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“Development on the margin”

Agricultural Foreign Direct Investment and Water Rights of Marginalised Smallholders - An Institutional Analysis from Ethiopia

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Abstract

In the last years, the trend of foreign actors securing land for agricultural production has increased substantially. This phenomenon, often termed “land-grabbing”, especially occurs in low-income countries such as Ethiopia in areas where marginalised smallholders practise subsistence agriculture. Acquiring access to water resources is one of the major goals of foreign investors, leading to a re-negotiation of water rights between local actors and foreign investors. Despite water being the vital source of livelihood, the consequences of “land-grabbing” on the local water governance system of marginalised smallholders has so far not been adequately analysed. This paper presents an institutional analysis of a small-scale irrigation scheme in Ethiopia, where foreign horticultural farms started to use water from an irrigation canal that was formerly managed as a user-group common-pool resource by local smallholders. The analysis aims at answering the questions as to how and why institutional change occurs when agricultural foreign direct investment takes place, and which are the impacts of this institutional change for marginalised smallholders.

The study follows a qualitative case-study approach with semi-structured interviews as the main source of data. For the analysis, common-pool resource theory and the bargaining theory of institutional change are employed.

The study found that the former common-pool resource management system of local farmers and its associated water rights changed in the way that most of the identified water rights shifted to the investment farms, leading to a further marginalisation of local smallholders. The new arrangement was found to be inefficient, with interactions between both actors being characterised by mutual distrust, conflict, and corruption.

The change in the institutional arrangement is explained as a consequence of different bargaining power resources, which led to a stronger position of the investment farms. When investigating institutional arrangements and the role of marginalised small-scale farmers, the actors’ bargaining power resources are therefore highly important to be considered.

Keywords: Foreign direct investment, institutions, water rights