]

The strong focus by the current government on wheat is motivated by a combination of domestic and international dynamics. On the one hand, wheat demand in the country continues to grow, with an estimated growth rate of nine percent per year.[188] As of 2023, wheat represented the second most important

184 Omamo, S.W. 2022. *At the Center of the World in Ethiopia*, Richardson-Omamo Books; Jerving, S. 2023. 'Tigray "famine" was "overt politicization,"' says former WFP official, Devex, https://www.devex.com/news/tigray-famine-was-overt-politicization-says-former-wfp-official-104825 (accessed 11 October, 2024).

185 Inter-Agency Humanitarian Evaluation, 2024, *Inter-Agency Humanitarian Evaluation of the Response to the Crisis in Northern Ethiopia*, Geneva, Humanitarian Exchange and Research Center.

186 Interviews with a former government advisor and with a senior scholar, Addis Ababa, November 2023.

187 Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10).

188 Gebrie, G. 2022. 'A Review on: The Over-View of Irrigated Wheat Production and the Research Achievements of Lowland Irrigated Wheat in Ethiopia,' Ethiopian Institute of Agricultural Research, 4(1), 41; Interviews with Ethiopian agricultural researchers and businesspeople, Addis Ababa, November 2023).

consumption crop in the country (after maize), accounting for 14 percent of the national calories intake.[189] On the other hand, procuring wheat from international markets has become increasingly difficult and costly. With international market prices spiking after Russia's invasion of Ukraine, wheat imports have become more expensive (see chapter 2). This, combined with the country's worsening economic crisis (see section 4.5 below), has made it increasingly difficult for the government to foot the large import bill.[190] In addition, with the escalation of the war in northern Ethiopia, the federal government has perceived its dependency on (largely Western-funded) food aid as a disadvantage in its diplomatic disputes with Western governments concerning the war.[191] Finally, according to some, doing away with Ethiopia's dependency on the external world for its food supplies aligns with the modern, successful image of Ethiopia that PM Abiy seeks to project, regardless of the actual circumstances on the ground.[192]

As a result of this wheat push, the government currently declares that no more wheat imports are necessary, and that Ethiopia can become instead a wheat exporter. In September 2023, the Ministry of Agriculture announced projections foreseeing a wheat harvest of 19.5 million tonness for the upcoming seasons.[193] These figures would represent a massive surge in production – a 26 percent increase compared to the 15.4 million tonnes of the previous year,[194] and a staggering three-fold increase compared to the 6.2 million tonnes of the 2020-2021 season.[195] With the domestic demand estimated at around 9.7 million tonnes, such a large harvest would allow Ethiopia to become a major exporter

189 Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10).

190 Tegegn, E. 2022. 'Smuggling threatens efforts to substitute wheat,' *The Ethiopian Reporter*, 5 November.

191 Interviews with a former government advisor and with a senior scholar, Addis Ababa, November 2023.

192 Interview with a European diplomat, September 2023.

193 Herbling, D. 2023. 'Ethiopia Is Producing Surplus Wheat for Export After Drive to Boost Output,' Bloomberg, 8 September.

194 Ibid.

195 Bogale, S. 2022. 'Wheat Self-Sufficiency: Agricultural Revolution or Political Assertion?' *The Ethiopian Reporter*, 15 October.

of wheat.[196] These figures, however, are considered unreliable by most experts and businesses engaged in the sector.[197] Although issues with the reliability of wheat data are not new in Ethiopia,[198] the government's strong push to increase wheat production has reportedly worsened the problem by creating incentives to over-report production. In particular, reporting very high wheat production figures can allow regional administrations not only to access higher amounts of agricultural inputs for the following season (see annex 2.A), but also to gain the political favour of a federal government that is eager to showcase a large wheat harvest.[199] This has resulted in the existence of different estimates of wheat production. These divergences regarding data – including, though not only, on wheat – have reportedly prompted the government to fire the top management of the Central Statistics Agency and replace it with political appointees.[200]

While many stakeholders engaged in the wheat value chain find the idea of improving production sensible, given the country's potential, they often consider the government's current strategy as ineffective. For instance, traders see the government's export push as a political move, detached from the business reality of wheat markets in Ethiopia and abroad.[201] Some of them point at the fact that Ethiopian wheat rarely passes quality tests in other countries, including neighbours such as Kenya. Moreover, most of them note that wheat prices in Ethiopia are extremely high (largely due to low productivity and relatively high post-harvest losses) and hence not competitive in international markets. For instance, some of them reported that the minimum farmgate price set by

196 A harvest of 19.5 million tonnes would put Ethiopia among the largest wheat producers in the world, alongside countries such as Argentina and Turkey, from which Ethiopia used to import large quantities of wheat until very recently. FAOSTAT. 2022. 'Crops and livestock products,' Food and Agriculture Organisation of the United Nations, https://www.fao.org/faostat/en/#data/QCL/visualize (accessed 2 February 2024).

197 Interviews with multiple stakeholders active in the wheat value chain, including researchers, traders and agri-processors, Addis Ababa, November-December 2023.

198 See, for instance, the data discrepancies highlighted by Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy.

199 Interviews with multiple stakeholders within the wheat value chain, Addis Ababa, November-December 2023. On the other hand, it should be noted that declaring higher production figures leads to a lower amount of support as part of the PSNP.

200 Biru, Y. 2023. 'Unprecedented economic data fabrication threatens the survival of Ethiopia,' Borkena, 24 July. Interviews with a former government advisor and a European diplomat, Addis Ababa, November 2023.

201 Interviews with Ethiopian wheat traders and millers, Addis Ababa, November 2023.

the government in early 2023 (ETB 3,300 per quintal, i.e., circa USD 600 per tonne) was much higher than the prices of wheat available in Djibouti (USD 340) or Kenya (USD 400), even before adding the costs of cleaning and transporting abroad. As a result, traders that were tasked by the government to export wheat at official prices were unable to do so.[202] According to businesspeople with knowledge of these dynamics, the only exports that happened legally have consisted of purchases by the WFP, which bought wheat from the government in hard currency but used it for distribution within Ethiopia.[203] Other wheat exports have reportedly taken place through illegal channels, as some traders are willing to export at a loss in order to retain access to foreign currency, which allows them to engage in highly profitable import businesses (for more details on these dynamics, see section 4.5 below).[204]

Besides encouraging businesses to undertake unfeasible enterprises, the government's wheat push risks creating active damage. In early 2023, for instance, the government's announcement of its plan to export wheat triggered major hikes in the domestic price of wheat.[205] According to sector experts, this was due to a number of factors related to the government's policy, including not only the rise in demand due to the government's own purchases, but also the fact that many farmers refused to sell their wheat at the price set by the government, which was below regular market prices.[206] In late 2023, a miller consulted for this study explicitly wished that the government not make declarations about exports in the coming times, so as to avoid price distortions.[207] Besides the repercussions for wheat markets, the government's wheat push also risks taking attention (and land) away from other important crops, such as pulses or vegetables, which have the potential to lead to good returns to farmers, positive nutritional

202 Interviews with Ethiopian wheat traders and millers, Addis Ababa, November 2023.

203 Interviews with wheat trader and miller, Addis Ababa, November 2023. The government reportedly excluded potentially competitive traders from the deal in order to have access to 100 percent of the forex paid by the WFP (rather than only the 50 percent that it would have gained if the transaction would have been made by traders).

204 Tegegn, E. 2022. 'Smuggling threatens efforts to substitute wheat,' *The Ethiopian Reporter*, 5 November.

205 Addis Standard. 2023. 'Analysis: Farmers endure market sabotage, inflation and price disorientation as government wheat export story takes news headlines by storm,' 15 May.

206 Ibid.

207 Interview with Ethiopian miller, Addis Ababa, November 2023.

outcomes for consumers and/or foreign currency gains from exports.[208] In some reported cases, government officials even forced farmers to farm wheat instead of other crops.[209] Overall, these dynamics show how the government's politically motivated push to scale up production and export of wheat has resulted in market distortions, eventually creating serious challenges for actors within the whole value chain.

4.5 Economic troubles and their consequences

Over the past few years, Ethiopia has been facing an extremely challenging economic situation. The roots of this crisis stretch back to the rule of the EPRDF, which funded its development strategy through heavy borrowing and ended up leaving the country significantly indebted.[210] Efforts by the government to increasing domestic borrowing (e.g., by forcing the allocation of a share of private banks' loans to the purchase of treasury bills) ended up squeezing the amount of finance available for the private sector, while the accumulation of foreign denominated debt put increasing pressure on the country's foreign exchange reserves (especially when interest rates went up).

More recently, the war in northern Ethiopia has drastically worsened the country's economic crisis, as the government has made large nonproductive expenditures (e.g., on military equipment, to be paid in foreign currency), while critical sources of inbound foreign currency (most notably foreign direct investment and aid) have drastically decreased, and the war has destroyed productive assets (e.g., factories) in several areas of the country. The steady rise of the parallel market exchange rate (which rose to become twice as high as the official rate before the floating of the currency in July 2024) created incentives for most actors to handle foreign exchange outside of formal channels, thus

208 Interviews with Ethiopian agricultural researchers, traders, and European diplomats, Addis Ababa and online, November 2023.

209 Addis Standard, 2023. 'Analysis: Farmers endure market sabotage, inflation and price disorientation as government wheat export story takes news headlines by storm,' 15 May.

210 Alam, M., and Yigzaw, G. 2020. 'Causes and Impacts of Foreign Currency Reserve Crises in Ethiopia,' *Üniversitepark Bülten*, 9(1), 15-27. The government's borrowing strategy tapped into both domestic and international sources, with domestic borrowing accounting for the lion's share (around 90 percent). The investments made by the government, however, failed to pay off as expected (not least due to the misuse of public resources), and did not lead to an adequate increase in the country's export capacity, thus ending up burdening the government with debt.

exacerbating the problem. As a result, Ethiopia has come to suffer from an extremely serious foreign exchange shortage (in late 2023, the forex reserves reportedly amounted to the value of 6-12 days of imports only,[211] a small fraction of the three months considered as the minimum threshold by the International Monetary Fund).

In July 2024, the government introduced sweeping economic reforms with a view to revitalising the economy, as well as to secure financing support from international financial institutions and debt restructuring from creditors. Key reforms included the floating of the birr (thus closing the gap between the official and the real exchange rate), the end of the central bank's efforts to control the allocation of foreign currency in the country and the use of interest rates as a policy tool.[212] While these reforms are likely to significantly alter the country's economic situation, at the moment of writing it is difficult to precisely assess their impact, including the implications for the functioning of the wheat value chain (see below for more details).

Overall, in recent years Ethiopia's economic crisis has created serious challenges for the functioning of the wheat value chain (as well as for other agricultural value chains). To begin with, in the current economic context, banks are extremely reluctant to provide loans to agricultural businesses. This reluctance is particularly marked for farmers, who are considered by banks as too exposed to environmental risks (e.g., climate variability, crops diseases, etc.), and who often lack assets to collateralise, such as land or machinery (see annex 2.B).[213] On the other hand, business actors downstream in the value chain face fewer challenges to access credit, at least in relative terms, as their activities are less exposed to environmental risks, and they have some assets to collateralise.[214] Among this group, large scale traders are usually the ones that can access finance most easily, given their ability to generate profits in a relatively short timeframe.[215] By contrast, agri-processors often face working capital issues and struggle more

211 Interviews with researchers, experts and a European diplomat, Addis Ababa, November 2023.

212 National Bank of Ethiopia. 2024. 'The National Bank of Ethiopia announces a reform of the exchange regime with immediate effect,' Press Release.

213 While this applies to both public and private banks, the former do provide somewhat more financing to the agricultural sector, in line with government directives, while the latter tend to be more risk averse. Interview with a banker, Addis Ababa, November 2023.

214 Interviews with several bankers, Addis Ababa, November 2023.

215 Interview with a banking representative, Addis Ababa, November 2023.

to access credit due to the fact that their assets are often already collateralised for earlier loans (see annex 2.D). Overall, these differences in access to finance have profound implications on power dynamics within the value chain, which will be discussed below (see section 4.6).

Besides the banks' reluctance to provide finance, Ethiopia's severe economic crisis has led to a serious shortage of foreign currency, which has a major impact on the wheat value chain. Most directly, this shortage has reduced the country's ability to source key agricultural inputs – especially fertilisers, which must be bought abroad in foreign currency.[216] In addition, it has created an unhealthy competition between the government and the private sector to access increasingly precious foreign exchange. On the one hand, the government had set up a system to handle forex in the way it deems most conducive to the country's development. In order to attract hard currency to the country, the government encouraged exports – particularly in the agricultural sector, which accounts for around 70-80 percent of the country's exporting capacity.[217] When this export was done by a private business, the government asked the exporter to surrender 50 percent of its foreign exchange earnings to the central bank (the National Bank of Ethiopia, NBE), which converted it into birr at the official exchange rate. The rest of the forex accrued to the exporter (40 percent) and to the bank that managed the transaction (10 percent).[218] The NBE was then responsible for reallocating the foreign exchange, prioritising critical imports (e.g., pharmaceuticals, energy, inputs for productive activities, etc.) while preventing the channelling of the funds into activities that may be profitable but do not contribute to the national economy (e.g., import of luxury goods, real estate investments abroad, etc.).[219] On the other hand, however, many private businesses faced powerful incentives to handle their transactions outside of the formal, government-controlled system. Given the difference between the official and black-market exchange rates, businesses were reluctant to hand over

216 Addis Standard, 2023. 'Analysis: Fertilizer shortage amidst widespread illicit trade cripples farmers, threatens productivity,' 7 July.

217 Alemu, F. 2022. 'Amplification of agriculture factor productivity, food price and exchange rate on societal welfare spiraling in Ethiopia,' *Heliyon*, 8(9); Edjigu, H. 2023. *Trade Finance in Ethiopia: Exploring the Challenges and Possible Solution*, Addis Ababa, Policy Studies Institute, 38.

218 For a period of time, the government even retained 70 percent of the foreign exchange, leaving only 20 percent to businesses, though this was reversed after intense opposition from the business community.

219 Addis Standard. 2021. 'News analysis: NBE amends foreign exchange management directive; reveals foreign currency allocation, priorities,' 7 December.

50 percent of their forex earnings to the NBE – rather, they preferred to handle transactions on the black market, where they could get around twice as much birrs for the same amount of dollars.

This desperate quest for foreign exchange created serious distortions in agricultural value chains. To begin with, a growing number of traders were willing to export agricultural commodities at a loss (i.e., below their cost price), only to obtain hard currency.[220] The loss could then be compensated by using the foreign exchange that accrued to them (40 percent of the exporting transaction) to import selected goods (usually high-value, luxury goods) that could be sold within Ethiopia at high profit margins. Alternatively, the exporters could sell the forex to other companies that needed imports for their own business (e.g., spare parts for machines, necessary inputs for industrial processes, etc.) and that were willing to pay for it at the black-market exchange rate (hence, twice as much as compared to the official rate). More than simply recouping losses, this business model actually proved profitable, as shown by the abnormal growth of the number of businesses engaging in the export of agricultural commodities over the past few years.[221] In the words of a businessperson familiar with this scheme, '*if you get hard currency, the business is almost done*.'

In addition, the major benefits associated with access to foreign currency led to the growth of illicit activities, including the smuggling of wheat across Ethiopia's borders. By smuggling goods rather than exporting them through legal channels, traders could retain 100 percent of their foreign exchange earnings, rather than only 40 percent. In the case of wheat, this reportedly led to smuggling networks flourishing along Ethiopia's borders, including at the borders with Kenya, Somalia and Djibouti.[222] Although low wheat prices in these countries forced smugglers

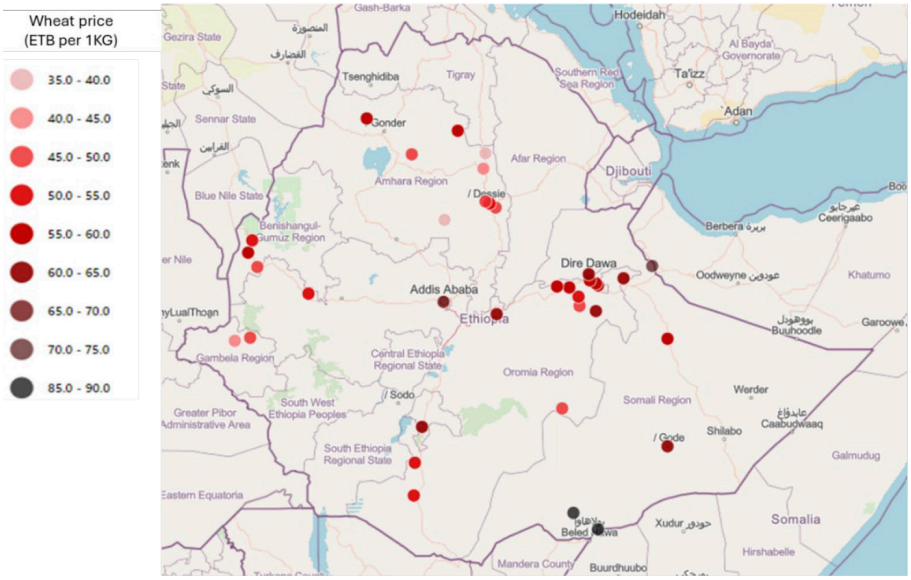
220 Interviews with businesspeople, bankers and researchers; Addis Ababa, November 2023; Getachew, S. 2022. 'Import-export unhealthy coupling,' *Ethiopian Business Review*, https://ethiopianbusinessreview.net/import-export-unhealthy-coupling/ (accessed 2 February 2024). One trader made the example of sesame seeds, which some Ethiopian exporters sell at 25 percent below their breakeven price. He bitterly complained that 'this is not the way of doing business.'

221 Ibid. The 10-fold growth of registered coffee exporters over the past 3-4 years shows how attractive it has become for trading businesses to export certain agricultural commodities. Similar dynamics can be seen in other markets (e.g. soya), according to a businessperson consulted for this study. At the same time, another source cautioned that regulations allowing farmers with some minimum land holding to become exporters (a measure aimed at reducing the role of traders) may have also played a role in the increased number of registered exporters.

222 Interviews with government officials and experts of the wheat sector, Addis Ababa, November 2023.

to sell wheat at a loss, access to hard currency enabled them to make handsome profits by engaging in the import of high-value goods or by exchanging dollars on the black market. As evidence of the existence of these smuggling networks, a source consulted for this study pointed at the presence of several wheat mills in relatively unlikely places such as Dilla, a town located in a traditionally coffee-producing area but situated along the road connecting Ethiopia's wheat-producing areas of Bale and Arsi to the Kenyan border town of Moyale. Another source pointed at the high prices of wheat in areas close to Ethiopia's borders, a trend confirmed by an overview of wheat price dynamics in Ethiopia (see figure 2) – though it should be noted that higher prices may be partly due to relatively high demand in some of these areas, as well as to high transport costs from production areas. Powerful actors were reportedly involved in the smuggling activities, particularly at the regional level, making it risky for people to speak out on the topic.[223]

Figure 2 Wheat prices in Ethiopia, with relatively high prices visible in several border areas[224]



223 Interview with a wheat expert, Addis Ababa, November 2023.

224 REACH. 2024. 'Ethiopia,' Impact Initiatives, https://dashboards.impact-initiatives.org/eth/jmmi/ (accessed 2 February 2024).

Wheat was turned into a bartering good to get other business done, rather than being used for domestic consumption and food security. While areas of the country suffered from food insecurity, wheat was smuggled out of the country, and the proceeds were often used to finance lucrative but nonessential imports. In this way, markets shifted their focus away from meeting food demand and towards creating profits for private actors – in a process somewhat similar to that described in section 2 for international food markets. While the push to export wheat (be it by the government, private businesses or smugglers) pushed prices up domestically, making wheat products less affordable for end consumers, the profits from this increased price did not necessarily translate into increased income for smallholder farmers, due to the structural disadvantages that these actors tend to face within Ethiopia's wheat value chain (see section 4.6 below). Therefore, the net result of this system was a distorted value chain that catered to the profits of a few actors while failing to improve the availability and affordability of wheat products for the population.

While the impact of the economic reforms passed in July 2024 cannot yet be assessed, the unification of the exchange rate and the elimination of the NBE's oversight on forex allocation are set to disrupt these distortionary practices, which relied on the arbitrage opportunities created by the previous system. At the same time, the reform creates questions regarding the potential reaction of powerful regional actors involved in smuggling activities, which will likely see their opportunities for business significantly reduced. In this context, the reforms' implications – both economically and politically – will deserve significant attention over the coming period. Whatever the end result, any food security initiative will have to take into account the political economy structures that will emerge from the reforms' outcomes and the implications that this will have for the incentive structures of actors along the wheat value chain.

4.6 Power imbalances in the value chain

As noted in the previous chapter, businesses that enjoy a position of power within a value chain often exploit their advantage to capture the benefits of increased economic activities along that chain. In this context, focusing solely on scaling up production through technical improvements (e.g., using better inputs, advanced agricultural techniques, etc.) is likely to further enrich these powerful actors, rather than improving food security outcomes for the population at large. Moreover, these actors are likely to resist any changes or reform that

threaten their power. Given these dynamics, to design effective food security interventions, it is crucial to understand how power is distributed within the value chain, identifying existing powerbrokers and the incentives that they face. This includes looking at how power is distributed among different stages of the value chain (i.e., vertically), as well as among different businesses engaged in similar activities (i.e., horizontally).

In terms of vertical power imbalances, in Ethiopia's wheat value chain traders are generally seen as the segment that benefits the most from the current structures. This broad category includes different types of actors – from local traders buying wheat at the farm gate and bringing it to local markets to larger aggregators that sell in bulk to agri-processors (more details in annex 2.C).[225] Despite facing significant operational challenges (especially when active in areas affected by active conflict), this category of actors tends to enjoy a good position in the chain, as they effectively bridge the large gap between their suppliers (a multitude of smallholder farmers often lacking knowledge on the market for their produce) and their clients (agri-processors eager to buy wheat in bulk, rather than from individual smallholders). Moreover, traders tend to enjoy a relatively privileged financial position – either thanks to their own capital reserves or to the lower barriers that they face in accessing finance (at least as compared to other actors in the value chain), due to their ability to repay loans in relatively short periods.[226] Often times, this financial position allows traders to even provide finance to other actors in the value chain (most often farmers, but in some cases also agri-processors), thus strengthening their own bargaining power.[227] Overall, therefore, while traders do add significant value by acting as intermediaries, they are also able to ensure a good profit margin for themselves – sometimes at the cost of squeezing out other actors.

On the other hand, farmers – and especially the majority of smallholders – find themselves in particularly difficult circumstances. The centralised, government-controlled system of distribution of agricultural inputs often fails to provide them with the inputs that they need, while state ownership of land prevents them from using their land as collateral to access finance.[228] To compensate for this, farmers

225 See annex 2.C. Between Bale and Addis Ababa, wheat is likely to change hands at least three times. Interview with Ethiopian logistics business, Addis Ababa, November 2023.

226 See section 4.5.

227 See annex 2.C.

228 See annexes 2.A and 2.B.

often resort to embedded credit, getting finance from traders. However, this – together with their limited knowledge of market dynamics and of the products' quality – puts them at a disadvantage in their bargaining. Cooperatives, which are supposed to represent farmers' collective interests, are often dysfunctional and unable to act as effective aggregators and marketers of their products.[229] While in principle government policies are geared towards increasing farmers' incomes, in practice they often struggle to do so.[230] As a result, farmers tend to have little economic power or political weight and end up largely being price takers. Similarly, large agro-industrial actors (e.g., millers, processors) are in a somewhat uncomfortable position in the value chain. Despite their size and the fact that they own assets, they often suffer from working capital issues, and they tend to be squeezed between a tight market on the supply side (a limited amount of wheat, handled by powerful traders) and a competitive market of clients (a vast network of many small-scale distributors and retailers, who face strong pressures to keep prices low to ensure that their products remain affordable in the face of plummeting purchasing power).[231] This diminishes their ability to ensure profits for themselves.

Box 2 Efforts to address vertical power imbalances in the wheat value chain

Aware of the power imbalances across different stages of the wheat value chain (as well as other agricultural value chains), the Ethiopian government – at times in cooperation with its international partners and with private sector actors – has been working to explore and introduce a number of reforms and initiatives to address these imbalances.

Promoting new avenues for the aggregation and marketisation of agricultural products has been an important part of these efforts. The aim of these initiatives has been to counterbalance the structurally weak position faced by smallholder farmers that sell their products individually. By aggregating their products, farmers would instead be able to increase

229 See annex 2.C.

230 See section 4.3. For a concrete example, see Addis Standard. 2023. 'Analysis: Farmers endure market sabotage, inflation and price disorientation as government wheat export story takes news headlines by storm,' 15 May.

231 See annex 2.D.

their leverage vis-à-vis downstream actors, drive a more effective bargain and hence improve their incomes. To do so, for instance, the Ethiopian government has promoted the strengthening of cooperatives' capacity to act as bottom-up aggregators, for instance by supporting the construction of warehouses and basic market facilities (e.g., scales).[232] Capacity building of cooperatives has also been the focus of a number of international donors, such as for instance Italy.[233] In addition, some large private businesses have promoted aggregation by one farmer or a few selected farmers. In this structure, the aggregators are themselves farmers who collect products from other farmers, store them if needed and then conduct a unified bargain with the buyer. In exchange, the aggregators take a margin, to be agreed upon in a transparent way with the different stakeholders involved (mostly the other farmers and the buyer). The track record of this solution is mixed: while a wheat miller reported negative experiences with this model, a business active in the potato value chain has implemented it with success.[234] The Ethiopian government has also promoted aggregation via agro-industrial parks, aimed at collecting produce from nearby cultivations areas (within a radius of around 100 km), performing some semi-processing activities (e.g., cleaning) and then selling in larger quantities.[235]

Another strand of efforts has focused on shortening the value chain and reducing the role (and hence the power) of intermediaries. Under the government-promoted scheme of contract farming, for instance, businesses that purchase large quantities of agricultural products are supposed to support farmers in accessing inputs and extension services, and in turn get to stipulate purchase contracts at set amounts

232 Interview with an Ethiopian government official, Addis Ababa, November 2023.

233 Ministry of Foreign Affairs and International Cooperation. 2012. 'Cooperation: Ethiopia, more wheat to fight hunger,' Italian Government, https://www.esteri.it/en/sala_stampa/archivionotizie/approfondimenti/2012/03/20120301_cooperazioneetiopia/ (accessed 2 February 2024).

234 Interviews with Ethiopian agri-business leaders, Addis Ababa, November 2023. In the negative experience in the wheat value chain, money was reportedly paid in advance to the aggregator, but never recouped.

235 Interview with an Ethiopian government official, Addis Ababa, November 2023.

and prices.[236] In theory, this scheme is supposed to deliver a win-win solution for farmers (who get support and a stable demand market) and large-scale buyers (who get a reliable supply), while cutting the role of intermediaries. In practice, however, the implementation of the scheme has so far run into serious challenges, with both farmers and buyers accusing the other side of exploiting the agreement to its own benefit. For instance, buyers have complained that when market prices rise, farmers side-sell their produce to traders instead of sticking to their agreement with the buyers (traders, on their side, are often happy to offer prices slightly higher than those stipulated by the contract farming scheme, so as to disrupt the scheme and retain their powerful position).[237] On the other hand, farmers have accused buyers of not providing enough support to them or of buying their produce elsewhere if market prices drop.[238] Therefore, although contract farming has the potential to shorten the value chain and reduce the role of intermediaries, its effective implementation is likely to need some trial and error – including to address the resistance that intermediaries are likely to mount to an arrangement that largely cuts them off.

Another set of arrangements has been explored to enable easier access to finance to agricultural businesses and particularly farmers. For instance, over the past few years the government (via the Ministry of Trade) has implemented a warehouse receipt system involving agricultural processors, banks and warehouse service providers.[239] Under this scheme, wheat could be stored in certified warehouses (thus improving

236 For an overview of the government's regulations regarding contract farming, see Aman & Partners. 2023. *The Legal Regime Governing Contract Farming in Ethiopia: Legal Update Issue 9*, Addis Ababa, Bowmans Alliance Firm; Italo, A. 2023. 'Ministry mops up contract farming,' Addis Fortune, 23 December.

237 A miller consulted for this study reported this type of dynamic in the wheat value chain. His business had concluded an agreement with a few hundred farmers with the backing of an international development agency. After harvest, however, traders started to compete over prices, offering farmers a slightly higher price and hence disrupting the agreement. The miller blamed traders for then blending products of different qualities and then selling it to his business. He concluded saying that 'traders are not stoppable; you cannot bypass traders.'

238 Italo, A. 2023. 'Ministry mops up contract farming,' Addis Fortune, 23 December.

239 Teshome, M. 2021. 'National warehouse receipt system officially launched,' Capital, 29 November, https://www.capitalethiopia.com/2021/11/29/national-warehouse-receipt-system-officially-launched/ (accessed 2 February 2024).

aggregation efforts and reducing post-harvest losses), and the receipt of the stored wheat could be used as a collateral to get finance from banks (thus helping processors to overcome working capital constraints). This scheme was praised as successful by several businesses that have relied on it in recent years.[240] However, it was then discontinued by the government. According to a miller consulted for this study, while the government's official reason is that the scheme was misused by traders to export wheat, the government may have been eager to engage in the export business by itself in order to replenish its foreign currency reserves.[241] More recently, the *Rural Land Administration and Use Proclamation* passed in August 2024 makes it possible for farmers to collateralise land based on its 'maximum potential.'[242] While this is in principle a welcome measure for the agricultural sector, assessing its implementation and its results will require time.

While the analysis of vertical power imbalances categorises actors based on the position that they occupy in the value chain, often times there are even more serious power imbalances among actors belonging to the same stage of the chain. Typically, these power imbalances are due to the connections of specific business actors with relevant power brokers. In Ethiopia's case, for instance, a restricted circle of SOEs, parastatal companies and a few well-connected private businesses has traditionally dominated the economy, including in the agricultural sector. This has largely been the result of the economic strategies adopted by the last two Ethiopian regimes. Under the *Derg*, ruling elites promoted a centralised economic system based on the dominance of large SOEs, while the EPRDF's rule led to the flourishing of vast networks of parastatal businesses, controlled

240 Interviews with Ethiopian businesses engaged in the scheme in various capacities, Addis Ababa, November 2023.

241 Interview with a miller, Addis Ababa, November 2023.

242 Federal Democratic Republic of Ethiopia. 2024. *Rural Land Administration and Use Proclamation*, Proclamation No. 1324/2024.

by endowment funds linked to the EPRDF's regional branches.[243] The reach of these businesses extended to all sectors of the Ethiopian economy – including, but not limited to, agricultural value chains.[244] The Tigray People's Liberation Front (TPLF)'s EFFORT, for instance, was heavily engaged both in agricultural production and in the transport of agricultural goods, through companies such as Hiwot Mechanized Agriculture and Guna Trading.[245] The same sectors featured the presence of businesses from other (smaller) endowment funds, such as Oromia's Tumsa (e.g., via Dinsho Agro-Industry, Dinsho Trading, Dinsho-Biftu) and Amhara's Tiret (e.g., via Zeleke Agricultural Mechanization).[246] In addition to SOEs and parastatal businesses, the EPRDF rule also led to the emergence of a few private entrepreneurs that leveraged their connections with political elites to engage in profitable businesses.[247] Chief among them is Sheikh Muhammed Al-Amoudi, a Saudi-Ethiopian businessman who heads the powerful multi-sector conglomerate MIDROC. MIDROC companies have been heavily engaged in the agri-business sector, including on wheat production and processing.[248]

243 For an analysis of the political economy of Ethiopia in EPRDF times, see Gebregziabher, T.N. 2019. *The Party That Consumes the State: The Rise of Oligarchy in Post-1991 Ethiopia*, Rotterdam, Erasmus University. For an analysis of the role of endowment funds, see Vaughan, S., and Gebremichael, M. 2011. *DFID Research: Rethinking Business and Politics in Ethiopia: The Role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray,* London, Department for International Development. While the Tigray People's Liberation Front (TPLF)-controlled conglomerate EFFORT was the largest and most powerful among such conglomerates, other regional parties had their own funds, including Tiret for Amhara, Tumsa for Oromia and Wendo for the Southern Nations, Nationalities and Peoples Region.

244 Woolfrey, S., et al. 2021. *Political Economy Analysis of the Ethiopian Food System: Key Political Economy Factors and Promising Value Chains to Improve Food System Sustainability*, Rome, FAO, 13-19; Alemu, D., and Berhanu, K. 2018. *The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediment*, Future Agricultures Consortium.

245 Vaughan, S., and Gebremichael, M. 2011. *DFID Research: Rethinking Business and Politics in Ethiopia: The Role of EFFORT, the Endowment Fund for the Rehabilitation of Tigray,* London, Department for International Development. For a concrete example of these companies' engagement in the sesame value chain, see Soliman, A., and Demissie, A.A. 2024. *The 'Conflict Economy' of Sesame in Ethiopia and Sudan,* London, Chatham House, 24.

246 *Ibid.*

247 For an overview, see Gebregziabher, T.N. 2019. *The Party That Consumes the State: The Rise of Oligarchy in Post-1991 Ethiopia*, Rotterdam, Erasmus University., 57-59.

248 Midroc Investment Group. 2023. 'Food crops, medicinal and bio-pesticides plants,' https://www.midrocinvestmentgroup.com/crops/ (accessed 2 February 2024); Ethiopian Monitor. 2020. 'MIDROC's Sheger Bakery inaugurated,' 26 June.

While the transition initiated by Abiy's rise to power has reshaped elite networks and their control structure, it has not changed the country's underlying political economic patterns.[249] As a result, well-connected businesses – albeit at times new ones – continue to play a dominant role. For instance, the new administration has drastically reduced the power of EFFORT, but on the other hand it has empowered conglomerates from other regions, such as Amhara's Nigat (formerly Tiret) and Oromia's Tumsa.[250] These shifts have taken place in the agricultural sector too: for instance, Nigat has reportedly taken over some of EFFORT's lucrative sesame business in Amhara region,[251] while Tumsa-affiliated companies have bought commercial farms from the state in Arsi and Bale (Ethiopia's main wheat-producing regions, see annex 2.B).[252] In addition to this change of power among regions, the new administration has also reshuffled control over parastatal business networks. For instance, regional administrations in Oromia and Amhara have gained more oversight on the endowment funds and their businesses,[253] and SOEs controlled by these two regional administrations have played an increasingly prominent role in economic activities, including in the agricultural sector.[254] While this has resulted in a shift of power from party structures to (regional) state structures,[255] ultimately political elites have remained in control of the parastatal business networks that dominate the market.

Similarly, well-connected entrepreneurs continue to enjoy significant advantages. For instance, despite having been absent from the scene while

249 Meester, J., et al. 2022. *A Clash of Nationalisms and the Remaking of the Ethiopian State: The Political Economy of Ethiopia's Transition*, The Hague, Clingendael.

250 Endale, A. 2022. 'New breed regional conglomerates replicating EFFORT,' *The Ethiopian Reporter*, 12 March.

251 Soliman, A., and Demissie, A.A. 2024. *The 'Conflict Economy' of Sesame in Ethiopia and Sudan*, London, Chatham House, 24.

252 Endale, A. 2022. 'New breed regional conglomerates replicating EFFORT,' *The Ethiopian Reporter*, 12 March.

253 For instance, responsibility for Nigat was transferred to the Amhara Regional Council. In Oromia, Tumsa was made ultimately accountable to the Oromia Regional State Public Enterprises Regulatory Authority, an entity run by the regional government. Ibid.

254 Interview with a former government official and with a political researcher, Addis Ababa, November 2023; Endale, A. 2022. 'New breed regional conglomerates replicating EFFORT,' *The Ethiopian Reporter*, 12 March; Soliman, A., and Demissie, A.A. 2024. *The 'Conflict Economy' of Sesame in Ethiopia and Sudan*, London, Chatham House, 24.

255 Meester, J., et al. 2022. *A clash of nationalisms and the remaking of the Ethiopian State: The political economy of Ethiopia's transition*, The Hague, Clingendael, 31-32.

under de facto house arrest in Saudi Arabia, Al-Amoudi has remained a key business actor even after the transition from the EPRDF to the PP. In recent years, MIDROC was involved in the construction of the Shegger factory, a large-scale industrial bakery that received subsidised wheat from Addis Ababa's city council in exchange for providing bread at lower-than-market prices across the capital. According to a source consulted for this study, the company '*was established in a handshake deal with the government, but it was a financial nonsense, unable to operate without subsidies.*'[256] Despite substantial amounts of government subsidies, Shegger ended up suffering from wheat shortages and financial losses, and it was temporarily shut down.[257] Examples of how businesses can benefit from their connections to government are not limited to the most evident cases such as that of Al-Amoudi. For instance, as part of its push to export wheat in 2022-2023, the government selected a handful of companies to implement the export scheme, granting them the exclusive right to source wheat from specific zones at a fixed price.[258]

As noted in the previous chapter, the existence of power imbalances within the value chain creates a risk that interventions aimed at improving food security end up benefiting a restricted circle of power brokers – be they middlemen, (para)statal businesses, or well-connected entrepreneurs. Over the last few years, the Ethiopian government has been promoting a number of measures to reduce vertical power imbalances – so far with a mixed track record of success, not least due to resistance by existing power brokers (for more details, see box 2 above). On the other hand, however, the government has not meaningfully addressed horizontal power imbalances. Rather, as noted above, the administration has reshuffled the networks of powerful business actors, but it has not made efforts to create a more level playing field for all businesses in the country. Barring such efforts, which would likely require significant changes to Ethiopia's political economy structures, interventions aimed at developing agricultural value chains and improving food security will continue to face the risk of seeing their benefits largely captured by powerful actors.

256 Interview with a former government advisor, Addis Ababa, November 2023. In interviews two millers and a businessman in the logistics sector noted that Shegger was among the actors that benefited the most from subsidies.

257 Nesre, Y. 2023. 'Wheat-less Addis Ababa's loaf life gets toasted by inflation,' Addis Fortune, 22 July.

258 Interviews with a wheat trader and a logistics operator, Addis Ababa, November 2023.

4.7 Conclusion

By using the wheat value chain as a case study, this chapter has showed how political and economic challenges prevent Ethiopia from achieving food security, despite a strong agricultural potential. Ethiopia's multiple and persistent conflicts disrupt activities across all stages of the value chain, from input supply and farming to processing and distribution, and exacerbate food insecurity in many areas of the country. The country's state-led approach to agricultural development struggles to deliver its intended benefits to smallholder farmers – by contrast, it often leaves them struggling with shrinking land plots, input shortages and a lack of finance. The current push by the government to scale up domestic production is sensible given the country's agricultural potential, but it prioritises political imperatives over market realities. This leads to a lack of policy implementation at best (wheat exports not materialising as planned) and domestic market distortions at worst (hikes in the price of wheat, shortages for processors, limited focus on other important crops). As a result of the current economic crisis, banks are reluctant to provide finance for agricultural activities, while the government struggles to buy fertilisers. Moreover, the exchange rate disparity between the official and the black market (now unified) used to create perverse incentives for smugglers, which sold wheat abroad at a loss to make profits on the import of high-value but unnecessary imports. Finally, within the wheat value chain, a limited circle of power brokers stand ready to use their political connections and/or their market position in order to capture the benefits of increased economic activity or to resist reforms that threaten their dominant position.

Building on the arguments made in chapter 3, this analysis demonstrates through a specific case study that interventions focused on boosting production are not sufficient to improve food security outcomes. In the current context in Ethiopia, increases in production risk being captured by intermediaries who hold a powerful position in the value chain or by well-connected businesses who can leverage their ties to government to make profits – leaving little benefits for farmers struggling with low incomes or for consumers struggling with high food prices. These examples clearly show why food security interventions need to think and work politically in order to address the most relevant bottlenecks that lead to food insecurity in fragile settings. The next chapter provides concrete recommendations in this regard, including both for fragile states at large (section 5.3) and for Ethiopia more specifically (section 5.4).

5 Conclusions and recommendations

5.1 Conclusion

This report set out to explore the changing political economic dynamics of food security by investigating how the political economic dynamics of both international and domestics food markets affect food security in fragile states. Despite a concerted effort to improve the supply of food aid, the commercial supply of wheat through international trade and supply through domestic production likely outstrips the impact that can be achieved through food aid or development aid aimed at improving farm yields in many FCAS by a wide margin. Therefore, this report explored the functioning of international food markets and their (historical effects) in FCAS and discussed the political economy of domestic production in FCAS.

The analysis commenced with an exploration of international food trade regimes, the impact of the financialisation of the commodity trade and the position of fragile states vis-à-vis international markets. As many states came to rely on internationally traded wheat given their reliably low prices on international markets, these prices have become increasingly volatile. International markets shifted from a market geared towards reliable and affordable food supplies to market dynamics focussing on maximising earnings for market participants. This coincided with a power shift in the grain markets from national institutions (e.g., wheat boards) to commodity traders and financial institutions. The accompanying increasing financialisation further displaced power from productive actors towards investors. These shifting dynamics affect the position of fragile states, which are increasingly struggling to cope with high price fluctuations and have few means to mitigate the resulting uncertain food security outcomes.

As a result of these international dynamics, the organisation of domestic grain value chains may thus very well be one of the most impactful levers when it comes to promoting food security in FCAS. Yet, in fragile states it is often difficult to achieve food security through domestic production and distribution

mechanisms, as fragility and conflict disrupt economic activities along the whole value chain. Moreover, the development of domestic value chains is hampered by political constraints, as powerful elites block changes to the status quo in order to preserve their position of power at the expense of reliable food security outcomes for the wider population. Yet, even when such resistance is overcome, developing stronger agricultural value chains does not automatically lead to improved food security. Existing powerbrokers within the value chain often reap most of the profits arising from the increased economic activity, leaving little benefits for their competitors or end consumers. Moreover, increased economic activity may inadvertently fuel conflict – not only when profits are directly used to fund armed actors, but also when the distribution of profits plays into existing tensions among communities involved in the chain. As such, technical approaches aimed at improving yields and other production factors may not translate into improved food security. Rather, food security interventions should move beyond technical approaches and work politically.

These findings were subsequently illustrated through the case of Ethiopia, a fragile state that features high agricultural production potential but struggles with persistent food insecurity. Ethiopia's multiple and persistent conflicts disrupt activities across all stages of the value chain. The country's state-led approach struggles to deliver its intended benefits to smallholder farmers and at times plays into adverse impacts for them, including shrinking land plots, input shortages and a lack of finance. Policy at times prioritises political imperatives over market realities. This creates blockages in implementation at best or market distortions at worst. Given the current poor economic context, banks are reluctant to provide finance for agricultural activities, while the government struggles to import fertilisers. Moreover, the wheat value chain is rendered highly resistant to change, as a limited number of actors leverage their political connections and/or their market position in order to capture the benefits of interventions or to resist their implementation. This demonstrates that interventions focused on boosting production are not sufficient to improve food security outcomes, as increases in production risk being channelled abroad by businesses or smugglers while other gains are captured by entrenched actors with no meaningful increase in the incomes of farmers or decrease in the price for consumers.

In order to overcome the constraints identified in this report, policy makers and implementing agencies should consider the following recommendations.

5.2 Recommendation 1: International food market regulation should refocus on reliable and affordable food provision

As highlighted in chapter 2, international food markets have shifted away from a structure geared towards the reliable provision of affordable food for consumers around the world towards a market system focused around competition over revenues between market actors. As such, food prices have risen and become increasingly volatile, a trend which is likely to aggravate in the future as climate change impacts become increasingly felt. Therefore, it is worth reconsidering to what extent the international food markets should contribute to economic development through free trade and competition and to what extent they should facilitate people's right to adequate food stimulated through regulatory intervention. Currently, the international and national regulatory framework in most Western countries is skewing substantially towards the deregulation of trade, whether that be the trade of physical goods or financial derivatives. While some measures have been introduced in the past to curb certain trade patterns in favour of increasing food affordability and/or price stability, many such measures have been weakened or repealed in the years since. In Europe, notable examples can be found in gradual erosion of position limits in food-relevant commodity trade.[259]

Measures required to shift market dynamics in favour of consumers are known (see for instance publications by EU organs, UN Trade and Development [UNCTAD] and FAO on this topic), but currently lack sufficient political backing for their sustainable implementation.[260] In effect, trade in food related commodities in the major financial markets in the EU and US could be refocussed through regulation focussed on the following areas:

- **Improving transparency:** Initiatives focussed on creating transparency in ongoing trade, stocks or production of key commodities could dramatically

259 Heiligers, O. 2022. 'Politiek legde de rode loper uit voor speculatie op energie,' Follow the Money, 6 May, https://www.ftm.nl/artikelen/voedselspeculatie-graanprijzen-bewust-omhoog-gemanipuleerd (accessed 1 December 2023).

260 European Economic and Social Committee. (2022). 'Food price crisis in the aftermath of the Ukraine war: Food price crisis: The role of speculation and concrete proposals for action in the aftermath of the Ukraine war' [Own-initiative opinion]; FAO, et al. (2011). 'Price volatility in food and agricultural markets: Policy responses'; UNCTAD. 2023. '*Trade and Development Report 2023*,'', New York, United Nations Publications.

reduce uncertainty and/or information asymmetry in the market. This would substantially reduce price fluctuations caused by perceived shortages.

- **Reducing speculation:** Regulation establishing position limits on speculative trading activities, especially on positions taken by actors not involved in the physical value chain, could substantially reduce the size of price swings. Such regulations have been enacted in the past in both the US and EU but were subsequently abandoned or watered down.[261]
- **Reducing market concentration:** Currently, significant market swings may occasionally occur as a result of competitive dynamics between powerful actors in the market. The price implications of such dynamics could be dampened somewhat by (re)establishing national reserves of selected commodities to be released when prices exceed pre-defined thresholds.

5.3 Recommendation 2: Food security interventions should address not only production, but also broader political and economic bottlenecks in the value chain

Chapters 3 and 4 have shown that food (in)security in fragile settings stems not only from supply shortages, but also from the broader political economy structures in which relevant value chains develop. To be sure, conflict and fragility do often reduce the supply of food in the market. Yet, increasing supply does not automatically translate into improved food security outcomes. If farmers are forced to sell below cost price or at fixed prices artificially set below the market price, increases in supply may not be sustainable in the long term. Similarly, if agricultural produce is diverted and exported abroad, increasing supplies risks generating profits for traders, rather than increasing the availability of food in the country. More generally, when activities along an agricultural value chain are scaled up, actors that enjoy a dominant position in the chain tend to exploit their power to pocket the profits. They are also likely to resist any potential change that may threaten their dominant position, for instance by restricting competition or lobbying for favourable regulation.

261 Heiligers, O. 2022. 'Politiek legde de rode loper uit voor speculatie op energie,' Follow the Money, 6 May, https://www.ftm.nl/artikelen/voedselspeculatie-graanprijzen-bewust-omhoog-gemanipuleerd (accessed 1 December 2023); Financial Times. 2012. 'U.S. court scraps CFTC position limits rule,' 29 September, https://www.ft.com/content/be191d8e-09a8-11e2-a424-00144feabdc0 (accessed 1 December 2023).

As a result, food security interventions that focus solely on boosting agricultural productivity and total supply are unlikely to achieve their desired effect. Rather, to address the bottlenecks that prevent value chains from improving food security outcomes, interventions may need to work more politically – that is, they should actively engage with the power dynamics that ultimately determine who benefits from changes to the status quo. While specific measures will vary greatly from context to context, key broad steps in this regard include the following:

- **Improve understanding of political economy dynamics:** The design and implementation of food security interventions should be preceded not only by a market analysis, but also by a thorough political economy analysis of the broader context. Such analysis should map the main power brokers in relevant value chains and explain the incentive structures and mechanisms that determine who does ultimately benefit from potential interventions aimed at improving food security. This can help mitigate the risk that interventions end up having unintended negative effects, such as reinforcing existing power brokers or exacerbating tensions and conflict.
- **Target most relevant bottlenecks, be they technical, economic or political**: The combination of a market analysis and a political economy analysis should also help to identify what are the main bottlenecks that prevent a given value chain from delivering enough food at affordable prices to the population. As shown in the analysis above, these bottlenecks may be technical ones (e.g., low farm yields), but they may also be related to broader political economy dynamics (e.g., extreme foreign currency shortages leading to perverse market incentives towards exporting; a policy of set prices discouraging farmers from selling their produce; etc.). Addressing these political and economic bottlenecks is not common for food security interventions – yet, it is necessary to ensure their effectiveness.

5.4 Recommendation 3: Programming in Ethiopia should rebalance power dynamics within the grain value chain

The analysis of Ethiopia's wheat value chain in chapter 4 showed that the main issues preventing Ethiopia from achieving food security are largely political and economic, rather than simply technical. Political tensions around the country and the ensuing conflicts damage value chain's activities, while the state's heavy-handed approach in the agriculture sector (including a centralised system of fertilisers supply and the government's current wheat push) often results in

more challenges than benefits for many actors along the value chain. While recent economic reforms are likely to reduce incentives for the smuggling of wheat abroad, they may create other challenges, such as increasing the price of imported agricultural inputs (e.g., fertilisers). In order to be effective, food security interventions should be coupled with efforts to address these broader challenges – most notably ongoing conflicts and the country's economic crisis.

In addition, a restricted number of actors currently enjoy a particularly powerful position in the value chain, be it because they enjoy political connections, or because they occupy a favourable position in the chain. In the current circumstances, these actors are likely to capture most of the benefits generated by changes to the status quo. This limits the possibility to raise production at farm level, as the benefits of raising production accrue elsewhere in the chain. To ensure a broad distribution of benefits and improved food security outcomes, interventions should be geared towards addressing some of the existing power imbalances. This includes:

- **Strengthening access to finance for farmers and agri-processors:** As shown earlier, these two categories of actors (and particularly smallholder farmers) tend to face higher barriers to access credit. This reduces their ability to bargain with traders, who enjoy more liquidity and thus often also take up the role of (informal) credit providers. As a result, increased production and activity along the value chain fails to improve farmers' incomes and leaves processors struggling to keep operating. Relevant initiatives to address this imbalance and its consequences include enabling farmers to use their land as collateral, based on the new regulatory framework passed by the government; resuming the warehouse receipt system implemented by the government over the past years; and exploring best practices in the implementation of contract farming (see Box 2 in section 4.6).
- **Strengthening the role of cooperatives as aggregators and marketers**: As shown earlier, in the current systems cooperatives largely function as an instrument for the top-down implementation of government policies. However, they often fail to represent farmers' collective interests or to act as effective aggregators and marketers of their members' agricultural produce – thus leaving farmers with limited bargaining power. To redress this issue, the government and its international partners should work to strengthen the capacity of cooperatives, for instance by helping them to establish storage facilities and to gain access to market information. In addition, they should promote much-needed reforms in their management (e.g., conducting

serious financial audits) and limit their politicisation (e.g., by avoiding political interference in the selection of cooperative leaders).

- **Promote a more bottom-up approach to agricultural decision-making**: As shown earlier, Ethiopia's approach to agricultural policy is state-heavy, largely dictated by political decisions at the federal level and implemented through a top-down system. Several sources consulted for this study – from agricultural researchers to businesspeople and development actors – have expressed the wish for a more bottom-up, consultative approach. Consultations should include not only different levels of decision-makers (federal, regional, local), but also representatives from farmers and private sector actors (possibly aggregated into larger bodies that collectively represent their interests). This approach could allow the government to better understand the (informal) incentives faced by market actors and to prioritise realities on the ground over its ambitions and political objectives. This could allow the government and its international partners to develop more effective interventions.

Annex: Overview of the wheat value chain in Ethiopia

This annex outlines the specific workings of different stages of the value chain. In particular, it focuses on the incentive structures, opportunities and constraints faced by various actors at each stage of the chain – from input provision and farming to trading, processing, distribution and eventually consumption. These incentive structures shape how actors operate within the chain, how much power they wield and hence how they respond to any change or reform in the sector. Being aware of these dynamics is thus critical for any actors – including donors – who want to devise effective interventions to improve food security in Ethiopia.

Although this analysis categorises actors based on the position that they occupy in the value chain, this should not obscure the fact that there are major differences within each of these categories. Not all farmers, traders or processing businesses face the same challenges and opportunities – rather, the position of each individual actor also depends on factors such as the actor's size and (especially) network of connections. Analysing these power dynamics is also key to understanding power structures within Ethiopia's wheat value chain (and the agricultural sector more at large), though it lies beyond the scope of this section.

(A) Input provision: A state-led, centralised system

Availability of the right type of inputs – most notably seeds and fertilisers – is critical for improving yields and boosting wheat production. Aware of this, successive Ethiopian governments have made repeated efforts to increase the usage of improved seed varieties and chemical fertilisers. Over time, these efforts have resulted in an increased usage of these inputs – although it remains

at a limited levels in comparison to other developing countries.[262] At the same time, however, the government's efforts have led to the creation of a state-led, centralised system for the distribution of agricultural inputs, which has profound implications for the functioning of the value chain.

The state plays a significant role in coordinating the allocation of seeds, particularly improved varieties. According to a survey conducted in Duna district, for instance, 65 percent of the demand for wheat seeds is covered by state structures at the local level, and the remaining 35 percent consists of farmer-to-farmer or informal exchanges.[263] Although some international seed companies are active in Ethiopia, they have reportedly faced some challenges, most notably related to the lack of a business-friendly environment in Ethiopia's heavily regulated agriculture sector.[264] The state's engagement in the seed sector takes place through state-owned seed enterprises active at different administrative levels. Seed enterprises controlled by regional administrations manage the distribution in their own regions, though they can also trade seeds with other regions according to availability. In addition, a federal entity (formerly the Ethiopian Seed Enterprise, now incorporated under the Ethiopian Agricultural Businesses Corporation, EABC) is tasked with coordinating the activities of regional enterprises. According to different sources consulted for this study, the power of the federal enterprise is decreasing vis-à-vis that of its regional

262 In terms of seeds, as of 2023 improved wheat varieties accounted for only 13 percent of the seed usage and 19 percent of cultivated land (Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10)). This is an improvement from 2015, when only six percent of the wheat cultivated area was reported to be planted with first generation improved seeds (Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 6). Similar trends apply to the use of fertilizers. Between 2015 and 2020, the amount of fertiliser applied to wheat has grown from 150 to over 220 kg per hectare (Negassa, A., et al. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, 20). Yet, Ethiopian farmers continue to lag behind other developing countries in fertiliser use, and the amount used is among the lowest in Africa (Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10)).

263 Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 72.

264 Interview with an Ethiopian development practitioner; Addis Ababa, November 2023.

counterparts, thus limiting its ability to gather seeds from different regions and redistribute them according to need.[265]

Similarly, the state plays a key role in the distribution of fertilisers, which takes place through a highly centralised system (even more so than in the seeds' case). Cooperatives gather requests from farmers and pass them up to higher levels of government (regional and then federal). Upon receiving these requests, the Ministry of Agriculture decides how to allocate fertilisers to different regions, based on the requests received and on agricultural performance over the past years.[266] The fertilisers are then channelled to lower levels of administration and, via the cooperatives, to the farmers.[267] The price for farmers is set at the cost price plus transport, plus a five percent margin for cooperatives.[268] In the fertiliser market, no role is foreseen for the private sector, which was gradually pushed out by the government in the 2000s.[269] Rather, purchases from international markets are handled by a public enterprise (formerly the Agricultural Inputs Supply Enterprise, then incorporated under the abovementioned EABC).[270]

Overall, these centralised mechanisms put in place by the government have traditionally struggled to ensure the availability and affordability of agricultural inputs. For instance, recurring shortages of seeds have traditionally affected Ethiopia's wheat sector.[271] Significant price hikes in recent years have made it even more difficult for many farmers, especially smallholders, to buy improved

265 Interviewss with Ethiopian agricultural researchers and with Ethiopian government official (Ministry of Agriculture); Addis Ababa, November 2023. On the other hand, others note that the degree of regionalization in the distribution of seeds has always been high, although potentially in a less formalised way.

266 Interview with an Ethiopian Ministry of Agriculture official; Addis Ababa, November 2023. As a diplomat consulted for this study noted, this creates conflicting incentives in the reporting of production figures. On the one hand, over-reporting can allow a region to receive a greater amount of fertilisers for the following season (besides currying the political favour of the federal administration, as seen in the previous section). On the other hand, however, it can lead to a reduction in the amount of food aid allocated to the region via the PSNP.

267 According to an Ethiopian banker consulted for this study, regional administrations absorb part of the financial risks in case of farmers' inability to pay back the purchase.

268 Interview with an Ethiopian Ministry of Agriculture official; Addis Ababa, November 2023.

269 IFPRI. 2013. *Fertilizer in Ethiopia*, Discussion Paper 01304, December, 2-3, https://ebrary.ifpri.org/digital/api/collection/p15738coll2/id/127922/download.

270 Ethiopian Agricultural Businesses Organization. 2015. 'About.' https://ethioagri.com/about-eabc/

271 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 6.

seeds (between the 2020-21 and the 2021-22 seasons, the price of a quintal of improved wheat seeds rose by almost half, from ETB 2.3k to ETB 3.4k).[272] The use of fertilisers has similarly been limited by both availability and affordability issues, due to a mix of domestic and international challenges.[273] On the one hand, Ethiopia's dwindling foreign exchange reserves (see above) have limited the amount of fertilisers that the government is able to import. On the other hand, major price hikes in international fertilisers markets, particularly since the escalation of the war in Ukraine in 2022, have translated into major price hikes in import-dependent Ethiopia. As a result, the price of fertilisers has risen significantly (170 percent between 2021 and 2022), and many farmers have been unable to access the needed amount of fertilisers.[274]

(B) Production: Fragmentation and lack of finance

Ethiopia's wheat production is largely dominated by smallholder farmers. The average size of wheat farmlands was reported at only 0.34 hectares in 2014, and it has been decreasing over time due to the fragmentation of family-owned land plots among multiple descendants.[275] In these areas, wheat cultivation is rain fed and non-mechanised, leading to low levels of productivity.[276] Although some large-scale commercial wheat farms do exist (particularly in the so-called 'wheat belt' in Oromia's Bale and Arsi zones), they have traditionally accounted

272 Negassa, A., et al. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, 25

273 Wageningen University and Research, 2023. 'Ethiopia fertilizer alert,' Wageningen, Wageningen University, https://www.wur.nl/en/show/fertilizer-alert-ethiopia-april-2023.htm#:~:text=The%20cost%20of%20fertilizer%20in,ton%20(MoA%2C%202022).

274 Wageningen University and Research, 2023. 'Ethiopia fertilizer alert,' Wageningen, Wageningen University, https://www.wur.nl/en/show/fertilizer-alert-ethiopia-april-2023.htm#:~:text=The%20cost%20of%20fertilizer%20in,ton%20(MoA%2C%202022). An Ethiopian agricultural researcher consulted for this study estimated that farmers get around one-quarter of the amount of fertilisers they would require to achieve their full production capacity.

275 Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 70.

276 As of 2015, less than one percent of wheat cultivated area was irrigated and around one percent was cultivated using tractors (Minot, N., et al., 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 8). Though both irrigation and the use of tractors have increased over the past years, their use remains limited (Senbeta, A., and Worku, W. 2023 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10)).

for a limited share of wheat production (five percent in 2013).[277] Overall, this has resulted in relatively low productivity levels. Although wheat yields in Ethiopia have increased significantly over the past decades (from 1.1 to 3.03 tonnes per hectare between 2000 and 2020), they have remained below those of many other African countries.[278] Wheat production in Ethiopia is very geographically concentrated, with Oromia accounting for almost 60 percent of overall production (almost half of which taking place in Bale and Arsi alone), followed at a distance by Amhara region (28 percent).[279]

Recently, the government's wheat push (see section 4.4) has led to fast changes in Ethiopia's wheat production patterns. In an effort to scale up wheat production, the government has been dramatically expanding wheat-cultivated areas – including in lowland areas traditionally not used for this purpose, such as in Somali region.[280] The government has also set wheat production quotas for different regions so as to meet its production targets. This push, however, risks coming at the expense of other value chains – including for instance vegetables, which have the potential to provide both nutritious food for the population and good incomes for farmers.[281] Moreover, the push has generated resentment

277 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 11.

278 See, for instance, the equivalent figures for Zambia (7.37 tons per hectare), Egypt (6.57), Namibia (6) and South Africa (4.14) (Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10)).

279 Other wheat producing states include the former Southern Nations, Nationalities and Peoples Region (8.7 percent) and Tigray (6.2 percent) (Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 71-72; Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10); Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 13-14).

280 Bogale, S. 2022. 'Wheat Self-Sufficiency: Agricultural Revolution or Political Assertion?' *The Ethiopian Reporter*, 15 October, https://www.thereporterethiopia.com/27139/. This push to expand wheat cultivated areas has taken place in conjunction with an effort to develop irrigation systems (thus enabling production in areas and/or seasons with limited rain availability) and promote the use of improved seeds and chemical fertilisers in order to boost yields (Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance and Yield Gap Closure,' *Heliyon*, 9(10)).

281 Interviews with Ethiopian agricultural researchers, Ethiopian agricultural exporter and European diplomat working on food security; Addis Ababa, November 2023.

among many farmers, who are unhappy about switching production under the government's orders, particularly when they are then forced by government policy to sell wheat well below market prices.[282] According to some experts, this resentment has the potential to evolve into grievances against the government.[283]

Besides small land plots, a limited use of technology and intrusive government policies, Ethiopia's (wheat) farmers suffer from another major challenge: limited access to finance. Due to Ethiopia's policy on the state's ownership of land, farmers do not own the land they work on and hence they cannot use it as collateral to get finance. This, coupled with the risks associated with agriculture (see above), makes it extremely difficult for them to access finance – particularly for smallholders, who do not even have any machinery to collateralise. These difficulties mean that farmers often end up getting credit from downstream actors in the value chain, most often traders. This, however, creates a relation of dependency that empowers traders (see below), while diminishing farmers' bargaining power – and hence incomes. Recently, the government has been reportedly exploring solutions to address this issue. These include, for instance, the possibility to collateralise land with a value based on estimating production over the coming years.[284] However, it remains unclear to what extent these changes may increase the appetite of banks (particularly private ones) to provide finance to farmers.

(C) Storage, aggregation and trading: Many challenges, but power over prices

After the production stage, a large share of Ethiopia's wheat remains in the farmers' houses, where it is mostly used for consumption and (to a lesser extent) seed production. In 2020, for instance, 56 percent of wheat production was used for household consumption and 16 percent for seeds, with another 4 percent

282 Interview with Ethiopian agricultural researchers; Addis Ababa, November 2023; Addis Standard. 2023. 'Analysis: Farmers endure market sabotage, inflation and price disorientation as government wheat export story takes news headlines by storm,' 15 May, https://addisstandard.com/analysis-farmers-endure-market-sabotage-inflation-and-price-disorientation-as-government-wheat-export-story-takes-news-headlines-by-storm/.

283 Interview with Ethiopian peacebuilding specialist; Addis Ababa, November 2023.

284 Interview with Ethiopian researcher; Addis Ababa, November 2023.

used for in-kind wage distribution.[285] Storage for this wheat is usually done by small-scale farmers, who despite using simple methods (e.g., bags in their houses or traditional structures called *gotera*) reportedly manage to achieve relatively low losses (2-4 percent).[286]

On the other hand, a smaller share of Ethiopia's wheat is sold via markets – around 20-25 percent of the overall production, according to various estimates.[287] These sales are rather concentrated, with the top 20 percent of wheat sellers accounting for 60 percent of wheat sales.[288] These sellers tend to be farmers that control larger plots of land, own assets (such as agricultural equipment and/or livestock) and are located closer to main roads and cooperatives. Large-scale commercial farms, for instance, tend to market almost all of their wheat.

The sale of wheat to the market generally takes place through multiple layers of intermediaries, who bridge the wide gap between small-scale producers and large-scale buyers. On the one hand, wheat farmers – mostly smallholders – rarely have the market knowledge and means to link up directly with their customers and therefore prefer to sell their produce at the farm gate. On the other hand, potential customers – such as wholesalers or agri-processing businesses – rarely have the willingness or the means to collect wheat at the farm

285 Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance, and Yield Gap Closure,' *Heliyon*, 9(10). As of 2015, it was estimated that 60 percent of farmers in Ethiopia do not sell any of their wheat (Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 21-26).

286 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy. An estimated 90 percent of wheat production is stored by farmers, either for own consumption or for resale.

287 In 2020, a field survey conducted in Eastern Wollega zone (Oromia) estimated that 20 percent of wheat was sold (Negassa, A., et al. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, 50). This is consistent with earlier estimates from the early 2010s, pointing at 18-25 percent of wheat being sold via markets (Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 21).

288 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 21-26.

gate of each smallholder, and thus they prefer buying in larger quantities.[289] This creates an opportunity for multiple layers of intermediaries who collect wheat at the farm gate, aggregate it, store it if needed and then bring it to larger markets. In Ethiopia's wheat value chain, this intermediary role between farmers and the market is performed by two actors: cooperatives and traders.

Cooperatives have been a focal point of the government's agricultural strategies over the past few decades. These cooperatives exist and operate at different levels (from village-level cooperatives and to unions at the *woreda* and zone levels), and they have traditionally been closely associated with the state and its ruling party.[290] As mentioned earlier, cooperatives play a major role in the top-down system of distribution of agricultural inputs, particularly fertilisers. On the other hand, however, their role as aggregators and marketers of wheat is rather limited. According to a 2012 survey, only 0.5 percent of wheat sales went through cooperatives, and more recent reports have confirmed that cooperatives continue to play a minor role in channelling sales as compared to private traders.[291]

The limited role played by cooperatives is largely due to their capacity and organisational shortcomings. Lacking financial resources and storage capacity, it is difficult for cooperatives to buy large amounts of wheat at harvest time and hold it until the right time for sale comes.[292] This hampers their effectiveness as aggregators and marketers – particularly as compared to traders (see below).

289 Zewdu, T., and Lindl, S. 2022. 'Review of Wheat Value Chain in Ethiopia,' *International Journals of Economic and Business Management*, 10(3), 75; interviews with multiple Ethiopian millers, Addis Ababa, November 2023.

290 Alemu, D., and Berhanu, K. 2018. *The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediment*, Future Agricultures Consortium; Negassa, A. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22,* Arlington, USAID Food Security Service Center II, 51.

291 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 18-19; Negassa, A., et al. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, 51; Interviews with Ethiopian agricultural researchers and businesses active in the wheat value chain; Addis Ababa, November 2023.

292 Interviews with multiple Ethiopian agricultural researchers and an Ethiopian government official; Addis Ababa, November 2023; Alemu, D., and Berhanu, K. 2018. *The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediment*, Future Agricultures Consortium; Negassa, A. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22,* Arlington, VA, USAID Food Security Service Center II, 51.

Cooperatives also suffer from serious organisational deficiencies, including poor financial management and record keeping, as well as a limited knowledge of the products they handle.[293] Moreover, they are seen by some as excessively politicised and corrupt, as well as lacking in accountability to their members. For instance, a source who has worked with cooperatives in the past noted that many of them are not audited, regularly fail to pay dividends to their members and at times even receive bribes from traders.[294]

As a result of the cooperatives' deficiencies, the aggregation and marketing segment of the value chain is largely dominated by private traders. Different types of traders are active in the chain – from local actors buying wheat at the farm gate and bringing it to local markets to aggregators buying wheat in medium-sized markets and selling it in larger cities (from Bale to Addis Ababa, wheat is likely to change hands at least three times).[295] These traders are often wealthy individuals (at times wealthy farmers), usually enjoying good connections to powerful actors in the areas where they operate.[296] These intermediaries are very effective in bridging the gap between suppliers (mostly smallholders) and their clients (wholesalers or agri-businesses) and thus provide a significant value added. Moreover, they do so amidst a number of growing challenges – most notably insecurity along transport routes, which has been increasing over recent years as conflict has spread to several regions of Ethiopia.

Despite facing challenges, traders are generally seen as the most powerful segment of the value chain.[297] The power of traders rests on a number of advantages that they have vis-à-vis their suppliers, their clients and/or their

293 Interviews with Ethiopian agricultural researchers and practitioners; Addis Ababa, November 2023; Alemu, D., and Berhanu, K. 2018. *The Political Economy of Agricultural Commercialisation in Ethiopia: Discourses, Actors and Structural Impediment*, Future Agricultures Consortium; Negassa, A. 2021. *Final Report: USAID-Ethiopia Bellmon Crop Availability and Market Analysis for 2021/22*, Arlington, VA, USAID Food Security Service Center II, 51. The lack of knowledge of the products means that customers (e.g. agri-processors) are able to negotiate better deals with cooperatives, reducing their effectiveness as intermediaries.

294 Interview with senior Ethiopian agricultural researcher and practitioner; Addis Ababa, November 2023.

295 Interview with Ethiopian logistics business; Addis Ababa, November 2023.

296 Interviews with multiple Ethiopian agricultural and political researchers; Addis Ababa, November 2023.

297 Interviews with Ethiopian agricultural researchers, businesspeople and government officials; Addis Ababa, November 2023.

competitors. First of all, traders benefit from information advantages. For instance, farmers (especially smallholders) tend to lack knowledge about the quality of their produce and the demand for it in faraway markets, while larger buyers lack connections in local markets. Placed in between these layers, traders can exploit their knowledge of both sides to increase their bargaining power, for instance by keeping the farm gate price low even when the price of wheat is rising.[298]

In addition, traders tend to enjoy a financial advantage – partly thanks to their own wealth and partly thanks to their ability to access finance (see previous section). This financial capacity allows traders to outbid other potential buyers (e.g., cooperatives and/or agri-businesses that try to source directly from farmers), as well as to buy large amounts of wheat when prices are low, store it and then resell it at a later stage.[299] While storing for later resale is not per se a negative phenomenon (to the contrary, it can help to smoothen the difference between irregular supply constant demand),[300] it does offer opportunities for speculation, which are at times (though not always) seized by traders.[301] Moreover, the traders' financial muscle allows them to provide credit to other actors in the value chain, thus putting themselves in a position of power. This happens most often with smallholder farmers at the very local level, to which traders provide credit in the form of advance payments.[302] At times, however, traders even provide credit to agri-processing businesses to buy wheat from them, particularly when they want to free their storage space ahead of a new harvest.[303]

298 Interviews with Ethiopian agricultural researchers and businesspeople; Addis Ababa, November 2023.

299 Interviews with Ethiopian agricultural researchers and businesspeople; Addis Ababa, November 2023.

300 In Ethiopia, wheat is harvested in only two seasons, of which one (the *meher* season, with harvests between September and February) is overwhelmingly important. By contrast, consumption is generally stable throughout the year.

301 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy. In interviews, many traders reported refraining from hoarding due to either liquidity constraints or to fear of punishment (including their produce being seized).

302 Interview with senior Ethiopian agricultural researcher; Addis Ababa, November 2023.

303 Interview with Ethiopian miller, Addis Ababa, November 2023.

Overall, thanks to their position as intermediaries and to their financial muscle, traders enjoy a particularly powerful position in the value chain, enabling them to ensure good profit margins for themselves. The cooperatives' failure to act as effective aggregators of wheat and/or as representatives of farmers' interests leaves space for traders to do business directly with many individual smallholder farmers. These farmers generally lack the market information and collective organisation needed to drive an effective bargain, and their lack of finance makes them reliant on advance payments that traders can and do provide. As a result, farmers largely become price takers, while traders enjoy more flexibility in setting the price at which they buy wheat.

(D) Processing: Hard to buy, hard to sell

Processing of wheat in Ethiopia takes place in two ways.[304] In rural areas, much of wheat that is produced and marketed is brought to the many small scale millers located in grain-producing areas.[305] These millers grind the wheat (and other wheat), usually with simple tools, and take a share of the product (often 10 percent) as a payment for their service. This method of milling and selling the product directly to customers has traditionally accounted for an estimated two-thirds of Ethiopia's overall milling capacity.[306] On the other hand, in urban areas, milling is often done by a smaller number of larger flour factories, many of them located in Addis and in Oromia.[307] These millers purchase larger quantities of wheat (e.g., from traders, cooperatives or in the past also from the government), they grind it into flour, and they then sell it to downstream actors in the value chain – typically agri-processing businesses (e.g., bakeries, pasta factories, etc.) or wholesalers and retailers of flour, particularly in urban areas.

304 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 36.

305 As of 2015, it was estimated that 71 percent of kebeles across the country had at least one such grain mill (Minot, N. et al. 2015, *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 36).

306 As of 2015, the estimated total capacity of small-scale hammer mills (15 million tonnes) was reported to be almost double that of the large-scale flour mills (7.9 million tonnes). Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 37.

307 Minot, N., et al. 2015. *The Wheat Supply Chain in Ethiopia: Patterns, Trends, and Policy Options*, Research for Ethiopia's Agricultural Policy, 37.

Large millers and agri-processing businesses occupy a rather difficult position along the value chain. On the supply side, these businesses face considerable challenges in securing inputs. At times, supply shortages mean that processors cannot buy the specific quality of wheat that they need for certain products. Even when wheat is available, its price over the past year has been extremely erratic, rising at times up to ETB 6.6k per quintal (almost three times as high as the minimum farm gate price set by the government in April 2023). These prices put a strain on businesses already suffering from serious working capital issues and rarely able to access loans from banks – partly because of the banks' reluctance to provide cash and partly because these businesses' assets (e.g., machinery) are often already collateralised for previous loans. Lacking access to credit, at times millers and processors resort to borrowing cash from traders (see above), which decreases their bargaining power. Compounding these difficulties in securing inputs, millers and processors have to face a competitive market downstream in the chain.[308] Many wholesalers and retails are active in this market, and with the purchasing power of the population eroding, they are under pressure to keep prices down to ensure that their products remain affordable.

Overall, this combination of a tight market on the supply side and a competitive one on the sales side squeezes the profit margin available to millers and agri-processors. This is exacerbated by the fact that most of these businesses currently operate well below their full capacity levels[309] – partly due to the difficulties in securing inputs, but partly also due to serious infrastructural challenges (e.g., frequent power cuts interrupting the functioning of their machines). Although the government has reportedly encouraged private sector activity in the agri-processing sector (e.g., by promoting investments), this segment of the value chain remains a difficult one to operate in.

308 Interviews with Ethiopian business people and agricultural researchers, Addis Ababa, November 2023.

309 Interviews with Ethiopian millers and a former government official; Addis Ababa, November 2023. One large miller reported working at around 40-50 percent capacity, down from 70-80 percent in the past. A senior agricultural researcher has even mentioned capacity figures of 25 percent for some agri-processing businesses.

(E) Distribution, retail and consumption: Pressure to keep prices low

After processing, wheat products (e.g., flour, bread, pasta, biscuits, etc.) are transported and sold to customers across the country (particularly in urban areas) through an extensive network of distributors and retailers. Profit margins in this segment of the value chain are reportedly limited – partly because of the competitive nature of the market, featuring a large number of suppliers and many small-scale agents acting as distributors, and partly due to the strong pressure to keep retail prices down, given the increasingly limited purchasing power of large segments of the population.[310] Over the past years, distribution efforts have also been often hampered by the conflicts spreading to new areas of the country – including most notably Oromia and Amhara, Ethiopia's two largest regions, as well as the two largest producers of wheat. This has resulted in increased risks – and hence reduced profits. To offset, if not reverse, this trend, some of these businesses have reportedly engaged in illicit activities (e.g., smuggling) on the side.[311]

The effective functioning of this system has become increasingly important over the last few years, as demand for wheat products has steadily grown among the Ethiopian population. Consumption of wheat in Ethiopia has been rising at an estimated rate of nine percent per year, largely due to a mix of population growth, income growth and a growing preference among the population for wheat products, particularly in urban area (partly also as a result of the rising price of traditional products such as teff).[312] As of 2023, wheat represented the second most important consumption crop (after maize), accounting for 14 percent of the national calories intake.[313] While wheat represents an increasingly important consumption crop, however, some researchers caution that its promotion should not come at the expense of other agricultural products, such as vegetables and fruits, that have the potential to deliver both a differentiated diet for the population and good incomes for farmers.[314]

310 Interviews with Ethiopian businesspeople and researchers; Addis Ababa, November 2023.

311 Interview with Ethiopian political researcher; Addis Ababa, November 2023.

312 Gebrie, G. 2022. 'A Review on: The Over-View of Irrigated Wheat Production and the Research Achievements of Lowland Irrigated Wheat in Ethiopia,' Ethiopian Institute of Agricultural Research, 4(1), 41; interviews with Ethiopian agricultural researchers and businesspeople; Addis Ababa, November 2023.

313 Senbeta, A., and Worku, W. 2023. 'Ethiopia's Wheat Production Pathways to Self-Sufficiency through Land Area Expansion, Irrigation Advance and Yield Gap Closure,' *Heliyon*, 9(10).

314 Interviews with Ethiopian agricultural researchers; Addis Ababa and the Netherlands, November 2023.