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Motives and interests of the Dutch industry and government
and development impacts in Ethiopia”

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ABBREVIATIONS

ADLI	Agricultural Development-Led Industrialization
AIHP	International Association of Horticultural Producers
BHOS	Trade and Development Cooperation Policy
CBS	Statistics Netherlands
CBI	Centre for the Promotion of Imports from Developing Countries
DAG	Development Assistance Group for Ethiopia
DAC	Development Assistance Committee of the OECD
DBE	Development Bank of Ethiopia
DGGF	Dutch Good Growth Fund
EAL	Ethiopian Airlines
ENHP	Ethiopian-Netherlands Horticulture Partnership
EHPEA	Ethiopian Horticulture Producer Exporters Association
EPLF	Eritrean People's Liberation Front
EPRDF	Ethiopian People's Revolutionary Democratic Front
ETB	Ethiopian Birr
EUR	Euro
FDI	Foreign Direct Investment
GCC	Global Commodity Chain
GDP	Gross Domestic Product
GNI	Gross National Income
GPN	Global Production Networks
GRIPS	National Graduate Institute for Policy Studies, Tokyo
GTP I	Growth and Transformation Plan I
GTP II	Growth and Transformation Plan II
GVC	Global Value Chains
IDB	Inter-American Development Bank
IFC	International Finance Corporation
ILO	International Labour Organization
IOB	Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs
MASP	Multi Annual Strategic Plans
MoFA	Ministry of Foreign Affairs of the Netherlands

MDGs	Millennium Development Goals
MoFED	Ministry of Finance and Economic Development of Ethiopia
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Co-Operation and Development
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PP	Pan-Ethiopian Prosperity Party
PPP	Private Public Partnership
PSD	Private sector development
PSI	Private Sector Investment programme (Private Sector Investeringsprogramma)
PSOM	Programme for the Cooperation with Emerging Markets (Programma Samenwerking Opkomende Markten)
PUM	Netherlands senior experts (Programma Uitzending Managers)
SRHR	Sexual and Reproductive Health and Rights
SDPRP	Sustainable Development and Poverty Reduction Strategy Plan
TPLF	Tigray People's Liberation Front
Wageningen UR	Wageningen University & Research, NL
WSSD	World Summit on Sustainable Development
UK	United Kingdom
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
USD	United States Dollars

ABSTRACT

The growth of the Ethiopian floriculture sector since the mid-2000s has been remarkable. Investments of Dutch flower growers played a decisive role in this growth. Their engagement in Ethiopia was assisted by the Dutch government through development assistance programs as well as by the Ethiopian government through granting incentives within the framework of its strategic national development plans. This thesis aims to assess the motives and interests of the Dutch and Ethiopian investors and stakeholders in expanding and supporting the flower growing business as well as the developmental impacts of this sector in Ethiopia. By applying the global production network theoretical approach and linking it to donor interventions, a mapping of the Dutch - Ethiopian floriculture production network was developed which allows to show and to analyze the positions and interrelations of the various firm and non-firm participants in the network. Desk research was used as research method for answering the research questions. Scientific texts, market surveys and statistical data, Dutch and Ethiopian government papers and evaluation reports as well as reports of supranational organizations served as sources whereby however, Dutch government evaluation reports were drawn upon to a significant extent. The expansion from the Netherlands to Ethiopia offered Dutch flower growers numerous production advantages, but also required them - as well as local farms - to cope with many business and bureaucratic obstacles despite both governments' financial contributions and efforts for a positive business environment. The findings of this master thesis show that the entrepreneurship of the Dutch flower growers was key to the successful emergence and development of the Ethiopian floriculture sector. The expansion of Dutch growers did not only bring capital to Ethiopia, but created also desired FDI spillovers regarding dissemination of technological know-how, industry practices and capacity building of farm employees. In this regard, the Ethiopian floriculture sector's industry association, the Ethiopian Horticulture Producer Exporters Association, funded to a large extent by the Dutch embassy in Addis Ababa was an important contributor to the sector's development. With respect to the floriculture sector's developmental impacts, it can be argued that despite creation of employment, generation of needed foreign exchange due to the opening of new export markets and some backward and forward linkages with other sectors, the impacts of the floriculture sector towards the overriding development goal of Ethiopia to become a "lower middle-income country" by 2025 can be considered as rather low.

ABSTRACT (GERMAN)

Das Wachstum des äthiopischen Blumensektors seit Mitte der 2000er Jahre ist bemerkenswert. Die Investitionen der niederländischen Blumenfarmer spielten eine entscheidende Rolle bei diesem Wachstum. Ihr Engagement in Äthiopien wurde sowohl von der niederländischen Regierung durch Entwicklungshilfeprogramme als auch von der äthiopischen Regierung durch die Gewährung von Anreizen im Rahmen ihrer strategischen nationalen Entwicklungspläne unterstützt. Ziel dieser Arbeit ist es, die Motive und Interessen der niederländischen und äthiopischen Investoren und Stakeholder für die Ausweitung und Unterstützung des Blumensektors sowie die entwicklungspolitischen Auswirkungen dieses Sektors in Äthiopien zu untersuchen. Unter Anwendung der „Global Production Networks“-Theorie, mitberücksichtigend Aspekte von Geber-Interventionen, wurde ein Schaubild des niederländisch-äthiopischen Global Production Networks auf dem Blumensektor entworfen, das erlaubt, die Positionen und Wechselbeziehungen der verschiedenen Firmen und Nicht-Firmen Mitglieder im Netzwerk zu zeigen und zu analysieren. Als Forschungsmethode zur Beantwortung der Forschungsfragen wurde „desk research“ herangezogen. Als Quellen dienten wissenschaftliche Texte, Marktberichte und statistische Daten, niederländische und äthiopische Regierungsdokumente und Evaluierungsberichte sowie Berichte supranationaler Organisationen, wobei jedoch in erheblichem Umfang auf Evaluierungsberichte der niederländischen Regierung zurückgegriffen wurde. Die Expansion von den Niederlanden nach Äthiopien bot den holländischen Blumenfarmern zahlreiche Produktionsvorteile, erforderte aber auch, dass sie - wie auch lokale Farmen - mit vielen geschäftlichen und bürokratischen Hindernissen fertig werden mussten, die trotz der finanziellen Beiträge beider Regierungen und deren Bemühungen um ein positives Geschäftsumfeld bestanden. Die Ergebnisse dieser Masterarbeit zeigen, dass das Unternehmertum der niederländischen Blumenfarmer der Schlüssel für die erfolgreiche Entstehung und Entwicklung des äthiopischen Blumensektors war. Die Expansion der niederländischen Blumenfarmer brachte nicht nur Kapital nach Äthiopien, sondern führte auch zu gewünschten Spillover-Effekten dieser Direktinvestitionen hinsichtlich Verbreitung von technologischem Know-how, Industriepraktiken und dem Aufbau von Wissen, Fähigkeiten und Fertigkeiten von Farmmitarbeitern. In dieser Hinsicht leistete der Branchenverband des äthiopischen Blumensektors, die Ethiopian Horticulture Producer Exporters Association, die zu einem großen Teil von

der niederländischen Botschaft in Addis Abeba finanziert wurde, einen wichtigen Beitrag zur Entwicklung des Sektors. In Bezug auf die entwicklungspolitischen Auswirkungen des Blumensektors kann argumentiert werden, dass trotz der Schaffung von Arbeitsplätzen, der Generierung benötigter Devisen durch Öffnung neuer Exportmärkte sowie einiger Rück- und Vorwärtsverflechtungen mit anderen Sektoren die Auswirkungen des Blumensektors auf das übergeordnete entwicklungspolitische Ziel Äthiopiens, bis 2025 ein "Land mit niedrigem mittleren Einkommen" zu werden, als eher gering betrachtet werden können.

1. INTRODUCTION

In the 20th century, the floriculture industry used to be for decades an industry which produced and traded its plants and flowers only in the countries of the global North. Emerging customer demand for all year floriculture products supply and changing climate conditions requiring cost increasing adaptations of production technologies made flower companies start in the second half of the 20th century to relocate some of their production activities to countries of the global South - US growers to Columbia and Ecuador, European growers to Sub-Saharan countries such as Kenya and Ethiopia, the latter one since the mid-2000s where agro-ecological conditions were favourable as well as abundant labour force at low costs was available. These relocations formed a global floriculture industry and global floriculture production networks (Melese 2018: 3 ff).

The Netherlands are one of the globally most important producers of agricultural products, including horticultural and floricultural products. They have been dominating flower trade for centuries and continue to play - through Royal FloraHolland as the globally most important floriculture hub - a unique role in the floriculture industry. The Netherlands commanded a 43% share of the worldwide cut flower export trade in 2015 (Rabobank 2016). Total Dutch exports of ornamental horticultural products - cut flowers, live plants, bulbs, cut foliage - amounted to some EUR8,9bn in 2018 of which some EUR3,8bn referred to cut flowers (AIHP 2019b: 100). When Dutch flower growers expanded their operations to Ethiopia Ethiopian floriculture exports stood only at USD12,6mio in 2004/05 growing significantly to USD184mio in 2010/11; in 2017/18 they amounted to USD243,9mio placing Ethiopia as the second largest exporter of floriculture products behind Kenya (EHPEAc). The importance of the Netherlands for the Ethiopian cut flower exports is demonstrated by the fact that in 2017, 81,3% of all Ethiopian cut flower exports of EUR174mio went to the Netherlands (AIHP 2019b: 108).

Against this background of the remarkable growth of the Ethiopian floriculture sector, my interest aroused around understanding the key factors that contributed to the sector's emergence and growth as well as the development impacts for Ethiopia. Thus, my main research questions are:

- What have been the motives and interests of the Dutch floriculture industry and the Dutch government through its development policies in Dutch firms' expansion to Ethiopia?
- How has this related to the interests of Ethiopian firms and the development plans of the Ethiopian government?
- Which global production network has evolved between Dutch and Ethiopian stakeholders and what are its key features?
- What have been the development impacts for Ethiopia?

The above questions necessitated to address numerous aspects, amongst others: the global position of the Dutch floriculture industry, the global floriculture sector distribution channels, the Netherlands' development assistance policies and their effectiveness in the Ethiopian context, the Ethiopian government's strategic national development plans and their relevance for the Ethiopian floriculture sector, other institutional frameworks in Ethiopia, binding constraints in Ethiopia as well as potential interest conflicts between and among Dutch and Ethiopian stakeholders.

As theoretical basis for investigating these research questions, the global production network (GPN) analytical approach was chosen. GPN theory extends the theoretical scope of the global value chains (GVC) concept to not only have the primary focus on the lead firm - supplier relationship as in the GVC approach, but to include as well extra-firm relations, institutional frameworks, regulatory conditions and bodies and to look at the principal elements of value, power and embeddedness on which the GPN architecture is raised (Henderson et al. 2002; Smith 2015; Coe 2018). Donor-led interventions focusing on development objectives and state-to-state interconnections are also part of the analytical approach of value chain theory (Staritz 2012). This is relevant given the fact that the Netherlands have been historically one of the largest donor nations to Ethiopia. The theoretical framework enabled to develop a mapping of the Dutch - Ethiopian floriculture production network showing the various participants and analysing interrelations and framework conditions.

Based exclusively on desk research a vast array of literature was reviewed. The literature review included amongst others Dutch and Ethiopian government papers which concerned development policies, strategic national development plans as well as evaluations about the effectiveness of these policies. The detailed review of these government papers turned out to be an important building

block of my research providing valuable input to answer the research questions, and might serve also others due to its comprehensiveness as useful sources for their respective research.

The review and analysis of the various research areas and research aspects result in a number of key findings. The Dutch flower growers' expansion to Ethiopia was in the interest also of Royal Flora/Holland enabling it to tie new suppliers to its auction. The Dutch government supported this expansion within the framework of its development assistance policies, particularly regarding its private sector development policies with its "aid, trade and investment" approach where development aid should be linked with interests of the Dutch private sector. In pursuit of its strategic national development plans the Ethiopian government grasped the potential of the emergence of a floriculture sector in Ethiopia creating employment and generating foreign exchange through export revenues. The government was made aware of this potential by the Ethiopian floriculture industry association, the Ethiopian Horticulture Producer Exporters Association/EHPEA, established in 2002 and since then funded to a large extent by the Dutch embassy in Addis Ababa. Starting with five members in 2002 and currently having 119 members - foreign as well as local farmers - EHPEA is considered as one of the very few efficient industry associations in Ethiopia. One of its major achievements was the development of a Code of Practice setting sustainability standards for the sector which opened entry to international markets. With support from the Dutch side, such as Wageningen University & Research in the Netherlands it provided capacity building training for the different layers of employees of all flower growers. Official evaluation reports of the Dutch government's different private sector development programmes in Ethiopia showed modest results as to the effectiveness of these programmes. Despite the Ethiopian government's incentives for the floriculture sector Dutch, other foreign and Ethiopian growers had to deal with significant business obstacles the major ones referring to access to credit, foreign exchange and input supplies.

The findings of this work let me conclude and argue that in some deviation from existing literature, it was the Dutch flower growers' determined entrepreneurship assisted by EHPEA's activities which spurred the growth of the Ethiopian floriculture sector. In addition to the moderate effectiveness of the Dutch private sector development programmes, the financial scope of the Netherlands' development assistance for the floriculture sector cannot be deemed as substantial. I also argue that the Ethiopian government's incentives while important to attract foreign direct investment and to encourage domestic firms, should be seen more as an ignition and stimulus factor than as a factor of supporting long-term growth. While the Netherlands' financial contributions are publicly recorded, records of the concrete monetary magnitude of the Ethiopian incentives and their effectiveness could not be found. The interest of the Ethiopian government in the sector appears to

have faded in recent years. Regarding the development impacts of the floriculture sector I argue that they should be viewed as rather modest considering, amongst others, the low share of the sector's employment in relation to the overall employment forces and Ethiopia's rapid population growth.

This master's thesis starts with an overview of global value chain and global production network theory the latter one being the primary basis for analysing the Dutch - Ethiopian relations in the Dutch - Ethiopian floriculture business. State-to-state interconnections and donor-led intervention aspects in the GVC/GPN theory are also addressed (chapter 2). The methods chapter describes my approach to answering the research questions, by drawing to a significant extent on my reviewing extensive government evaluation reports (chapter 3). Descriptions of the development and current status of the global floriculture sector outlining global trade flows, sales and distribution channels, amongst others through Royal FloraHolland, Aalsmeer/NL as the globally most important floriculture hub, of the governance in the floriculture industry as well as of the dominant role of the Dutch floriculture sector are contained in chapter 4. Chapter 5 provides an overview of Ethiopia, its national economy as well as of the emergence and development of the Ethiopian floriculture sector. This chapter addresses also industrial policy and the role of foreign direct investments/FDI and FDI spillovers. Elaborations about binding constraints for the business sectors conclude the chapter. The involvement of the overall development assistance policy of the Netherlands over time including the private sector development policies and the private sector development programmes are described in chapter 6. The focus of the Dutch development assistance policies towards Ethiopia and in this context, the roles of the Dutch embassy in Addis Ababa, the Ethiopian Horticulture Producer Exporters Association/EHPEA and the Ethiopian-Netherlands Horticulture Partnership are elaborated in chapter 7. Descriptions of the political development and the characterization of Ethiopia as a "developmental state" give an introduction to the Ethiopian government's policies and strategic national development plans. Due to their importance for the context of this master's thesis these overall development plans are outlined in fairly much detail as to their overall and specific development goals also concerning the Ethiopian floriculture sector (chapter 8). Chapter 9 addresses the Dutch - Ethiopian floriculture production network and the motives and interests of the Dutch and the Ethiopian stakeholders. An assessment of the development impacts of the floriculture sector in the Ethiopian national economy is also included. Finally, the major findings are summarized and conclusions are drawn in chapter 10.

2. CHAIN AND NETWORK THEORY

2.1. Global commodity chains and global value chains

Undoubtedly, economic activities on a global scale have changed significantly over the last decades. The present world economy can be characterized by organizationally fragmented and geographically dispersed production systems. So-called global value chains/production networks are estimated to be responsible for some 80% of international trade (Coe 2018: 147). There exists a wide array of research since the 1970s analyzing and theorizing global value chains/production networks regarding numerous aspects such as their formations, actors, labour and capital, organizations, functions, governance, developmental roles and many more.

The beginnings of chain and network theory date back to Hopkins' and Wallerstein's research (Hopkins, T. and Wallerstein, I. (1977) "Patterns of Development of the Modern World-system") regarding uneven global development and the changing of the international division of labour. In the context of their work the term "commodity chain" was established. In Wallerstein's world-system theory of global capitalism, criticism was uttered to modernization theories. These saw the way to the dissolution of global unevenness in it that countries of the global South should follow the advice and application of the political, economic and social policies of countries of the global North. Policies influenced by world-system theory tended to advocate state interventions in markets and import-substituting industrialization as the appropriate tools for development, rather than an export-oriented industrialization (Neilson 2014: 41).

In tandem with the development of global production and export systems, further theorization of commodity chains took place to explain the export-oriented industrialization in the global South as well as the broad role of the value and supply chains' influence on fostering the global economic integration. Seminal for the deepening of global commodity chain (GCC) research was Gereffi's related work (1994) on the organization of spatially dispersed production and consumption in the global economy. In his view, each global commodity chain is determined by four interrelated factors: 1. the input-output structure; 2. the territoriality; 3. the governance regime; 4. the institutional frameworks. The input-output structure is specifying the various value adding economic activities in the chain for the production of a good or the delivery of a service. The territoriality refers to the geographic spaces where the various actors in the chain are located, either concentrated or dispersed or in a combination thereof. Governance reflects the forms of the power relations of the various actors regarding their ways of interacting and determining the flows of material, capital, technology and knowledge amongst them. In this context, two fundamental types of global commodity chains were defined, namely "producer-driven" and "buyer-driven" chains.

As to the institutional frameworks, state and supra-state policies and regulations in the areas of trade, investment and technology shape global commodity chains as well (Coe 2018:148). Smith elaborates that the dimension of the institutional frameworks is the least theorized aspect of GCC research as the role of the state and state institutions is seen primarily as an enabler of industrial and trade activities, providing infrastructure for export oriented industry, establishing export processing zones and the like as well as also setting regulatory frameworks such as tariffs and quotas. All in all he notes that “The focus on the international scale of commodity chains also meant that states were accorded a back seat [...]” (Smith 2015: 292)

Global value chains (GVC) research superseded to a wide extent GCC research in the early 2000s. GVC research focuses primarily on the inter-firm governance which is influenced by three variables: complexity of transactions, codifiability of transactions and information and capabilities of the supply chain. These three variables determine the coordination needs and thus, power asymmetries in global value chains. Gereffi et al. developed five types of value chain governance which in ascending order reflect the intensification of coordination and control between the lead firm and its suppliers in the chain: 1. markets - there is a low cost for both the lead firm and its suppliers to switch to new partners; 2. modular value chains - suppliers manufacture products or deliver services to the lead firm’s specifications and make investments for material on behalf of customers; 3. relational value chains - customers and suppliers are bound to each other by complex interactions which creates mutual dependency; 4. captive value chains - suppliers, often the smaller ones, are significantly dependent on their customers and face high switching costs to new customers, thus are captive; 5. hierarchy - lead firm and suppliers are vertically integrated through close managerial control, such as e.g. headquarters and subsidiaries (Gereffi et al. 2005: 83 f.). Based on the typology of value chain governance analytical work was done with respect to upgrading possibilities of local firms within the chain as well as how sub-national regions can link into global value chains through e.g. formation of clusters (Coe 2018: 148). The following statement by Gereffi et al. (2005) reflects the thinking about an appropriate development course at that time.

“One of the key findings of value chain studies is that access to developed country markets has become increasingly dependent on participating in global production networks led by firms based in developed countries. Thus, the governance of global value chains is essential for understanding how firms in developing countries can gain access to global markets, what the benefits of access and the risks of exclusion might be, and how the net gains from participation in global value chains might be increased.” (Gereffi et al. 2005: 99 f.)

2.2. Global production networks

Having given an overview of the GCC and GVC conceptual frameworks, subject work however, will be based on the concept of “global production networks” (GPN). This strand of chain research emerged also in the early 2000s. Hendersen et al. were prominent representatives which proposed this analytical framework to be able to analyze and understand more effectively “[...] what firms do, why they do it, where they do it, why they are allowed to do it and how they organize the doing of it across different geographic scales.” (Hendersen et al. 2002: 438) It is evident that looking only at the lead firm - supplier relationship, the key element of the concept of GVC, is not sufficient at all, but that institutional and regulatory conditions and bodies as well as macroeconomic and political circumstances will have to be looked at as well.

Hendersen et al. prefer to use the terms „production“ and „network“. In their views „production“ does include also the social processes in producing the goods and services and the aspects of knowledge, capital and labour. „Network“ points to the multi-directional flow of knowledge between producers, consumers and intermediaries whereas „chains“ are much more seen acting in a unidirectional manner (ibid.: 444).

Yeung/Coe provide a description of a global production network defining it as “[...] an organizational arrangement comprising interconnected economic and noneconomic actors coordinated by a global lead firm and producing goods or services across multiple geographic locations for worldwide markets.” (Yeung/Coe 2015: 32)

In their research Hendersen et al. refer to three principal elements on which the architecture of the GPN framework is raised: 1. Value: the creation, enhancement and capture of values. The creation refers to the conditions for the labour processes to generate surplus value and for firms to generate rents through e.g. specific technological, managerial, marketing and product skills. The enhancement relates to the circumstances under which e.g. production and marketing processes, technology transfer and technical skills can develop also on the local level whereby in all cases the institutional frameworks, i.e. government agencies, trade unions, employer associations, have a significant effect on the possibilities for value enhancement. As to the capture of value, the issue is how locations can retain these values for their benefit. Government policy, firm ownership and governance play a role. 2. Power: corporate, institutional and collective powers. In general, power determines the possibilities of value enhancements and capture and relates to the issue of how power is exercised in the network. Corporate power refers to the lead firm’s ability to influence decisively and consistently decisions and resource allocations within the network in its own interests. Institutional power concerns the influence of national and local states, supranational

organizations such as the International Finance Corporation, World Trade Organization and the International Labour Organization, and credit rating agencies. Trade unions, employers' associations, environmental and human rights NGOs and others hold collective powers able to affect firms, national and local governments as well as supranational organizations. 3. Embeddedness: territorial and network embeddedness. In general, embeddedness refers to the historic, cultural, social and economic characteristics of a location or of the structure or composition of a global production network. As to the territorial embeddedness, firms in GPNs do not merely locate in particular locations. They will be exposed to local conditions which will influence positively or even negatively their activities. Network embeddedness refers to the particular features of the network with respect to the relationship of the network members regardless of their country of origin or their location in specific places (Hendersen et al. 2002: 448 ff.)

Coe raises similar aspects as Henderson et alia. In his view GPNs differentiate themselves from global commodity chains (GCC) and GVCs in this respect that they explicitly take also "extra-firm networks" (Coe 2018: 150) into consideration. These extra-firm networks do include government agencies, supranational organizations, trade unions, employer associations, NGOs, consumer groups and the like which determine the activities of firms connected in a global production network. Coe uses as well the aspects of value, power and embeddedness, but also points to the importance of "[...] strategic coupling of GPNs with the localized assets of regional economies [...]" (ibid.) in order for regions to develop economically. Only those regions benefit from the inclusion in a global production network where the region's assets can complement the strategic goals of lead firms. Strategic coupling to happen requires active regional institutions and a strong GPN actor, is subject to changes over time in its settings between local and non-local actors and constitutes a coalition of actors which cooperate across territorial borders.

Yeung/Coe (2015) and Coe (2018) have conceptualized an extended GPN framework which they call "GPN 2.0" based on the knowledge of the GPN research described above ("GPN 1.0"). In GPN 2.0 explanations are given about the *causal* links between GPN formations and uneven territorial development within the global economy. Firm and non-firm actors in global production networks are exposed to three competitive dynamics - optimizing cost-capability ratios (e.g. capital, labour, technology, know-how), sustaining market development (e.g. reach and access, dominance, time-to-market, customer behaviour), and working with financial discipline (e.g. access to finance, investor and shareholder pressure). "Couched in different combinations, these three dynamic forces are the necessary causal conditions for explaining actor-specific strategies in configuring these networks, which in turn produce diverse empirical outcomes". (Yeung/Coe 2015: 34) These competitive dynamics produce four different actor-specific strategies for configuring and organizing global

production networks: intrafirm coordination, interfirm control, interfirm partnership and extra-firm bargaining (Coe 2018: 153). “Each of these firm-level strategies is dependent on a unique combination of competitive dynamics. In short, competitive dynamics are the independent variables driving firm strategies, as dependent variables, which in turn lead to different network configurations and organizational outcomes.” (Yeung/Coe 2015: 32) In situations with high competitive market pressures and high risk, GPN configurations tend to be intrafirm coordination prioritizing domestic expansion, M&A and FDI (e.g. pharmaceuticals and retail). Interfirm control is likely to be chosen when firms are under pressure from high cost-capability ratios and financial discipline leading to increased production outsourcing and to dependent integration of suppliers into the network (e.g. automobiles and IT services). When suppliers in the network complement the lead firms’ requirements decisively and thus, a significant degree of mutual dependency exists in connection with a highly competitive market and risk environment, interfirm partnership is a likely configuration (e.g. electronics and logistics). In a similarly competitive and risky environment, firms might also enter into extra-firm bargaining with extra-firm actors to gain more value from their GPN (e.g. agrofood and resources) (Coe 2018: 153 f.).

While sharing the conceptual framework of GPN research, Smith emphasizes the importance of state actions on international, national and regional levels regarding “[...] the formation, constitution and restructuring of the position of firms, capital and labour in global production networks, including policies for national economic competitiveness, industrial policy, trade policy, labour regulation, and so on.” (Smith 2015: 290 f.) He calls for a *strategic-relational* understanding of the state which means to understand the state not only as a policy setting body, but also as a social relation where social forces underpin or disapprove of state support for particular policy directions with respect to capital accumulation strategies of which GPNs are one important component (ibid.: 299 f.). In the context of development and integration of countries into the world markets he also advocates a better understanding of “multi-scalar state-to-state intersections” (ibid.: 300)

2.3. Global value chains and donor interventions

As subject work will bring up also the state-to-state interconnections between the Netherlands as a donor nation and Ethiopia, it is worthwhile to elaborate a number of research findings about value chains’ role in the policy setting of and application by donor organizations. Since the mid 2000s the major development agencies have adopted their own “value chain for development”-approach in their development policies. While in the 1980s and 1990s development policies were oriented to a large extent towards the principles of the “Washington Consensus” which attributed the state a

minimal role, failures in this development approach, as exemplified by the economically successful state interventionistic development paths of Asia and South-East Asia, led to a review of the role of the state and institutions which should be given a more active role. The rising value chain research provided useful explanations to donor agencies regarding chain governance, the role of lead firms and institutional settings (Neilson 2014: 47, Staritz 2012: 10), and with the concept of “upgrading” also a path for development readily taken up by the donor agencies. Over time, upgrading underwent a conceptual development and now includes both economic upgrading as well as social upgrading features. Economic upgrading refers to process, product, functions and interchain upgrading, social upgrading to better employment and working conditions. The assumption that the trickle-down effects of upgrading would create positive development is appealing to donor agencies in meeting their overall goals to assist in the reduction of poverty. However, inclusion in a global value chain/network is by no means a guarantee for upgrading effects (Werner et al. 2014: 1224 f.).

Staritz notes that donor-led interventions can have different foci with respect to development objectives such as poverty reduction, decent work, gender equality, environmental sustainability, with respect to supported activities on the firm, sectoral or state level, and with respect to the targeted actors for the intervention such as international lead firms, local firms and institutions (Staritz 2012: 11). She alludes to that such donor-led interventions “[...] tend to focus on certain aspects of the GVC framework that can be aligned with mainstream approaches to development and particularly PSD [private sector development] such as market- and export-led development and “markets for the poor.” (ibid.: 3) Often other important features of the GVC literature are not taken sufficiently into account, such as “[...] the existence of structural and asymmetric power relationships in the global economy, interest conflicts and the ambivalent role of lead firms in value chains, and the important role of institutions and particularly the state and strategic state policies.” (ibid.) Neilson adds an important aspect, namely exclusion. “The related issues of competition and competitiveness then hint at a final observation of value chain interventions - that of exclusion. By its very nature, enhancing the competitiveness of firms or chains or even regions through upgrading processes will result in the creation of winners and losers and the reproduction of spatial unevenness.” (Neilson 2014: 60)

The work of Werner et al. (2014) describes by means of analyzing the approaches to value chain development of the United Nations Industrial Development Organization (UNIDO), the International Labour Organization (ILO), the Inter-American Development Bank (IDB) and the World Bank what impacts value chain research findings have on their respective donor policies and their subsequent activities. They sum up that UNIDO and ILO focus primarily on the horizontal relations between local producers. In trying to find new ways of assisting local producers in the

global South by embracing findings from global value chain research UNIDO, ILO and IDB maneuver themselves along a path between state-directed interventions and strong market liberalism which resembles a modified way of a post Washington Consensus. “[...] the value chain in development can be understood as a discourse that articulates interventions that are ‘market led’ while simultaneously marking a distance from the ‘level playing field’ policies associated with the Washington Consensus era.” (ibid.: 1240) In the views of Werner et al. the World Bank is making efforts to use GVC for finding development approaches which can justify market constructing interventions supported by states, but will have difficulties to overcome its institutionalized conviction of free markets and private sector engagement (ibid.: 1240). Neilson is openly critical about donors’ value chains for development-approach which in his view follows a clear neoliberal development agenda according to the Washington Consensus.

In many instances, value chain approaches to development are being rolled out as institutional support systems that facilitate little more than the enhanced penetration of multinational capital into the economy and lives of the rural and urban poor. An implication of this is an implicit tendency to play down the importance of the power dynamics embedded within modes of chain governance and the role this has in shaping market relationships and upgrading prospects for chain participants in developing countries. (Neilson 2014: 59)

In supplementing the above explanations it might be interesting to consider the elaborations of the World Bank’s “World Development Report 2020: Trading for Development in the Age of Global Value Chains” which was published in early 2020 and deals exclusively with the subject of Global Value Chains. The World Bank states that up to 2008 - the year of the worldwide financial crisis - GVCs expanded rapidly being responsible in that year for 52% of global trade, but since then growth in GVCs has levelled off. The World Bank poses and answers the overall question of its report as follows:

Under the circumstances, do GVCs still offer developing countries a clear path to progress? That’s the main question explored in the 2020 World Development Report. And the answer is yes: developing countries can achieve better outcomes by pursuing market-oriented reforms specific to their stage of development. (World Bank 2020a: xi)

Given the World Bank’s devotion to free markets and the private sector, trade liberalization, market oriented reforms, foreign direct investments, abolishment of customs and tariffs, investments in infrastructure and communications to name a few are seen by the World Bank as instrumental means to development, while the instruments of classical industry policy, such as tax incentives,

subsidies and local content requirements will most likely distort production patterns in GVCs (ibid.: 4 ff.) In the Foreword of the President of the World Bank the key role of firms is underlined:

Overall, participation in global value chains can deliver a double dividend. First, firms are more likely to specialize in the tasks in which they are most productive. Second, firms are able to gain from connections with foreign firms, which pass on the best managerial and technological practices. As a result, countries enjoy faster income growth and falling poverty. All countries stand to benefit from the increased trade and commerce spurred by the growth of GVCs. (ibid.: xii)

The World Bank's statement should be seen critically with respect to a win-win situation for all parties in the chain. Leyden/Selwyn note that the World Development Report 2020 does not address power asymmetries between lead firms and supplier firms although there is evidence that benefits within the GVC are often unequally distributed the lead firm collecting the lion's share of the profits. Nor does the World Bank address this wealth transfer from the global South to the global North also as a result of the exploitation of labour forces in supplier firms through excessive working hours, low wages and dangerous working conditions, unto which competitive pressures of the lead firm are pushed (Leyden/Selwyn 2019: 3 f). They criticize the view of the World Bank that technological assistance of the lead firms will lead to higher workers' productivity which should also translate into higher wages does not hold true. "As much of the critical GVC literature shows, productivity gains go to capital, not labour" (ibid.: 6)

2.4. Global production network theory applied in the master's thesis

The application of the global production network theory in the master's thesis served as a basis and guidance in numerous aspects. GPN theory asks not only for looking at the lead firm - supplier relationship, but to include as well extra-firm relations, institutional frameworks, regulatory conditions and bodies and to look at the principal elements of value, governance and embeddedness. Aspects of territorial and network embeddedness allow and demand, respectively to include in the GPN analysis state policies and donor interventions affecting and shaping the strategies and activities of firms and their interrelations with non-firm actors. Thus, in this thesis the various parties in the Dutch – Ethiopian floriculture GPN were identified, their functions, positions, interests as well as the strategic and policy frameworks within which they acted described and their relationships analysed. Dutch donor interventions and Ethiopian government policies were particularly relevant. While possible interest conflicts between the various participants are an integral part of a GPN analysis, there were hardly any evident or explicitly addressed in the research material reviewed except for a number of general references to the Ethiopian government's limited openness and willingness to engage in policy dialogues.

The main actors in this GPN included the Dutch and Ethiopian growers, their investments in Ethiopia, the Dutch auction - Royal FloraHolland, the Dutch government, the Dutch embassy in Addis Ababa, the Ethiopian Horticulture Producer Exporters Association and the Ethiopian government. The frameworks concerned amongst others the floriculture production and distribution chain, the institutional rules of the Dutch auction, the Dutch government's development assistance policies and the Ethiopian government's strategic national development plans.

It is important to mention that I looked almost only at the economic aspects of the Dutch – Ethiopian floriculture GPN, leaving aside social aspects such as employment conditions, gender issues, social upgrading or deprivation. This omission should in no way mean that I do not consider social aspects as relevant, but their inclusion would have exceeded the scope of this work, and understanding these economic aspects, relations and impacts can be a basis for analysing social issues and outcomes.

3. METHODS

My research question deals with the past focusing predominantly on the period from 2005-2011, but in a few instances a line is also drawn up to present times. The period 2005-2011 is the time period in which the Ethiopian floriculture industry lifted off the ground thanks to the entrepreneurship of a few domestic, but also primarily foreign, mainly Dutch investors, the various forms of government support of the Netherlands as an important donor nation to Ethiopia and the development objectives and measures of the Ethiopian government.

The method chosen for finding possible answers to my research questions is based exclusively on desk research using an array of different sources. A large number of literature was collected, amongst others through the internet, whereby due attention and care was paid to the authority and reliability of sources used (Moore 2006: 112 f.). The sources used include scientific texts, market surveys and statistical data, Dutch and Ethiopian government reports and reviews as well as findings from multinational institutions such as the World Bank and the OECD. My approach to finding appropriate literature, data, reviews and the like was to search in and through the library of the University of Vienna and in the internet through Google scholar using keywords like global production networks/value chains, global - Dutch - Ethiopian floriculture, floriculture data, Dutch auction, Dutch development policies, Ethiopian development plans. This literature search and selection as well as the relevance of the individual documents were orientated towards the predefined research areas and associated research questions (Sonderegger/Pfeffer 2014: 224 f.). To find descriptions, reviews and evaluations of the Netherlands's general and Ethiopia specific development policies in the 2000s, I obtained partly assistance from the Dutch Ministry of Foreign

Affairs. As it turned out, policy evaluations by the IOB/Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs (IOB 2012, 2014, 2015; Triodos Facet 2010 and 2013) were of utmost use and relevance.

My elaborations in this master's thesis draw to a significant extent on the review of the various evaluation reports. My decision to do exclusively desk research and not to conduct any interviews might have produced some limitations to this work. While I am confident that the written material reviewed provided me with extensive insights into the GPN theory, the development paths of global, Dutch and Ethiopian floriculture, the roles of the various participants in the floriculture GPN as well as into the development policies of the Dutch and Ethiopian governments, the issues of power asymmetries and of interest conflicts during the period 2005-2011 were difficult to identify. Possible conflicts of interest between for instance foreign and domestic flower growers in Ethiopia, between the participants in the Ethiopian floriculture sector and government authorities or between the Netherlands as donor nation and Ethiopia as an aid recipient country, to name a few, might have been easier to detect and to substantiate much more through interviews whereby however, the question arises how sufficiently profound the memories of potential interviewees would be about the past more than 15-20 years ago.

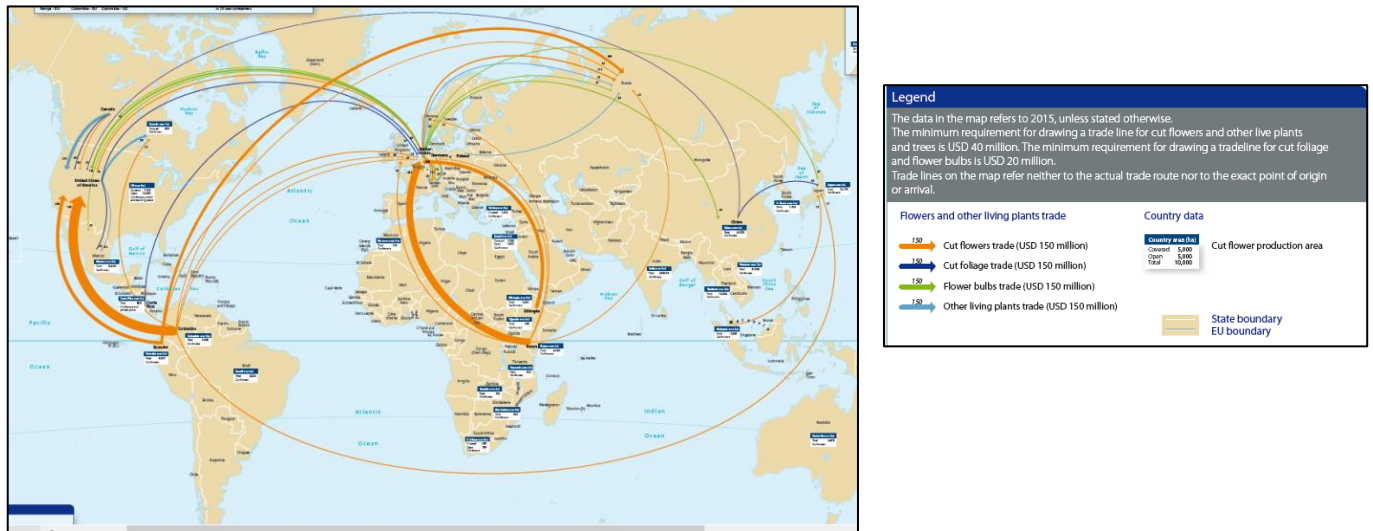
4. THE GLOBAL FLORICULTURE INDUSTRY

4.1. The development of the global floriculture industry

In the 20th century, the floriculture industry used to be for decades an industry which produced and traded its plants and flowers only in the countries of the global North. As demand by consumers grew due to increasing prosperity of the consumers and required flower supplies throughout the seasons of the year, local growers in the global North were no longer able to satisfy this demand. The climate conditions in the global North did not enable all year growing. New technologies to adjust to climate changes increased production costs. Growers were looking for ways to reduce also wages and to avoid stricter environmental requirements. Hence, flower companies started in the second half of the 20th century to relocate some of their production activities to countries of the global South - US growers to Columbia and Ecuador, European growers to Sub-Saharan countries such as Kenya and Ethiopia, the latter one in the midst of the 2000s. These relocations formed a global floriculture industry and its global value chains/production networks. The most important cut flower producing countries of the global South refer to Colombia, Ecuador, Kenya and Ethiopia, whereas the Netherlands are not only themselves one of the globally important breeder, propagator and grower of flowers, plants, seeds, cuttings, foliage and the like, but are since decades also the

most important importer of flowers from outside the European Union (EU) and the largest exporter of flowers to other European countries (Melese 2018: 3 ff.).

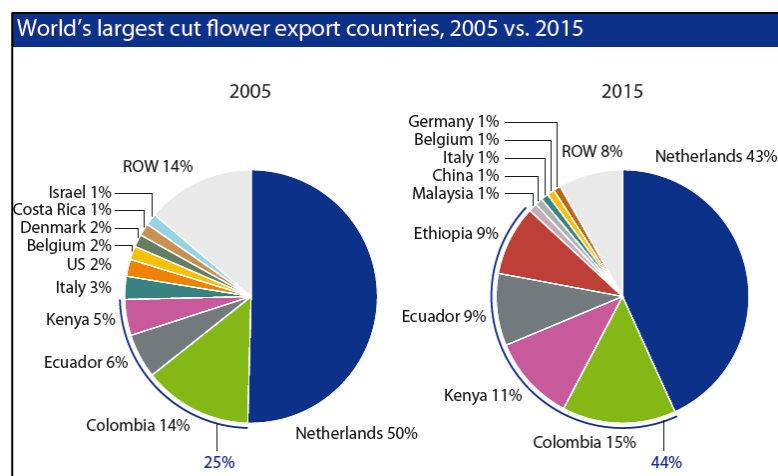
Graph 1: Global cut flower trade flows 2015



Source: Rabobank World Floriculture Map 2016

Floriculture trade is regionally oriented. While Latin American producers export to the North American markets, Ethiopian and Kenyan exports are destined almost exclusively to Europe. China and Malaysia supply the Japanese market (see graph 1 above). When looking at the cut flower supply to the US and EU markets, Colombia and Ecuador command since 2005 an unchanged market share of cut flower imports of the US of some 80%. As to cut flower imports of the European Union, Kenya and Ethiopia succeeded to increase their market share from some 40% in 2005 to close to 60% in 2015 (Rabobank 2016).

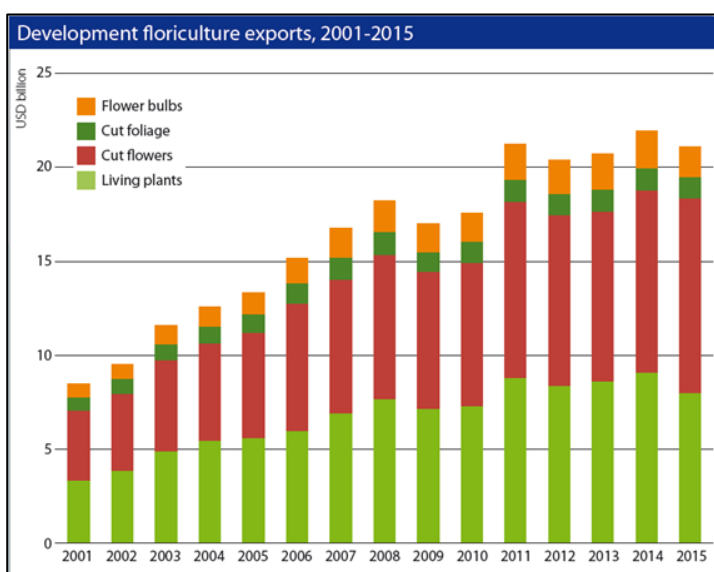
Graph 2: World's largest cut-flower export countries



Source: Rabobank World Floriculture Map 2016

Graph 2 demonstrates the dynamics of the cut flower industry. The Netherlands' share in global cut flower exports declined from 50% in 2005 to 43% in 2015 whereas the shares of Colombia, Kenya, Ecuador and Ethiopia increased from 25% in 2005 to 44% in 2015 thanks to the significant growth of the Kenyan and Ethiopian cut flower exports. Ethiopia did not appear as a recognizable exporter in 2005. To give an order of magnitude of the export revenues of the largest cut flower exporters, 2018 figures contained in the “International Statistics Flowers and Plants 2019” recently published by The International Association of Horticultural Producers (AIPH) show the following: The Netherlands EUR3.794,4mio (AIHPa: 71), Colombia EUR1.234,7mio, Ecuador EUR721,4mio, Kenya EUR635,6mio, Ethiopia EUR179,5mio and Malaysia EUR98,4mio (AIHP 2019b: 100).

Graph 3: Development of global floriculture exports, 2001-2015



Source: Rabobank World Floriculture Map 2016

As can be seen from Graph 3 total floriculture exports of some USD21bn in 2015 grew continuously from 2001 - 2008 declining in the years 2009 and 2010 to lower levels following the financial and economic crises in 2008 in the USA and in Europe. As flowers can be considered a luxury good, the economic crises had effects on consumers' behaviour. Total exports stayed relatively stagnant from 2011 - 2015. Amongst the floriculture exports, cut flower exports of some USD10bn have the highest share which has grown over the years primarily at the expense of living plants.

Besides looking at trade figures, developments in the floriculture sector should be noted of increased attention of consumers, media and NGOs with respect to social and environmental standards regarding flower growing conditions in the production countries. There are numerous certification schemes, codes of practice and consumer labels designed by flower producers

associations, dominant retailers from the global North such as supermarket chains as well as NGOs and trade unions (Gebreyesus 2015: 140; Rikken 2011: 4).

4.2. The floriculture global production network

The development of a global floriculture industry created various forms of value chains and production networks, respectively, subject to a number of factors, preconditions and requirements: the geographical location of production and markets, the depth of the know-how at all levels of production (breeding, propagating, growing), the governance of the supplier-buyer relationship, the forms of sales distribution, institutional and non-institutional settings, intellectual property rights, phytosanitary requirements, certification requirements as well as sustainability standards (Melese 2019: 62).

The floriculture GVCs is largely identified as buyer-driven chain, in which ‘lead firms’ such as the Dutch auction, retailers and other big buyers set requirements and standards that needs to be met by suppliers in order to improve their competitiveness as well as to comply with public and private regulations. These requirements and standards dictate to a different degree what, how, and under what conditions to produce, sell, and deliver (ibid.: 61)

The Netherlands are a dominant player in the floriculture GPN as their dominance rests on the Dutch grower cooperatives and the cooperative-led auction system (Royal FloraHolland is organized as a cooperative). The cooperative system allows each party in the chain to do what it can do best and separates the production (breeding, propagating, growing) from marketing and sales (Gebhard 2014: 111 ff.). Breeders develop new flowers and own the patent on the genetic blueprint of their flowers and plants. Breeders hold a high function in the floriculture chain as it is capital and knowledge intensive which constitute high barriers for entry for others. Breeding is mostly in advanced countries such as the Netherlands, however, breeding firms have usually experiment centres in important production regions (Melese 2019: 51). Propagators reproduce the newly bred flowers and plants a million fold via seeds, cuttings or bulbs for commercial use. They pay royalties to the breeders who hold the patent (Gebhardt 2014: 111 f.). Propagators and cuttings producers are largely owned by Western multinational corporations which have also vertically integrated subsidiaries in countries of the global South or are engaged in joint ventures with local firms controlled in the form of captive GVC governance. The production of flowers is a function in the GPN with relatively low barriers to entry, therefore countries of the global South exercise predominantly a production role in the GPN and not one of breeding and propagation. The auction, Royal FloraHolland, is the centerpiece of the floriculture GPN - at least in the European markets - providing a sales platform not only for the Dutch growers but also growers from the global South.

The auction's institutional rules which are largely considered as market based governance and function as minimum standards for the whole floriculture value chain, are determining the insertion of suppliers of the global South, such as Ethiopia, into the value chain (Melese 2019: 51).

Due to the perishable nature of cut flowers, logistics for the exports of the cut flowers from the growers' facilities to the end markets are of key importance. Logistics refer amongst others to post-harvest cold chain facilities such as cold storage houses, transportation with cold storage trucks to the airports, air transportation, packaging materials, quality certifications and quality control (Gebreeyesus/Sonobe 2012: 342 f.). As fast transportation of the floriculture products from the growing areas in the countries of the global South to the consumer markets in the global North is necessary, air transportation is the primary, if not only, form of transport even though transportation by sea is arising, e.g. from Latin American growers to the port of Rotterdam. Air freight charges influenced significantly by fuel prices constitute a significant cost factor and can go up to eighty percent of the product price (Gebhardt 2014: 216 f.). Importers and exporters play an important role in the efficient logistical moving of the flowers to domestic and foreign wholesalers which in turn cater to retailers and the consumer markets (ibid.: 111 ff.).

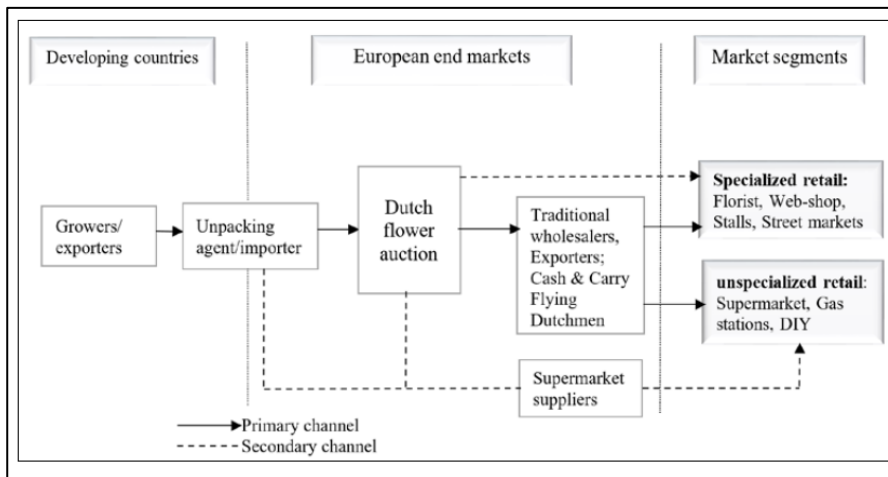
Melese notes that the role of unpackers has not yet been properly assessed which are placed between the suppliers from the global South and the auction. If the suppliers do not have an own unpacking subsidiary at the auction - Dutch owned flower farms in developing countries normally have their own unpacking subsidiary at the auction - or do not use the auction's unpacking services which however are very basic comprising the unpacking and the refreshing the flowers for proper presentation at the auction, they require to hire an independent unpacker for delivery to the auction. Both the suppliers and the unpackers need to interact closely in order to profit mutually: the supplier benefits from the unpacker's closeness to and its familiarity with the auction and the related interpersonal networks as well as from getting marketing feedback, and the unpacker benefits from a stable, knowledgeable and reliable supplier as the unpacker's reward is the commission on the deliveries (Melese 2019: 67 f; Whitfield et al. 2020: 14 f., 18).

4.3. Market channels in the cut flower industry - auctions and direct sales

Flowers are sold through two main channels: through auctions and through direct sales. Graph 4 shows the market channels for cut-flowers in the EU and EFTA countries. It depicts the flow of cut flowers from countries of the global South to the end markets in Europe through the two different market channels. Exported flowers are received by an unpacker or the import department of the auction and prepared for being auctioned when big buyers - wholesalers or exporters - purchase and distribute to the various consumer markets. The consumer markets comprise a wide variety of sales

outlets. Specialized retail shops such as florists, are the favoured sales channel in Europe which hold a share of some 66% of all sales. Unspecialized retail shops like supermarket chains, gas stations chains and do-it-yourself stores do buy also through the auction, but bypassing the auction and buying directly from the independent unpacker or importer as well as also directly from exporters in countries of the global South become increasingly common (direct sales channel) (Melese 2019: 55 f.).

Graph 4: EU and EFTA market channels for cut-flowers



Source: Melese 2019: 56

4.3.1. Auctions - Royal FloraHolland

With respect to the auction related GPN, Royal FloraHolland is by far the most dominant auction as well as the most important floriculture hub in the world. In 2019, with 2.543 employees and 5 auction locations in the Netherlands it achieved a total turnover of EUR4,79bn, traded 12,1bn flowers and plants of which roses, tulips and chrysanthemums are the most popular flower species, and concluded more than 100.000 transactions per day. Of the total turnover in 2019, EUR1,94bn or 40,5% referred to regular auction sales and EUR2,84bn or 59,5% to direct sales the latter's share having increased from 50,7% in 2015 reflecting a general upward trend in the importance of direct sales in the floriculture industry. Cut flowers in the amount of EUR2,62bn accounted for 54,7% of total sales, house plants for 36,3% and garden plants for 9%. Amongst the cut flowers, roses with a total sales value of EUR696mio and 3,3bn units traded were the number one flower species constituting a share of 26,6% of total cut flower sales. In 2019, the top three supplier countries to RoyalFlora were Kenya (EUR361mio, i.e. 43,3% of all imports of Royal FloraHolland), Ethiopia (EUR188, i.e. 22% share) and Israel (EUR58mio, i.e. 7,0% share). In the Netherlands, FloraHolland enjoys an overwhelming market share of 98% of all auction activities (Royal FloraHolland 2020).

Over decades the Dutch auction system has maintained its dominance also due to adapting to changing competitive environments. When new cut flower producing countries in the global South started to emerge in the 1990s, the Dutch grower-led cooperatives wanted to ban foreign flower growers from using the Dutch auctions. Up to 1994, these had been allowed to sell their flowers at the auctions during summer times to supplement the Dutch production. The ban implemented after 1994 turned out to be disadvantageous for the Dutch growers and auctions as foreign flower growers set up their own electronic auction, the Tele Flower Auction, next to Aalsmeer. Realizing this threat to the Dutch dominance in the global value chains the grower cooperatives and the auctions started to adapt and to innovate, for instance in production technology, logistics and distribution. In addition, flower assortments became more varied as Dutch flower growers moved to higher value-added flowers and let the foreign flower growers develop their bulk flower offers as a supplement to their own offers as the requirements from the consumer markets called increasingly both for prime as well as bulk flowers. Instead of competing against the foreign growers, the auctions understood that integrating the flower flows from foreign growers, both the physical as well the related financial flows, into their auction systems was a meaningful way to maintaining their relative competitive position. Thus, the auctions positioned themselves as a sales and distribution platform not only for domestic grower cooperatives, but also for importing as well as (re)exporting firms by also letting foreign firms become members of the auction in the year 2006 (Patel-Campillo 2011: 91 ff.; Gebhardt 2014: 101).

A further step of strengthening the auctions' position was the merger in 2008 of the two largest Dutch auctions, the Aalsmeer Flower Auction and FloraHolland, to become Royal FloraHolland. This merger was approved by the Dutch government on the basis of a ruling of the Netherlands Competition Authority which did not assess this merger which were to form the only export oriented grower cooperative auction for cut flowers in the Netherlands, with respect to its effects for the Dutch market only, but evaluated it in the wider context of the competitive situations and effects in the European Union which enabled the positive assessment and facilitated the approval by the Dutch government. According to Patel-Campillo the permission of this merger demonstrated the strong relations between the regulatory authorities and the Dutch floriculture sector when the interests of this industry are to be secured against the competitive pressures from other parties in the chain/network (Patel-Campillo 2011: 94).

4.3.2. Direct sales

Direct sales have grown in importance since the mid-1990s when large supermarket chains established direct relations with growers in the global South, thus circumventing the Dutch auction

system. Tesco and Sainsbury in the UK, Aldi and Lidl in Germany, Carrefour in France and Royal Ahold in the Netherlands belong to the leading direct importers which also set their specific requirements for the flowers. In the UK, direct sales by supermarkets make up some 60%, while in Germany, Scandinavia and the Netherlands this share is only some 20 - 25% (Melese 2019: 57). Cut flower exports to the Middle East, particularly United Arab States and Saudi Arabia, are examples of the increased importance of direct sales where local importers and wholesalers act as the link to the end consumers (Melese 2018: 13 f.).

This trend to increased direct sales is reflected also in Royal FloraHolland's share of direct sales in its total turnover. In 2019, they amounted to EUR2,84bn or 59,5% of total sales. Their share has increased from 50,7% in 2015 (Royal FloraHolland 2020a). These direct sales refer to digitally concluded sales/purchase transactions via a variety of digital platforms developed by Royal FloraHolland, which enable sellers as well as buyers to conclude transactions outside the auction clock system, but to use also one of the auction's key features, namely the fast and secure payment system. Royal FloraHolland has digital platforms called FloraMondo and FloraXChange which are oriented towards buyers, and Floriday which caters to growers and is the global virtual marketplace for flowers and plants.

It is Royal FloraHolland's declared aim of its digitization strategy that by the end of 2020 all growers will have to use Floriday as the central gateway to all digital platforms for supplying their products for direct sales in the Netherlands and in Europe, but also worldwide. At the same time, it is the declared goal to link also the flower supplies for the auction to Floriday so that in the end all transactions are processed through Floriday - thus, the marketplace will become 100% digital. "Royal FloraHolland will thus play a much greater role in direct trading, alongside clock transactions. As we are developing comprehensive services for direct trade flows, the difference between 'direct' and 'clock' and between 'national' and 'international' transactions will be smaller in the future." (Royal FloraHolland 2020: 9) This digitization will contribute also to increase the transaction processes' efficiency, but also to meet the regulatory requirements of financial authorities in Europe for the transparency of financial flows. These measures taken to establish a fully digitized global marketplace for all sales channels are a clear demonstration of Royal FloraHolland's determination to maintain the leading role in the global floriculture industry (Royal FloraHolland 2020: 9, 13; Royal FloraHolland 2019).

4.4. Governance in the floriculture global production network

The floriculture GPN is largely defined as a buyer-driven chain. The Dutch auction, big buyers such as supermarket chains and important retailers determine, considering public and private regulations,

the requirements and standards to which the growers have to comply in order to get access to markets and to be competitive. Different requirements and standards influence the growers' decisions what floriculture products to grow, where to sell and to deliver. The governance within global production networks is shaped not only by inter-firm relations, but also by extra-firm relations and institutional frameworks which include national legal requirements, international regulations as well as sustainability standards.

The two most important national and international regulations refer to legislation on plant health which specifies phytosanitary requirements of plants to enter specific countries or markets the compliance of which is proved by certificates which the exporter has to obtain from the National Plant Protection Office of the respective exporting country. The most important international regulation is related to intellectual property rights which protects and enforces plant breeders' rights. The strictness of applying this enforcement can vary from country to country. The Dutch auction for instance, does not allow those suppliers to participate in auctions which do not pay royalties to the breeders. Markets in the global North tend to be stricter than markets in the Middle East. Breeders have the possibility to manage and to control their property rights as they make varieties available only to reliable and preferred growers e.g. through exclusive supply agreements for a certain time period thereby steering supply and demand and thus, also the price development of the variety (Melese 2019: 61 f.).

Sustainability standards and certification shape floriculture GPNs as well. There are numerous different environmental and social standards which can be differentiated between those for business to business transactions (B2B) and those for business to consumer transactions (B2C). The most important of such B2B standards are MPS-ABC set by Dutch growers and auctions and Global-GAP of the coalition of European supermarkets. B2C standards are communicated to the consumers as consumer labels - amongst others Fair Flowers Fair Plants (FFP) or Fairtrade Labelling Organisation (FLO) - which mostly include more social standards than B2B standards. In the Dutch auction channel both certifications for MPS and FFP are customary giving suppliers and buyers the possibility for product differentiation. With respect to direct sales in the end markets of the global North, suppliers are faced with having to comply with several different standards, especially consumer labels (ibid.: 64 f.).

The governance in the auction channel is generally considered as market-based as relationships between the suppliers and the buyers are loose and can be switched easily to others. As regards direct sales, especially to supermarkets in the global North, these are considered strongly coordinated and thus viewed as subjected to relational governance. It is possible for any supplier to

participate in the Dutch auction when meeting its institutional rules, but additionally the supplier has to ensure consistency in quality, volume and presence at the auction. The familiarity with the workings of the auction and with the related networks of the parties involved in the auction is another important governance element. Melese points to the significant role independent unpackers can play for suppliers from the global South such as for locally owned Ethiopian growers which normally do not have their own unpacking subsidiary at the auction. These independent unpackers can provide not only unpacking services, but also be a valuable source of information to the supplier about e.g. quality requirements, market developments and the like as well as be a coach for the supplier (Melese 2019: 67 f.).

4.5. The Dutch floriculture industry

With an area of 41.500km², the Netherlands are one of the smallest countries in Europe. They had a population of 17,23mio persons in 2018 translating into a population density of 512 persons/km² which represents one of the most densely populated countries in Europe (World Bank). In 2018, total exports amounted to EUR497,9bn and imports to EUR441,3bn (CBS 2020a) generating a significant trade balance surplus for which the Netherlands have long been known.

The Netherlands have a long history in floriculture with for instance tulip trade dating back to the seventeenth century (Gebhardt 2014: 64). The dominance of the Dutch floriculture industry is due to manifold reasons - its historical trajectories, regulatory contexts and the strategies of the flower growers how to meet competitive pressures and how to shape relationships in the global chains/networks. Increased competition arose in the 1990s from suppliers in countries of the global South - South America and East Africa. Today's auction system, the Dutch auction at Royal FloraHolland in Aalsmeer, dates back to the first grower-led cooperative auction system - the Central Aalsmeer Auction. It was established in 1912 by small flower growers in Aalsmeer which wanted to reduce their dependence and risk exposure on buyers through the establishment of an intermediary institution. This institution should collect flowers from the growers and sell them in a formalized way through purchase agreements to buyers thereby reducing the risk of the growers of not being paid directly or being exposed to malpractices of individual buyers. The gradual shift from a buyer-driven chain to a producer-driven chain was also helped by the fact that the Dutch government enacted in 1916 that grower-led cooperatives be the only purveyors of cut flowers through auctions, as well as by the auction "clock" system itself which exercised competition amongst the buyers. This system refers to a declining price mechanism. The auction starts with a high price which is falling until a buyer is bidding. Thus, the buyer has to decide at what price to purchase risking possibly to pay a too high price or to wait risking to lose the lot. In effect, this

bidding mechanism tends to produce better prices for the small growers (Patel-Campillo 2011: 87 f.).

In the Dutch cut flower agro-industry, the dramatic transformation of chain governance from buyers to producers was achieved through the partnering strategies of small growers and the consolidation of the grower-led cooperative system through a state mandate, which ultimately secured the position of producer-led cooperatives within the industry and vis-à-vis buyers. (ibid.: 88)

However, the establishment of grower cooperatives also had advantages for the buyers despite the growers' gained leverage over the buyers. Individual growers could focus on their production and growing of new flower varieties, thus offering a wider flower assortment to the buyers. In turn, the cooperatives and the auctions made improvements in logistics, packaging, distribution, quality control and quality standards. As the growers delivered the flowers to the flower cooperatives and the auctions these had the possibility to check and to ensure the quality of the flowers. They also incited growers for new production processes, new technologies, new practices and stimulated innovation. According to Patel-Campillo this cooperation between grower cooperatives and the auctions reflects an "alliance based" strategy of actors which - in conjunction with the appropriate regulatory measures of the Dutch government - changed the chain governance away from buyers to producers (ibid: 89). It is important to mention that the leverage in favour of the producers does not hold fully true in the case of flower suppliers of the global South which, although East African growers sell also through the auction of FloraHolland, are much more exposed to buyers in the global North, particularly for their direct sales to large bulk buyers.

The significance of the agricultural industry to the national economy of the Netherlands is reflected by a publication of Statistics Netherlands of January 2020 that total exports of agricultural goods amounted to EUR94,5bn in 2019 generating a trade surplus of EUR30,5bn, for the first time in history surpassing the EUR30bn barrier. The most important component of total agricultural exports referred to exports of "ornamental horticulture" in the amount of EUR9,5bn which includes fresh flowers, plants, bulbs and nursery products (CBS 2020b). The dominant role of the Netherlands is summarized by a statement of The Netherlands Enterprise Agency¹.

Holland had a 43% share of the worldwide trade in floricultural products, making it the dominant global supplier of flowers and flower products. Some 77% of all flower bulbs traded worldwide come from the Netherlands, the majority of which are tulips. Forty percent of the trade in 2015 were cut flowers and flower buds. The Dutch sector is the number one exporter to the world for live

¹ "The Netherlands Enterprise Agency supports entrepreneurs, NGOs, knowledge institutions and organisations. [...] We are a government agency which operates under the auspices of the Ministry of Economic Affairs and Climate Policy." (Netherlands Enterprise Agency)

trees, plants, bulbs, roots and cut flowers. Of the approximately 1.800 new plant varieties that enter the European market each year, 65% originate in the Netherlands (Netherlands Enterprise Agency).

Detailed 2018 figures of the imports and exports of the Netherlands are shown in the two graphs below (AHIP 2019a: 71).

Graph 5 :Imports and exports of the Netherlands of ornamental horticultural products in 2018

Netherlands – External trade ornamental horticultural products				
Exports from Netherlands in 2018 by value in 1 000 EUR				
Cut flowers	3 794 421	Cut flowers, fresh	3 531 455	Cut flowers, fresh, different species (1 560 444) / Roses, fresh cut (1 157 712) / Chrysanthemums, fresh cut (333 447)
		Cut flowers, treated	262 966	Cut flowers, treated (262 966)
Live plants (with roots) and cuttings (without roots)	3 663 131	Live plants (excl. Fruit trees and bushes)	3 433 549	Flowering Plants (indoor) (958 581) / Green/foilage plants (indoor) (887 197) / other ornamental plants (outdoor) (651 195)
		Cuttings and slips (without roots)	174 870	Other cuttings and slips (174 870)
Bulbs, tubers, etc.	1 164 223	Bulbs, tubers, etc., dormant	769 041	Other bulbs etc., dormant (458 821) / Tulip, dormant (215 272) / Narcissi, dormant (34 888)
		Bulbs, tubers, etc., flowering or in growth	395 182	Orchids, hyacinth etc. in growth and flower (335 299) / Bulbs etc. in growth or flower (59 883)
Cut foliage, branches, mosses and lichens etc., fresh or treated	281 359	Cut foliage, branches, mosses and lichens etc., fresh (incl. Christmas trees)	229 319	Cut foliage, branches etc., fresh (222 820) / Christmas trees (4 667) / Mosses and lichens, fresh (1 822)
		Cut foliage, branches, mosses and lichens, dried or treated	52 040	Cut foliage, branches etc., only dried (50 097) / Reindeer moss, treated (1 943)
Total	8 903 134			
Imports to Netherlands in 2018 by value in 1 000 EUR				
Cut flowers	991 428	Cut flowers, fresh	866 661	Roses, fresh cut (574 990) / Cut flowers, fresh, different species (190 181) / Carnations, fresh cut (88 298)
		Cut flowers, treated	124 767	Cut flowers, treated (124 767)
Live plants (with roots) and cuttings (without roots)	818 215	Live plants (excl. Fruit trees and bushes)	659 484	Green/foilage plants (indoor) (249 663) / Cuttings with roots and young plants (indoor) (174 934) / other ornamental plants (outdoor) (120 427)
		Cuttings and slips (without roots)	137 014	Other cuttings and slips (137 014)
Cut foliage, branches, mosses and lichens etc., fresh or treated	290 284	Cut foliage, branches, mosses and lichens etc., fresh (incl. Christmas trees)	230 411	Cut foliage, branches etc., fresh (213 741) / Christmas trees (11 346) / Mosses and lichens, fresh (5 286)
		Cut foliage, branches, mosses and lichens, dried or treated	59 873	Cut foliage, branches etc., only dried (57 325) / Reindeer moss, treated (2 548)
Bulbs, tubers, etc.	106 894	Bulbs, tubers, etc., flowering or in growth	64 276	Orchids, hyacinth etc. in growth and flower (49 340) / Bulbs etc. in growth or flower (14 936)
		Bulbs, tubers, etc., dormant	42 618	Other bulbs etc., dormant (34 112) / Tulip, dormant (5 127) / Narcissi, dormant (2 099)
Total	2 206 821			

Source: AHIP 2019a: 71

The Netherlands generated an overall trade surplus of EUR6,7bn of “ornamental horticultural products” of which the detailed product breakdown can also be seen in the above graph. With respect to cut flowers imports to the Netherlands these amounted to EUR991,4mio of which EUR575mio referred to roses imports (i.e. 58%), whereas cut flower exports were EUR3,8bn with a share of roses exports of 30,5% (i.e. EUR1,2bn).

Graph 6: The top ten countries exporting to and importing from the Netherlands in 2018

Top ten countries exporting to Netherlands in 2018 by value in 1 000 EUR		
Kenya	363 348	Roses (276 713) / Other fresh cut flowers (48 766) / Cuttings and young plants (29 412)
Germany	331 418	Cuttings and young plants (79 035) / Foliage plants (66 075) / Other live plants (49 235)
Belgium	231 376	Foliage plants (59 045) / Roses (36 878) / Cuttings and young plants (28 674)
Ecuador	151 878	Roses (103 849) / Other fresh cut flowers (39 662) / Treated cut flowers (7 274)
Italy	147 799	Foliage, fresh (25 673) / Foliage plants (24 609) / Treated cut flowers (23 156)
Spain	112 784	Treated cut flowers (30 872) / Foliage plants (21 618) / Foliage, fresh (15 184)
Ethiopia	108 637	Roses (80 710) / Other fresh cut flowers (11 678) / Cuttings and young plants (10 390)
Colombia	88 040	Carnations (48 344) / Roses (21 690) / Other fresh cut flowers (16 506)
United States	61 876	Foliage, fresh (57 801) / Flower bulbs (1 518) / Fruit trees and shrubs (1 424)
Denmark	59 200	Foliage plants (27 099) / Treated foliage (12 639) / Other live plants (3 839)
Others	550 467	
Total	2 206 821	Imports by Netherlands
Top ten countries importing from Netherlands in 2018 by value in 1 000 EUR		
Germany	2 451 834	Other fresh cut flowers (467 199) / Roses (348 526) / Flowering pot plants (292 824)
United Kingdom	1 035 567	Other fresh cut flowers (175 053) / Roses (151 993) / Ornamental nursery stocks (98 247)
France	941 435	Roses (187 167) / Other fresh cut flowers (150 315) / Flowering pot plants (142 723)
Italy	453 288	Flowering pot plants (84 283) / Roses (82 888) / Other fresh cut flowers (59 832)
Belgium	432 329	Foliage plants (76 372) / Other live plants (48 200) / Flowering pot plants (40 370)
Poland	355 547	Roses (74 782) / Flowering pot plants (44 499) / Other fresh cut flowers (40 721)
Switzerland	266 608	Other fresh cut flowers (82 327) / Foliage plants (42 225) / Flowering pot plants (28 050)
Russian Federation	263 665	Other fresh cut flowers (72 922) / Chrysanthemums (67 582) / Roses (22 153)
Sweden	247 728	Roses (40 248) / Other fresh cut flowers (33 897) / Foliage plants (28 311)
United States	232 863	Other fresh cut flowers (87 244) / Flower bulbs (61 976) / Flower bulbs (41 981)
Others	2 222 271	
Total	8 903 134	Exports by Netherlands

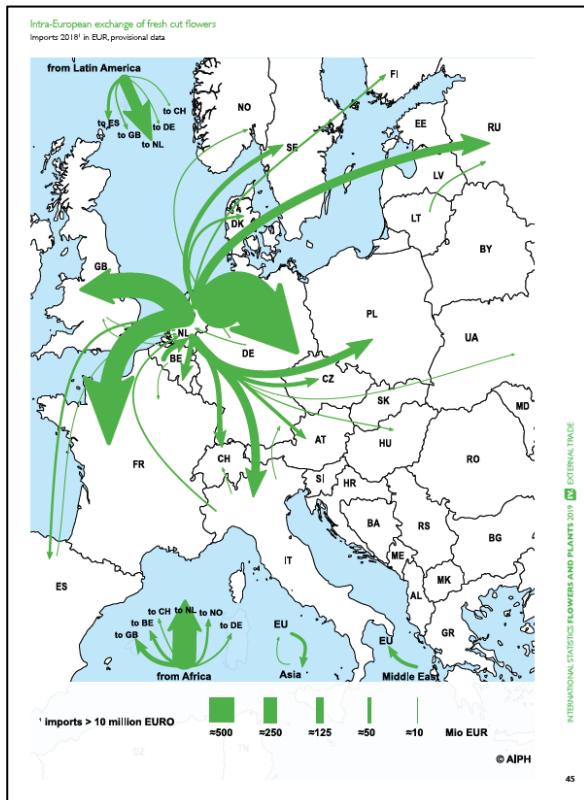
Source: Eurostat, provisional data for 2018

Source: AHIP 2019a: 71

With exports of cut flowers and cuttings of EUR108,6mio in 2018, Ethiopia held the 7th position of the top ten exporters to the Netherlands², Kenya having been the largest exporter with EUR363,3mio. Germany was by far the largest importer of floriculture products from the Netherlands with a volume of EUR2,45bn. The import and export flows to and from the Netherlands are depicted graphically below.

² It has to be mentioned that the figure for the exports of Ethiopia to the Netherlands do not match with the figures in graph 9 - the figure there is EUR141,5mio - even though it originates from AIHP as the same source.

Graph 7: Inter-European exchange of fresh cut flowers



Source: AIHP 2019a: 54

The central role of Royal FloraHolland in Aalsmeer as the globally most important floriculture auction house in the floriculture GPN has been described already above which is a decisive element to securing the dominance of the Netherlands' position in the global floriculture and horticulture industry. The reasons for the dominance of the Dutch floriculture industry are best summarized by Gebhardt's quote.

But the industry superlatives don't end there, since FloraHolland and the horticultural industry are part of a larger picture involving national and regional policies and infrastructure, which coordinate transportation, spacial planning, and other aspects of agriculture. In turn, these policies and practices are informed by **family networks of men**, a **shared national culture**, **commercial vision**, and an **ideology of cooperation**. (Gebhardt 2014: 95; highlighted by the author)

5. THE ETHIOPIAN FLORICULTURE SECTOR

5.1. Ethiopia

With a country size of some km² 1,1mio , Ethiopia is the 10th largest country in Africa. More than 50% of its space is situated on an altitude of above 1.200m over sea level. Its population amounted to 112,1mio persons in 2019, the second largest in Africa and of which the rural population accounts for 78,8% (World Bank 2020b). The total population had grown annually by 2,8% from

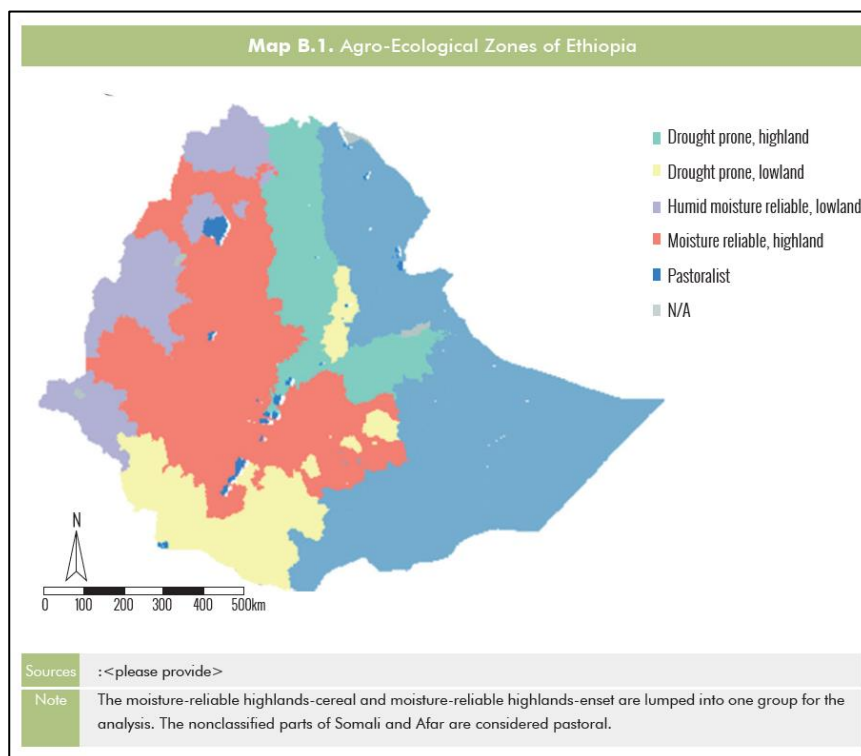
76,3mio in 2005. The United Nations (2019: 22-23) estimates a further population growth of 1,97% to 205,4mio in 2050 (+83,2%) which poses a significant challenge on the Ethiopian government's policies. The capital city is Addis Ababa which has some 4,4mio inhabitants (2019) and is situated on an altitude of 2.400m. A large part of the country comprises high plateaus and mountain ranges dissected by streams that are tributaries of rivers like the Blue Nile. As Ethiopia is located within the tropics, its physical conditions and variations in altitude have resulted in a great diversity of terrain, climate, soil, water resources, flora and fauna which is also depicted by the two graphs below.

Graph 8: Map of Ethiopia



Source: <https://www.weltkarte.com/afrika/aethiopien/karte-aethiopien-und-eritrea.htm>

Graph 9: Agro-ecological zones of Ethiopia



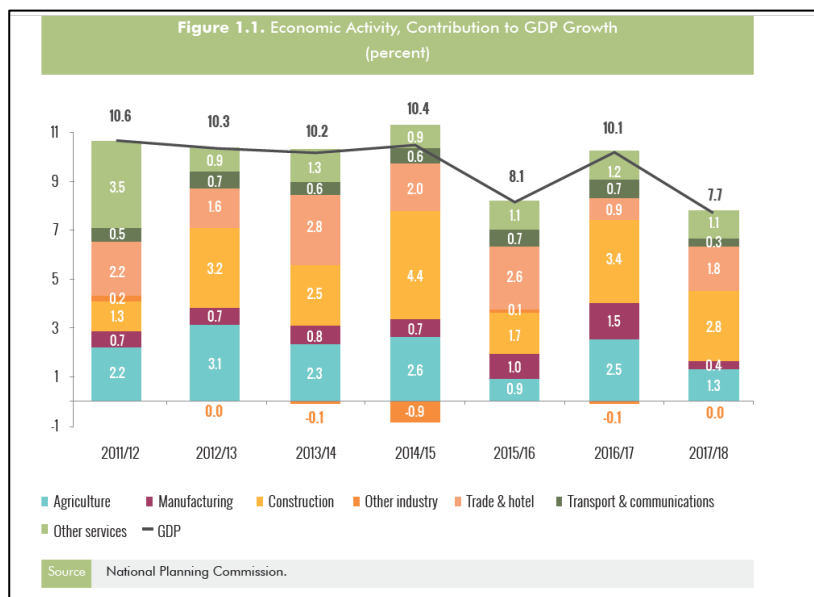
Source: World Bank 2019b: 60

The political and administrative structure of Ethiopia is quite complex as Ethiopia is a federal state with a central government and has nine federal states ethnically assembled with their respective state governments. The distribution of powers between the federal and the state governments are fuzzy like e.g. land distribution and taxation (Clapham 2019:43).

5.2. Ethiopia's national economy

Ethiopia has achieved significant economic growth since 2003. Its gross domestic product (GDP) grew in the latter part of the 2000s on average by 11% p.a.. In the period 2005 - 2011 a significant cut flower industry emerged in Ethiopia as described in later sections of this chapter 5. Double digit growth of the GDP continued also after 2010 making Ethiopia one of the fastest growing non-oil dependent countries in Africa. While its GDP was USD12,4bn in 2005 it grew to USD32bn in 2011 and amounted to USD96,1bn in 2017 (all figures in current USD; World Bank 2020b). From 2011 - 2017 GDP growth rates were above 10% except for the years 2015 and 2017 as can be seen from the graph below which also shows that in the majority of years agriculture and construction contributed most to GDP growth (World Bank 2019b: 3). Despite this significant growth, Ethiopia remained faced with chronic food insecurity as well as a chronic trade balance deficit and shortage of foreign exchange.

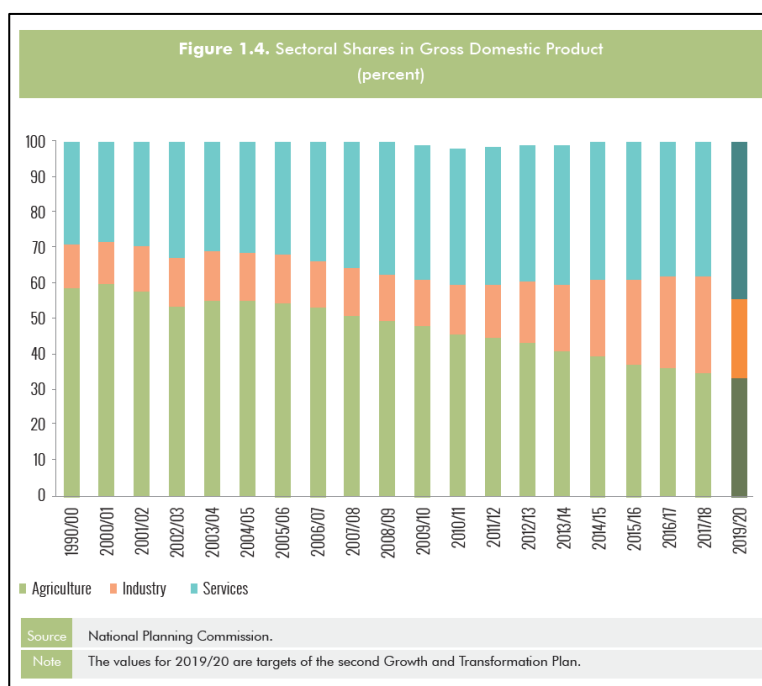
Graph 10: Ethiopia - Economic activity - contribution to GDP growth (in percent)



Source: World Bank 2019b: 3

Regarding the breakdown of GDP into the various economic sectors a shift has taken place from agriculture to services and industry over the past 15 years. According to the graph below and the related description by the World Bank (2019b: 9) the share of agriculture in GDP declined from some 55% in 2003/04 to some 35% in 2017/18, while the share of industry more than doubled, from 13 to 27%, and the share of services increased from 33 to 39%.

Graph 11: Ethiopia - Sectoral shares in GDP (in percent)



Source: World Bank 2019b: 9

Ethiopia was and still is one of the poorest countries in the world. With respect to the Human Development Index it ranked number 170 out of 177 countries in 2005 and number 174 out of 187 countries in 2011; in 2018, it ranked as number 173 out of 189 countries still amongst the poorest countries in the world (UNDP 2019: 351). The period 2005-2011 was affected negatively by a number of events: political turmoil after disputed May 2005 elections causing negative effects on investments as well as on donors which rethought their development cooperation modalities, high inflation and balance of payments problems in 2008 and 2010. In addition, in 2011 the worst drought ever in 60 years was experienced in East Africa (Triodos Facet 2013: 3 f.).

5.3. The developmental path of Ethiopian floriculture

The World Bank commissioned a report in 2005 “The European Horticulture Market. Opportunities for Sub-Saharan African Exporters” describing, amongst others, possibilities for Sub-Saharan countries to increase their exports of non-traditional agricultural products. “Among non-traditional agricultural exports, horticultural products - fresh fruits, vegetables, and flowers - deserve special attention. Horticulture aims at the production and marketing of flowers, fruits and vegetables.” (World Bank 2005: viii) The World Bank noted that the comparative advantage of many Sub-Saharan African countries in the production of horticultural products and the relative proximity of European and Middle-East export markets offer substantial growth and export potential. Sales potential should also gradually emerge in domestic and sub-regional markets. Due to the perishable nature of most of the products, know-how of production, adequate input means (such as seeds, cuttings, fertilizers, pesticides) and financial resources would be necessary requirements (ibid.: viii).

Until the early 2000s the Ethiopian cut flower industry hardly existed. There were only two flower growing firms in the mid-1990s which were domestically owned and which due to the lack of appropriate knowledge and skills were only marginally successful in exporting. One of them switched to horticulture in the end. In 1999, the Ethiopian floriculture industry got the initial push with the arrival of a foreign investor, Golden Roses from the UK, which demonstrated the successful growing of roses in Ethiopia inducing other investors to follow. The number of flower firms grew from 3 firms in the year 2000 to 85 in the year 2010 (Gebreeyesus 2015: 141 f.). According to the Ethiopian Horticulture Producer Exporters Association/EHPEA Ethiopia now has 72 active flower farms and is the second largest flower producer and exporter in Africa next to Kenya. In addition to the 49 rose farms, there are 6 farms engaged in the production of cuttings and 17 farms produce a variety of other flower species. EHPEA does not provide detailed information on the ownership of the flower farms except for the mentioning that farm ownership in the floriculture and horticulture sector together is made up of local investors (46/36,5%), direct foreign

investors (76/60,3%), joint venture partnerships (3/2,4%) and of Development Bank of Ethiopia, a state-owned bank (1/0,8%) (EHPEAb). Available information of the past shows that in 2007 64% of the flower farms were fully foreign owned or joint ventures with a major foreign share. Investors came mainly from The Netherlands, India and Israel whereby the Dutch investors were the leading ones. Total employment in the floriculture sector was estimated at 50.000 persons (Gebreeyesus 2015: 141-143).

As illustrated by graph 12 the majority of the areas where horticulture products are grown are located within a radius of 200km from Addis Ababa enabling short transportation to the airport of the capital city. An important region is the Ziway Region, approximately 3 hours' drive south of Addis Ababa, close to Lake Ziway and on about 1.600m altitude. There the largest rose farm of the world is located, AfriFlora/Sher Ethiopia which was founded in 2005 by the Dutch family Barnhoorn, they themselves growers in The Netherlands. The Barnhoorn family had had a flower farming business in Kenya for more than 15 years which they sold and moved to Ethiopia becoming the largest investor in this sector in Ethiopia (Gebreeyesus/Iizuka 2011: 15).

Graph 12: Horticulture growing areas in Ethiopia



Source: EHPEA -

<https://www.google.com/maps/d/viewer?mid=1TmNTYDbl0MndZLcl33BqD5TStMiIccvY&ll=9.086890033145437%2C42.07040002812505&z=6>

EHPEA notes that the horticulture sector (flowers, fruits, vegetables, herbs) occupies currently some 10.900ha of land and employs some 200.000 Ethiopians (EHPEAb). Oqubay mentions that more than 50.000 persons are employed in the floriculture sector while some 130.000 persons work in non-flower horticulture (Oqubay 2019: 619). With respect to the size of the land used for the growing of cut flowers, the “International Statistics Flowers and Plants 2019 - Production Data”

published by The International Association of Horticultural Producers (AIPH) amounted to 1.695ha in 2016/17 (1.240ha in 2010/11) (AIPH 2019a: 39).

5.4. The export growth of the Ethiopian floriculture sector

The Ethiopian floriculture sector has shown a remarkable growth, particularly in the second half of the 2000s. The revenue generated from flower exports increased from USD12,6mio in 2004/05 to USD184mio in 2010/11. Until 2013/14 it fluctuated in a range from USD188mio - USD213mio. In 2014/15 cuttings were included in the figures of floriculture exports which grew in the three year period from 2014/15 to 2017/18 from USD 203,1mio to USD243,9mio representing a compounded annual growth rate of 6,3%. Understandably, flower growth rates have slowed down from the early years. The expanding vegetable, fruits and herbs sectors generated export revenues of some USD64,5mio in the year 2017/18 (EHPEAc).

At this point it should be noted that there is an issue of data inconsistency for floriculture export data. Export data provided by EHPEA and floriculture data included in AIPH's "International Statistics Flowers and Plants 2019 - Trade Data" differ which I cannot reconcile. Differences might be due for example to different product categorizations, different export valuations and/or different allocations of exports to time periods as EHPEA's export data are provided in broken time periods, e.g. 2017/18. In order to use detailed data, I decided to use AIPH's international statistics in subject master thesis which provide additional insights into Ethiopia's floriculture exports.

Graph 13: Ethiopia - Exports and imports of cut flowers and plants in 2008 - 2018

ETHIOPIA

Exports – Cut flowers and plants, value in 1 000 EUR

	2018 ¹	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Live plants (including their roots) (HS-Code 0602)	27 342	22 402	22 751	20 507	18 226	16 906	17 421	16 080	16 037	13 671	13 057
Cuttings and slips, unrooted	24 931	22 042	22 557	20 934	18 128	16 848	17 357	16 069	16 027	13 671	13 049
Cut flowers and flower buds (HS-Code 0603)	179 513	174 046	175 599	175 518	131 257	124 340	128 797	121 296	108 305	94 303	71 187
Roses	154 128	153 415	153 000	157 431	120 188	114 456	116 090	106 619	106 389	94 247	65 281
Total	206 855	196 448	195 281	177 938	149 493	141 247	146 591	137 377	124 342	107 974	84 244

¹ Data based on the partner reported data (Mirror data)

Source: ITC Trade Map, 2019

Exports – Cut flowers, in 1 000 EUR

Partner country	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Netherlands	141 547	141 380	149 883	114 868	109 906	113 149	109 104	97 468	84 781	62 781
Saudi Arabia	78 868	7 306	8 523	5 464	4 209	4 253	2 286	1 577	952	562
United Kingdom	6 843	6 608	1 934	415	497	711	693	653	584	1 045
Norway	3 859	5 171	4 922	3 088	3 249	3 054	2 346	1 426	308	280
Japan	3 292	2 543	1 905	884	1 011	1 052	839	1 170	1 146	895
United Arab Emirates	2 945	3 310	2 777	2 086	1 472	1 555	1 175	1 185	878	872
United States of America	2 543	2 317	1 316	374	208	138	12	3	6	4
Germany	338	564	1 508	1 588	1 407	2 004	2 282	2 879	4 014	2 682
Others	32 499	34 219	25 635	16 389	14 435	15 648	12 192	10 838	9 522	8 406
Total	174 046	175 599	175 518	131 257	124 340	128 797	121 296	108 305	94 303	71 187

Source: ITC Trade Map, 2018

Source: AIPH 2019 b: 108

In 2017, the export revenues of cut flowers and plants amounted to EUR196,4mio - of which EUR174mio referred to cut flowers and flower buds - which translates into an export share of some 9,4% when using total exports of Ethiopia of USD2,35bn³ (i.e. EUR2,08bn⁴) and thus, belong to the five most important export goods. Ethiopia's floriculture exports were always made up of an overwhelming share of *cut flowers and flower buds*. In 2017, they had a share of 88,6% which did not fluctuate much in the period shown. *Roses* are in turn the most important cut flower category and constituted 78,1% of total cut flower and plants exports in 2017. Within the category of *cut flowers and flower buds* roses commanded the greatest share of flowers amounting to 88,2% in 2017. This significant share has not fluctuated either very much in the period shown. With respect to Ethiopia's export markets, the Netherlands has always dominated by far - one could also say had a monopolistic position - Ethiopia's floriculture export markets holding a share of 81,3% in 2017; Saudi Arabia ranked second with a share of 4,5% and the United Kingdom third with a share of 3,9% (AIPH 2019b: 108) (note: in the above table, there must be a digit error for the 2017 figure for Saudi Arabia). Kenya has always been Ethiopia's biggest African competitor having exported cut flowers in a value of EUR478,8mio in 2017 (ibid.: 100).

5.5. Industrial policy and foreign direct investment spillovers for the floriculture sector

In order to drive the economic, social and institutional development of Ethiopia the Ethiopian government designed and pursued a number of strategic national development plans from 1993 onwards (ADLI, PASDEP, GTP I, GTP II - see section 8.3.) Based on its fundamental understanding of development policy the government followed a state interventionistic course in the economy envisioning industrialization - including manufacturing and high-productivity agricultural production - and a resulting socio-economic transformation, looking at the development examples

³ It is difficult to find reliable and consistent figures about Ethiopia's total exports in order to demonstrate the importance of flower exports based on their relative share in total exports. Ethiopia's total exports vary dependent upon the sources used. The African Statistical Yearbook 2019 is chosen as an adequate source. The most current figure of total Ethiopian exports relate to 2017 amounting to USD2,35bn (at current market prices) (African Development Bank 2019: 243). However, when comparing the total export figures for 2016 contained in the African Statistical Yearbook 2018 and 2019 respectively, different export numbers appear in the statistics: in the yearbook 2018 the export figure of USD2,92bn is mentioned (African Statistical Yearbook 2018: 202), a number which can be found also in other publications, whereas in the yearbook 2019 the export number for the same year 2016 is USD1,97bn (African Statistical Yearbook 2019: 243). This significant difference is most likely due to the 15% devaluation of the local currency Birr in October 2017 which presumably resulted in a restatement of the figures in the time line and makes comparisons fuzzy. The African Statistical Yearbook does not provide explanations for these different figures. Another difficulty is that the Ethiopian calendar year begins on 11th September, which is the Ethiopian New Year, and ends on 10th September, whereas the figures in the African Statistical Yearbook are year-end figures. Regardless of the accuracy and attributability of the export figures to a specific period, it is fair to say that cut flower exports belong to the top five export goods - the top Ethiopian export good refers to coffee - generating the highly necessary foreign exchange of which Ethiopia is in permanent need.

⁴ Exchange rate USD/EUR 1,1297 for 2017 (<https://www.oenb.at/isaweb/report.do?report=2.14.5>)

of the East Asian Tiger states (see section 8.2.). According to Oqubay “An industrial policy is a vehicle for catch-up and structural transformation, and increasingly such a policy must focus on how an economy is integrated into global trade and production networks” (Oqubay 2019: 606). Oqubay elaborates that an industrial policy looks at various policy instruments appropriate for different sectors in order to initiate structural change. Structural change means a permanent shift of human resources and economic activities from one sector to the other and from lower to higher-productivity activities. This involves vertical and horizontal diversification into new dynamic activities, domestic linkages and the building of technological capabilities which all together have implications for direct and indirect employment creation and opportunities. Also exports play a strategic role in structural transformation as the international exposure fosters learning and thus, assists catching up. Wanting to be successful in exports requires and stimulates productivity gains. Exports alleviate foreign exchange pressures and balance of payments constraints (ibid.: 606).

At this point it is useful to address the role of foreign direct investment/FDI and its spillover effects. Farole/Winkler state that FDI is generally viewed as a significant contributor to a country’s economic development in terms of investment, employment and foreign exchange. In addition, FDI can enable countries to integrate in global trade through e.g. becoming a participant in GVCs/GPNs. FDI can induce host countries’ governments to pursue policies improving the business climate, infrastructure and overall skills. The entry of foreign investors can boost also domestic competition leading potentially to more efficient price formation and resource allocations and higher productivity. The attractiveness of FDI to governments in countries of the global South is also due to the fact that domestic capital formation and accumulation is often too low to initiate and to support long term growth. Private capital from strategic foreign investors tends to be of a more permanent nature and less risky for sudden outflows (Farole/Winkler 2014: 9 f.) However, FDI spillover potential “[...] - the productivity gain resulting from the diffusion of knowledge and technology from foreign investors to local firms and workers – [...]” (ibid.: 7) can have a much higher effect on the long term development than FDI alone, such effects relating to the relationships between foreign investors and local parties such as local suppliers, service providers, workers, local producers, customers and institutions. Attracting FDI alone does not ensure that a country will benefit from such FDI (ibid.: 7). According to Farole/Staritz/Winkler spillovers to materialize are enabled or limited, respectively by a number of mediating factors which also shape the extent of the effects. These mediating factors refer to: “[...] the spillover potential of foreign investors (particularly in the context of investments within global value chains); the absorptive capacity of local agents (firms and workers); and how these two factors interact within the institutional environment of a specific host country.” (Farole/Staritz/Winkler 2014: 23) Spillovers of knowledge

and technology between FDI and locals may take place “through supply chain linkages; through labour markets; and through competition, demonstration, and collaboration.” (ibid.: 23) The effects of institutional framework conditions on FDI spillover potential are described by Farole/Winkler:

„The FDI spillover potential of foreign investors and the development of absorptive capacities of local agents (firms and workers) are shaped by the institutional context and the policy framework in which firms operate. Mediating factors include government policies related to FDI promotion and trade, labour markets, systems of learning and innovation, finance, and taxation. Other factors include the role of institutional structures at the sectoral level, such as industry associations, employers’ representatives, and trade unions, and the interactions between the public and the private sector (Farole/Winkler 2014: 12)

In line with its development plans in which also the floriculture sector was mentioned in varying extents and acknowledging the importance for foreign direct investment as well as for stimulating domestic investors, the government made a number of government incentives available for the floriculture sector spurring its growth from 2005 onwards. EHPEA as the floriculture sector’s business association played a significant role in making the government successfully aware of the business and export potentials. These incentives included the availability of land in water rich areas on long term leases in the relative proximity of Addis Ababa International Airport, income tax holidays for five years, loss carry backwards, removal of tariffs and duties on capital goods, spare-parts and inputs as well as easing regulations regarding the import of fertilizers and pesticides (Melese 2019: 90). It should however be mentioned that land allocations on lease basis to investors have been and still are a sensitive issue. The floriculture sector has been accused for government supported land grabbing depriving farmers and communities of their use of farmland and thus, the basis of their livelihoods without proper compensation and adequate relocation assistance (Gebhardt 2014: 243 f; Abate 2019: 106). “The increasing commoditization of land and land grabs for domestic and foreign enterprises entangled with Ethiopian centralized state administration and the state ownership of land jeopardizes local livelihoods tied to indigenous people.” (Abate 2019: 92).

In addition to the previously listed incentives, the state owned Development Bank of Ethiopia/DBE, the prime source of long-term finance, provided soft loans which financed 70 percent of the cost of the project. The requirement for the loan was to pledge only the project itself as collateral; the loan carried a very low interest rate compared to the neighbour countries such as Kenya, Tanzania and

Uganda. Such loans were hardly available from private banks. Over time, DBE provided some ETB 1,2bn⁵ in loans to almost two thirds of the firms in the floriculture sector. The average loan was ETB 29mio, while the maximum was ETB149mio and the minimum ETB6mio. Even though a majority of growers financed were generally satisfied with the support of DBE, DBE lacked initially the knowledge about the floriculture industry's needs making loan appraisals and decisions a lengthy and cumbersome process. Loan monitoring and loan collections constituted a problem area of the bank causing loan arrears and foreclosures which could only be solved over time. DBE suffered also from managerial deficiencies (Oqubay 2015: 178 f.; Melese 2019: 90 f.). However, Oqubay states "Nevertheless, the government used its policy bank to promote the industry and it is unlikely that the industry would have received such huge loans in the absence of DBE." (Oqubay 2015: 179) All these incentives above attracted both local and foreign investors to the sector (Melese 2019: 90).

Due to the perishable nature of flowers fast transport of the flowers to consumer markets is crucial. Since 2009 the Ethiopian government supported various investment programmes of the state owned Ethiopian national air carrier, Ethiopian Airlines/EAL, which in the meantime has become the largest airline in Africa. EAL was and is the key player for transporting Ethiopian floriculture products to Europe ensuring sufficient cargo space, initially on their passenger flights in the 2000s and now with an own air cargo fleet of eight airplanes (Air CargoNews). Other airlines such as KLM, Lufthansa and Emirates offer freight services as well, but only enjoy a minimal share. Since 2008 flowers to Europe are flown from Addis Ababa to Liège in Belgium, the most important hub for the growers in Ethiopia; since 2018 there is also a direct flight to Liège from the flower growing area of Bahir Dar in the north of Ethiopia. Together, daily shipments of 130 tons of flowers are carried out (Ethiopian Airlines 2018).

According to Oqubay the growth of the Ethiopian floriculture sector could not have taken place if the Ethiopian government's industrial policy had not supported the development of EAL's cargo freight capacities as well as the infrastructural expansion of Bole International Airport in Addis Ababa. This expansion is evident from the growth of EAL's total revenues from USD771mio in 2007 to USD1,51bn in 2011; included in these total revenues are the air cargo freight revenues of 80mio (10,4% of total) in 2007 to USD189mio (12,6% of total) in 2011 which constitutes a compounded annual growth rate of 23,9% (EAL 2010: 13; EAL 2012: 22). In 2012, EAL

⁵ Official Exchange rate ETB/USD = 0.026560424 as per 13.11.2020 of National Bank of Ethiopia (<https://www.currency-table.com/en/chart-etb-usd-5d.html>). I acknowledge that using an actual ETB/USD exchange rate for converting ETB figures of the past constitute a distortion, but the exchange rate is provided for indication purposes only.

succeeded to monopolise air cargo handling services which had previously been carried out by growers which had jointly set up handling companies (Melese 2019: 91). EAL offers storage facilities at the Addis Ababa international airport. The airline's two cargo terminals' total tonnage capacity of around 1 million per annum is the largest in Africa and make them comparable with terminals such as Amsterdam Schiphol, Singapore Changi, or Hong Kong. For perishable goods such as horticulture and floriculture products, the new terminal II opened in 2017 provides space of 18.000m² (Ethiopian Cargo & Logistics Services).

The support of the emerging floriculture sector was also documented by the government's decision in early 2008 to subsidize the fuel costs of EAL following the doubling of fuel prices in 2008. Fuel prices significantly impact the production cost of a flower of which the air freight cost constitutes the main cost component (Oqubay 2015: 170 ff.; Gebreeyesus/Sonobe 2012: 342). However, the almost monopolistic position of EAL causes regular tensions between the airline and the flower exporters with respect to freight costs, cargo capacities and flight destinations (Melese 2019: 91).

With respect to the government's industrial policy and FDI spillover effects in the Ethiopian floriculture sector, Melese elaborates the diffusion of technological knowledge from the foreign investors generally and to Ethiopia specifically and the building up of technological capabilities. The building up of technological capabilities is the result of learning efforts within the firms and an external environment which incentivizes this build-up. Ethiopia's industrial policy provided numerous incentives to FDI as described above, but Melese notes that while these incentives were important to attract investors, the granting of incentives was not linked with any mechanisms compelling firms to make the building up of technological capabilities a permanent effort nor were there guiding and monitoring systems or standards set in place to control the build-up. The government thought for instance that simply the import of machinery would automatically transfer technological capabilities about the proper use in production (Melese 2019: 149 f.).

The Dutch government's official development assistance encouraged Dutch, foreign as well as local investors to invest as well as to build up the knowledge in this sector and its firms making various development programmes available in the form of funding the firm's establishment costs and capacity building and training costs - through PSOM/PSI, PUM and CBI - which however, had varying success rates (see sections 6.3 and 7.3.). Regarding knowledge transfer Melese also points out the importance of regional spillovers from Kenya to the Ethiopian floriculture sector which took place in different ways: Ethiopian firms recruiting staff from Kenyan firms and/or learning from Kenyan experience; Kenyan or non-Kenyan experts moving to Ethiopia offering their expertise; and

foreign firms moving from Kenya to Ethiopia which was the case for the family Barnhoorn of AfriFlora/Sher (ibid.: 153).

Oqubay states that the effects of FDI and its spillovers in the floriculture sector were largely positive as local firms could learn from the foreign firms through demonstration and copying and gain relevant experience; due to lacking expertise they were prompted initially to recruit skilled foreign labour for higher production and management levels, they were brought in contact with breeders as well as needed to become familiar with the workings of the auctions and marketing necessities. However, at the same time foreign firms were seen sceptically by local firms as several foreign owned firms were accused for excessive transfer pricing or for overly taking advantage of their position due to their size, economies of scale or market access. In addition, foreign breeders might have preferred to sell their new and high earning breeds primarily to foreign owned firms (Oqubay 2015: 189). Oqubay notes positively that a number of linkages happened such as backward linkages with the packaging industry and forward linkages concerning the air transportation by Ethiopian Airlines as well as cold chain logistics (ibid.: 192).

Melese states that while the Ethiopian floriculture sector was supported by the Ethiopian government during its emergence and first development phases and served the government as a showcase for other sectors, government support appears to have faded in the last years. The government “[...] lacked capability to sustain the growth by upgrading its support in a fashion that fits the evolving demand of the sector. It also showed little interest in capitalising on the sector’s knowledge and in incentivizing moving upward on the technology ladder, nor in connecting with the national agriculture R&D centres.” (Melese 2019: 92) The fading support and decreasing attention of the government refers, amongst others, to often changing regulations regarding imported input material such as packaging material, on revenue repatriation rates fixed by the National Bank of Ethiopia and on allowing foreign firms to provide logistical services such as collecting flowers from the farmers and exporting, as well as little sector oriented support from the Ethiopian Horticulture and Investment Agency (ibid.: 92-94).

5.6. Binding constraints in Ethiopia

It is useful to point out a number of challenges and obstacles regarding foreign investments in Ethiopia with which not only Dutch investors, but also other foreign and local investors had to deal with wanting to engage themselves in Ethiopia in the period 2005-2011.

The report „Country Report Ethiopia - IOB Policy Review, Private Sector Development” (Triodos Facet 2013) commissioned by the Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs/IOB and covering the Netherlands’ private sector development

programmes in the period 2005-2011 elaborates the main “binding constraints” (ibid.: 5) for businesses in Ethiopia in the five clusters of the Netherlands’ private sector development policy: 1. infrastructure, 2. financial sector, 3. judicial system, 4. market access and development, and 5. knowledge and skills. These binding constraints for the private sector were identified from reviews by the World Bank (e.g. World Bank Investment Climate Survey for Ethiopia; Doing Business reports), the World Economic Forum (Global Competitiveness Report) and the African Development Bank.

In the mid 2000s the most problematic binding constraints referred to corruption, inefficient government bureaucracy and inflation, while in a survey of the World Economic Forum 2011 the binding constraints for the private sector had changed and the top three constraints were all related to business finance - limited access to financial services, foreign currency regulations and inflation. Foreign as well as Ethiopian entrepreneurs were confronted also with the fact that government businesses and companies associated with the ruling party enjoyed preferential treatment such as access to bank credit, foreign currency, land and procurement contracts and lower import duties (ibid.: 5). In addition, difficulties were encountered with lengthy licensing procedures, government control over utilities, telecom and other major services and investment barriers in some sectors (IOB 2012: 8). A paper of Sopov from Wageningen University & Research Centre for Development Innovation lists a number of further challenges for Dutch and Ethiopian entrepreneurs: “unpredictable new directives and regulations, lack of client orientation at government offices, inadequate access to qualified local work force, import issues, logistics and access to utilities, organizational and institutional weaknesses at government level, weak sector organizations, entrepreneurship in infancy and slow payoffs of heavy investments in education.” (Sopov 2012: 1).

Detailing somewhat the main constraints in the five clusters mentioned above, Ethiopia’s infrastructure - roads, power generation and power lines (considered the biggest constraint regarding infrastructure), telecommunication - centered around Addis Ababa spreading out from there, but with only marginal connectivity to its neighbouring countries. “The Africa Infrastructure Country Diagnostic report “Ethiopia’s Infrastructure: A Continental Perspective”, of 2010 opens with the bold statement that infrastructure constraints are responsible for an estimated 50 per cent of the productivity handicap faced by Ethiopian firms.” (Triodos Facet 2013: 7) Despite heavy infrastructural investments by the government with annual investments of some USD1,3bn in 2005 and 2006 these had not been sufficient to close these gaps requiring annual investments of some USD5,1bn not affordable by the government (ibid.: 7f.). “Lack of (reliable) power, Ethiopia’s exceptionally low levels of rural accessibility, and lack of irrigation infrastructure also are a core challenge to the agricultural sector.” (ibid.: 8)

During the period reviewed the biggest constraint for private sector development referred to access to credit. Loan funds were scarce, long-term funding was predominantly available only from the Development Bank of Ethiopia, credit for imports for which an import permit and a letter of credit for 100% of the import value were required before the order was placed were rarely allowed and the National Bank of Ethiopia (NBE) controlled and still controls through a strict foreign exchange regime all international transactions such as money transfers. NBE still has a monopoly on foreign currency transactions. The local currency Birr was and is still not freely convertible. In the report it is stated that financial services were concentrated in urban areas; the financial infrastructure in rural areas was poor and farmers had almost no access to financial services (ibid.: 6 f.).

Education and skills training were permanent issues, particularly to match the vocational training with the requirements of the labour market and the demands of growth sectors such as the service sector, construction sector and the export oriented agricultural sector making in-house training by the companies the main tool for skills and knowledge improvements (ibid.: 9). As to the judicial system, access to land being all state owned, allocated by the government and leased by local or regional governments on a 99 years lease, was easier for foreign investors in agriculture and manufacturing than for local SMEs. Often changing and unclear regulations burdened entrepreneurs cost- and timewise. Despite the government's interest in private sector development as the driver of growth, "Private sector involvement in policymaking has been minimal, and there is no formal mechanism for consultation and dialogue with the government. Most business associations are limited in their ability to undertake effective business development services and advocacy for their members." (ibid.: 10)

Market access and development refer to access to local markets, e.g. smallholder farmers to city markets, and to international markets. While local markets for local products did not develop significantly during the period 2005-2011, a few sectors were successful such as the garment and footwear sectors in export processing zones as well as floriculture for which the government provided a number of incentives (see section 5.5.). In return, the government expected that the exporting companies repatriate their foreign currency earnings to Ethiopia (ibid.: 10 f.).

A number of Oqubay's findings for the floriculture sector are similar to the above elaborations in the IOB report: difficult dealings to access and to obtain financing, difficult land allocations, power disruptions affecting amongst others the crucial temperature controlling in greenhouses, difficulty in logistics services, cumbersome dealings with federal, regional and local administrations causing an overproportionate amount of management time of farm managers, increasing corruption particularly

at lower level government offices and local administrations as well as frequently changing directives (Oqubay 2015: 181-185).

An interesting perspective and summary of binding constraints for businesses is offered by the World Bank/IFC's annually published report "Doing Business" which started in 2003 and which provides various business indicators about the ease of doing business in all the countries of the world from a business regulatory perspective. Almost all of the 10 indicators remained the same since the inception of the report enabling to follow the changes over time, and are: "starting a business", "dealing with construction permits", "getting electricity", "registering property", "getting credit", "protecting investors", "paying taxes", "trading across borders", "enforcing contracts" and "resolving insolvency." (World Bank 2019a: 170) "Doing Business in 2007" contained a country ranking which showed Ethiopia holding overall the 97th place of 175 countries for the ease of doing business whereby the lowest ranks referred to trading across borders (rank 149), registering property (rank 146) and protecting investors (rank 118) (World Bank 2006: 111). Five years later, in the report "Doing Business 2012" the overall rank of Ethiopia had deteriorated somewhat to the 111th place amongst 183 countries. The lowest three ranks referred to trading across borders (rank 157), getting credit which worsened significantly from rank 83 in 2007 to rank 150, and protecting investors (rank 122) (World Bank 2012: 95). Looking at "Doing Business 2019" the deterioration of Ethiopia's ranking is remarkable when compared to 2012. It slipped down to the overall rank of 159th place amongst 190 countries. Almost all indicators showed a deterioration in their ranking, the most significant changes referring to starting a business (from rank 99 to rank 167), dealing with construction permits (from rank 56 to rank 168) and paying taxes (from rank 40 to rank 130). The indicators trading across borders (from rank 157 to rank 154) and getting credit (from rank 150 to rank 175) did not change that much in comparison (World Bank 2019a: 170).

6. THE DEVELOPMENT POLICY OF THE NETHERLANDS

6.1. The Dutch development policy over time

To understand the embeddedness of the expansion of Dutch growers to Ethiopia and the Netherlands' interest to support the build-up of a floriculture industry in Ethiopia it is a necessity to look at the development policy of the Netherlands, how it evolved and with what goals.

The Netherlands have been traditionally an important and significant donor nation. Complying with the United Nations target of allocating 0,7% of gross national income (GNI) to official development assistance (ODA), the Netherlands have always fulfilled this target in the period from 1975-2012. Since then this percentage has gradually declined amounting to 0,62% in 2018 as result of a

restrictive government budget policy; except for 2015 when the wave of refugees required high budget allocations (OECD 2017: 11, 17; OECD Stat.). The Netherlands is the seventh-largest donor country - both in absolute as well as in relative terms measured against GNI - among the members of the Organisation for Economic Co-Operation and Development's (OECD) Development Assistance Committee (DAC). Total gross ODA⁶ - bilateral and multilateral - reached USD5,6bn in 2018 of which USD3,7bn or 66,7% referred to bilateral ODA reflecting the Netherlands' longstanding preference for bilateral ODA (OECD Stat). As regards Ethiopia, on average USD80mio were provided annually as gross bilateral ODA for the period 2015 - 2017 (Donor Tracker 2019: 4, 10).

The current development policy is based on the Dutch Ministry of Foreign Affairs' policy note regarding foreign trade and development cooperation, called "Investing in Global Prospects - For the World, for the Netherlands" from May 2018 (MoFA 2018) and represents a further sharpening of the focus of the development cooperation both in thematic as well as geographical terms. From 2006 onwards, the Netherlands had narrowed the focus in their development cooperation by amongst others reducing the number of partner countries from 40 to 33 from 2006 - 2009, classifying these partner countries according to profiles regarding their status as low-income country or (prospective) middle-income country, fragility, government structures and inequality aspects, and grouping them into three pools. Ethiopia was classified into the pool of partner countries where the main criteria was 1. low-income country; 2. fragility not a dominant problem; and 3. government structures offer enough potential to work with them (MoFA 2007: 39 ff.). A shift in policy took place in 2010, when it was announced that the number of partner countries will be further reduced from 33 to 15 by 2015 and the thematic priorities will be set on just four areas: 1. security and the legal order; 2. water; 3. food security; and 4. sexual and reproductive health and rights. In addition, it was explicitly stated that also the Dutch private sector should seize opportunities to engage in development cooperation (OECD 2011a: 24). With respect to the Dutch government's motivation towards the Dutch private sector the OECD commented with a critical note:

Although the Netherlands' new emphasis on increasing opportunities for the Dutch private sector to engage in development co-operation is a positive response to the growth agenda, this should be carefully managed to ensure that development objectives remain paramount. [...] But it [The

⁶ "Gross ODA is the amount that a donor actually spends in a given year. This figure becomes net once repayments of the principal on loans made in prior years (but not interest) are taken into account, as well as offsetting entries for forgiven debt and any recoveries made on grants. In some cases, repayments exceed gross amounts, which is why net figures sometimes appear as negative values." (OECD)

Netherlands] must keep development objectives constantly in view and distinct from the promotion of Dutch commercial interests. (ibid.: 29)

According to the Competitiveness Index of the World Economic Forum the Netherlands was ranked in 2017 as the world's fourth most competitive economy and belonged to the top ten of this ranking ever since 2005. The Dutch government has the aim to maintain this top competitiveness (MoFA 2018: 17) viewing it as the basis for its foreign policy for which trade and development cooperation are integral components. The trade and development cooperation policy (BHOS) has four closely linked main objectives for which the 17 Sustainable Development Goals (SDGs) are the international guiding principles. These four main objectives refer to: 1. "preventing conflict and instability"; 2. "reducing poverty and social inequality"; 3. "promoting sustainable and inclusive growth and climate action worldwide"; and 4. "enhancing the Netherlands' international earning capacity." (ibid.: 8) They will be implemented through a continuing focus on the thematic priorities of water, agriculture including food security, sexual and reproductive health and rights (SRHR), climate change, the rule of law and private sector development. These priorities are very similar to the ones in existence since 2010. A cross cutting goal of the BHOS policy is to advance gender equality and to improve the position of women and girls, fighting against discrimination of women to be found in all aspects of society. The geographic focus of development cooperation will be narrowed down to and oriented towards the newly defined four "focus regions" - the West African Sahel, the Horn of Africa, North Africa and the Middle East - , regions of significant instability and fragility in the vicinity of Europe and where the Netherlands believe in their ability to be able to participate in tackling the root causes (ibid.: 8 ff.; 97 ff.). As to the focus region of the Horn of Africa, Ethiopia will continue to be a considerable recipient of Dutch development aid.

The last available review of the Dutch development policy by the OECD is from 2017. Reviewing the priority areas described above, the report highlights - amongst others - the importance placed by the Dutch government on linking aid, trade and investment in countries of the global South and on using public finance to attract private sector investment. The Dutch government advocates strongly an involvement of the private sector as an implementing partner or investor in broad alliances with local governments, civil society and knowledge institutions in order to provide efficiency, knowledge and innovation which are areas where the Dutch consider themselves particularly strong (OECD 2017: 64 f.). However, the review is also critical that over the last years, particularly in 2014 and 2015, the share of bilateral ODA for recipient countries decreased due to the inclusion of in-donor refugee costs as well as climate finance in ODA reporting and due to the shift towards centralised tenders in the Netherlands thus favouring Dutch businesses and knowledge institutions and limiting national governments to input and to participate in decisions (ibid.: 16 f.). This latter

aspect was also noted critically already in 2014 by the IOB (Policy and Operations Evaluation Department of the Netherlands Ministry of Foreign Affairs) pointing to the need of a better alignment of Dutch private sector development programmes with local needs which is hampered by the fact that three quarters of these programmes are managed from the Netherlands (IOB 2014: 3).

6.2. Dutch policy for private sector development

As subject work has a specific focus on the time period of the years 2000s when the Ethiopian floriculture sector lifted off the ground it is useful to look at the report “In Search of focus and effectiveness - Policy Review of Dutch support for private sector development 2005 - 2012” by IOB (2014). For the Dutch development policy, strengthening the private sector in countries of the global South has been one of the objectives for a long time and followed findings of the World Development Report 2005 which amongst others pointed out that, based on a major people survey, having a job or an own business was considered by the people in the global South as the two best ways to escape poverty. Ninety percent of all employment in the world are provided by private enterprises, from smallholder farmers to multinational companies. The World Bank addressed the importance of an appropriate investment climate for which the local governments should carry the responsibility with respect to policy formulation and adequate execution. It noted that a good investment climate cannot be established by interventions in favour of specific businesses or sectors through tax exemptions, subsidised credit or market protections as in their view such interventions had failed too often (IOB 2014: 29). However, reality in countries of the global South, such as e.g. Ethiopia which followed a state interventionistic development policy, has shown that tax exemptions or subsidised credit are widely used as means to attract foreign investment.

Private sector development (PSD) became an increasingly central focus of Dutch development policy during the period 2005 - 2012, especially from 2010 onwards. Up to 2010 the PSD related activities of the Netherlands aimed at removing obstacles for creating an appropriate investment climate and for stimulating local businesses in which tasks the Dutch embassies were assigned a central role. In addition, partnerships were entered into with Dutch companies and social enterprises which had expertise in specific areas, such as horticulture and water. From 2010 onwards, a shift in focus in Dutch aid from social development to economic development took place. The explicit involvement of Dutch businesses became a key element of PSD policy. Aid, trade and investment were aimed to be combined with each other as demonstrated also by the fact that in 2012 the Dutch Ministry for Trade and Development Cooperation was established which united for the first time the goals of poverty reduction and economic interests (ibid.: 59).

In order to foster PSD a number of Dutch development programmes from 2005 - 2012 concerned investments in the infrastructure for energy supplies and transport as necessary prerequisites (EUR1,2bn), in the access of small and medium sized enterprises to financial services (EUR740mio), in improving market access for small producers, e.g. in the agricultural sector (EUR550mio), and in strengthening knowledge and technical skills in enterprises and in promoting technology transfer (EUR615mio) (ibid.: 11 ff.).

6.3. Dutch private sector development programmes

Within the above mentioned areas for the development of the private sector different instruments were used which included grants, loans, public-private partnerships, technical assistance, training and capacity building. Of the many private sector development programmes of the Netherlands the following ones are highlighted and evaluated in a number of reports (IOB 2012; Triodos Facet 2010; Triodos Facet 2013; IOB 2014; Bitzer et al. 2017; Melese 2019): the Programme for the Cooperation with Emerging Markets (PSOM - Programma Samenwerking Opkomende Markten), the Private Sector Investment programme (PSI - Private Sector Investeringsprogramma), PUM Netherlands senior experts (PUM - Programma Uitzending Managers) and CBI - Centre for the Promotion of imports from developing countries.

6.3.1. The Programme for the Cooperation with Emerging markets - PSOM/PSI

The PSOM - Programma Samenwerking Opkomende Markten was established in 1998 and ended in 2008 due to legal disputes concerning the nature of financial support (APE Public Economics 2016: 21). It was succeeded by the PSI - Private Sector Investeringsprogramma being of a fairly similar design as the PSOM. PSI ended in 2014 succeeded by the Dutch Good Growth Fund which is a programme commissioned by the Dutch Ministry of Foreign Affairs (DGGF). It is administered by the Netherlands Enterprise Agency, Atradius Dutch State Business⁷ (for Dutch entrepreneurs) and a consortium of PricewaterhouseCoopers⁸ and Triple Jump⁹ (for local SMEs). PSOM/PSI were

⁷ Atradius Dutch State Business is since 1932 the official credit insurance agency of the Netherlands. “On behalf of and for account of the Dutch state, we [Atradius] cover financial risks related to export transactions and investments in enterprises abroad.” (Atradius)

⁸ “PricewaterhouseCoopers is a multinational professional services network of firms headquartered in London, United Kingdom, operating as partnerships under the PwC brand. PwC ranks as the second-largest professional services network in the world and is considered one of the Big Four accounting firms, along with Deloitte, EY and KPMG.” (Wikipedia)

⁹ Triple Jump is an Amsterdam based investment managing firm. It is a spin-off from Oxfam Novib in 2006. It considers itself as “a bridge between developed capital markets in the West and financial sectors in developing countries” by providing capital and advisory services to financial service providers. It “[c]urrently manages five investment funds. Depending on the mandate these funds can invest in debt, equity and funds.” (Triple Jump)

established by the then Minister for Development Cooperation and had as objective to fighting poverty through the encouragement of sustainable investments of Dutch and foreign entrepreneurs in innovative businesses in selected countries of the global South by means of setting up joint venture companies with local entrepreneurs. Assistance was provided to these investments which would otherwise not have taken place due to product or market risks, difficult access to finance or lack of access to technology (Triodos 2010: i).

Between 1998 - 2014 both programmes awarded subsidies or grants to 1.107 investment projects in 59 countries. Subsidies amounted to 50% or 60% of the project costs depending on the country, with a cap of EUR750.000 or EUR900.000 in the case of fragile states. It was assumed that after the subsidy period, follow-up investments would be made supporting continuing efforts of the enterprise for the growth of sales, profits and employment. This should also have overall positive effects for the economic development of the country regarding employment, knowledge transfer and income (APE Public Economics 2016: 1).

Graph 14: The Netherlands - Overview PSOM and PSI

PSOM/PSI period	Period	Total budget available	Countries
PSOM 1st phase	1998-2001	€ 37.9 million	8
PSOM 2nd phase	2002-2004	€ 129 million	2002: 11 2003: 17 End of 2003: 21
PSOM 3rd phase	2004-2006	€ 45.9 million	42
PSOM 4th phase	2007-2010	€ 235 million	53
PSI 1st Phase	2009-2010	€ 140 million	51
PSI 2nd phase	2011-2014	€ 232 million	59
Total	1998-2014	€ 820 million	-

Source: APE Public Economics 2016: 23

During the term of the PSOM/PSI programmes a total of EUR820mio were spent whereby close to 75% of the funds allocated referred to the period 2007 to 2014. Compared with other PSD programmes the PSOM/PSI was the most highly funded one (Bitzer et al. 2017: 12). In total, 43% of selected projects were based in low-income countries, 34% in lower middle-income countries and the remainder of 23% in upper middle-income countries. Of total projects, 43% were located in Africa thus being the area with the highest allocations. 53% percent of the projects operated in the agricultural sector, including agro-processing. Approximately 30% of the projects were industrial ones, including energy projects, and the remaining 15% focused on the service sector (APE Public Economics 2016: 27 ff.).

Evaluations of the contributions and the impacts of PSOM/PSI show ambivalent results. The most extensive evaluation was made by APE Public Economics (2016) which analysed 428 finalized

projects at the time of the study with regard to factors such as relevance, efficiency, effectiveness, impacts of the PSOM/PSI and lessons learned. This evaluation covered the period 1999-2014. Overall, the percentage of successful projects of PSOM/PSI which achieved their goals were 67% for employment, 66% for training and 54% for sales, but various aspects should be taken into account. With respect to employment, on average 75 new jobs per PSOM/PSI project were targeted to be created; the actual average number of created jobs was 76. The highest average increase in employment of 80 persons referred to the agricultural sector and to the African continent. However, it has to be noted that 73% of the projects had employment gains less than 76 persons and that 14% of projects generated 50% of gained employment. Regarding training and knowledge transfer, on average 261 persons to be trained were envisioned, in reality it were 325 persons which ranged from an average of 43 in Eastern Europe to 500 in Africa. The sector in which most employees were trained was agriculture.

As to incremental sales, these were planned to be on average EUR987.4thsd. The achieved amount was on average EUR992.2thsd, but 74% of projects realized lower sales. The top 12% of projects generated 50% of total incremental sales. Analysis showed that sales targets were often set too optimistic in view of the limited duration of the PSOM/PSI. On average, sales achieved amounted to some EUR358thsd in the service sector, some EUR1,1mio in the agricultural sector and EUR1,2mio in the industry sector. As to the regional distribution, the increase in sales per employee was the lowest in African countries.

The project partners - Dutch or foreign entrepreneur and local entrepreneur - invested on average EUR578thsd whereby the Dutch/foreign entrepreneur provided in general the investment in cash or in-kind and the local entrepreneur in-kind, such as land, buildings, management time, etc. Follow-up investments fell short significantly from projected ones. While the projected follow-up investment e.g. for African projects should have been on average EUR1,54mio it turned out at a far lower amount of EUR641thsd. With respect to the agricultural sector follow-up investments were projected at an average amount of EUR1,91mio/investment against an outturned amount of EUR817thsd (ibid.: 74-83).

While the above shows quite favorable general outcomes of the programs, the composition and the breakdown of the figures should be looked at in a differentiated way as reviews encountered gaps in the monitoring systems and limitations of data availability and thus made the evaluations focus on a few outcome factors such as the above. The statement “clear contributions of the programmes to poverty alleviation could not be derived from the evaluations” (Bitzer et al. 2017: 23) can be found in an evaluation of Bitzer et al. in 2017 which looked at a number of PSD programmes,

particularly for the period 2013-2017. As to the additionality and sustainability of PSOM/PSI it was noted that additionality was given at a medium degree. “The grants by PSOM/PSI were an additional source of funding, but in 38% of investigated cases the projects would have happened anyway or at least have doubtful additionality.” (Bitzer et al. 2017: 23) As to sustainability, investigated cases showed that the majority of the grant holders continued to invest after the expiry of the grant. An evaluation in 2010 of the PSOM/PSI programs cites: “The effects beyond the individual projects such as SME linkages, catalytic effects on the sector and the contribution to the business climate dialogue were limited except for in the horticultural sector in Ethiopia.” (Triodos 2010: ii).

With respect to Ethiopia the involvement of the Netherlands Enterprise Agency, the embassy and local stakeholders were mentioned as a good example for positive effects. In general, it was proposed that sufficient local expertise would be needed to be brought into the projects which would demand that also the embassies should be staffed adequately and be required to be always involved in PSOM/PSI projects. In addition, embassies and the Netherlands Enterprise Agency should also play a role through PSOM/PSI projects to promote corporate social responsibility at sector level (ibid.: 56, 58).

6.3.2. PUM Netherlands senior experts

The Foundation Netherlands Senior Experts that executes PUM (in Dutch “Programma Uitzending Managers”) is a non-profit organization founded in 1978 by the Dutch employers’ organization NCW.

As a volunteer organisation, PUM offers advice to small and medium-sized enterprises in emerging markets or developing countries. ...Our 1,700 experts share practical knowledge within 45 sectors. They have gained their expertise through work experience and are professionals in their field. Many of our experts have, or used to have, their own company in the sector within which they give advice. (PUM)

From its start, PUM has mainly been funded by the Netherlands Ministry of Foreign Affairs from its development aid budget (de Jong et al. 2016: 1). Throughout its existence PUM’s experts have been volunteers who provide a full range of advisory services to small and medium sized enterprises in countries of the global South which are financially not in a position to contract consultancy services on commercial terms. PUM’s services include onsite advice where an expert provides practical advice for the SME’s business operations typically for two weeks and later through remote assistance or a follow-up assignment. The SME must have been in business already for at least two years. Other services include seminars and trainings provided on the spot after an onsite assessment of the companies’ needs by the expert, train-the-trainers seminars as well as

vocational education to strengthen the links between businesses and vocational education. In accordance with the Dutch development policy to take into account also Dutch business interests PUM assists in business linkages between local and Dutch companies by inviting local companies to the Netherlands and linking them to potential business partners for trade or for purchases of e.g. Dutch machinery or products (PUM).

In the period 2006-2009, some 7.350 project were carried out in over 80 countries in a large number of sectors whereby most of the projects referred to agriculture, livestock and food processing, while the tourist sector was also well represented (Ecorys 2011: 18). In the period 2012-2015, some 7.570 projects in 66-73 countries were executed. Business links declined in this period from 220 in 2012 to 119 in 2015 (de Jong et al. 2016: 9). To give some idea of the scale of PUM funds, reference is made to the budget for 2017-2020 amounting to EUR40mio (Bitzer et al. 2017: 12).

PUM was evaluated by Ecorys in 2011 on behalf of the Ministry of Foreign Affairs and the Ministry for Economic Affairs, Agriculture and Innovation. It was concluded that whereas PUM contributes to the pursuit of the Ministry of Foreign Affairs' policy goal of fighting against poverty, the respective impacts were modest due to the small size of PUM's clients, due to limited multiplier effects and the localization of most of the clients in urban areas. It was also stated "The relevance of PUM for Dutch business is limited. Although PUM clients buy investment goods, the value of these purchases is often modest...Business links also seldom lead to sustainable international contacts" (Ecorys 2011: 19) which should not come as surprise as in some countries there are less than 30 projects carried out annually (ibid.). Thus,

More in general, it can be stated that PUM is a relevant programme for DGIS-DDE [departments within the Ministry of Foreign Affairs], whose financing should be continued, but that PUM is not the best suited instrument to promote Dutch businesses. However, the possibilities of improved company performance (in the target countries) as a result of PUM advice should be used to bring specific Dutch goods and knowledge into the limelight. In other words: see business links as a result of an advice and do not make it a goal per se." (ibid.: 22)

An evaluation of Bitzer et al. (2017) noted that a number of evaluations confirmed the importance of Dutch knowledge in the development field, especially the hands-on farming or business experience of Dutch professionals in all PSD programmes. However, with respect to PUM, the aim of establishing business linkages between Dutch and local businesses was the least successful activity of PUM (ibid.: 23). Another evaluation by de Jong et al. (2016) found that PUM would be more needed and fruitful in the least developed countries which on the one hand constitutes higher risks for being successful, but on the other hand promises higher returns in case of success, and that advice to a single client does rarely have knowledge spillover effects to other entrepreneurs in the

sector thus calling for group or sector wide PUM programmes. As to PUM's additionality, local entrepreneurs valued the advice of PUM experts, and only few of PUM's clients would have been financially able to pay for other international or local consultancy services (de Jong et al. 2016: 58).

6.3.3. CBI Centre for the Promotion of Imports from Developing Countries

CBI, the Centre for the Promotion of Imports from Developing Countries, was founded in 1971, was an independent agency until December 2014 and since then is part of the Netherlands Enterprise Agency. It is funded by the Ministry of Foreign Affairs. Its mission is to assist countries in the global South to connect to global value chains by supporting small and medium-sized enterprises in these countries to export to the European markets. "It is our belief that trade is a good means to stimulate economic growth and promote employment." (CBI) CBI's two main services refer to export coaching programmes to prepare SMEs in low- and middle-income countries for entry into European markets and to providing technical support, such as arranging trade fairs, to business support organizations in countries of the global South for their exporting members as well as making market information of export sectors in Europe available. Currently, CBI works in some 35 countries; regarding East Africa, it is active in Ethiopia, Kenya, Uganda and Rwanda. It pursues three main sectors in 14 subsectors - Agricultural, Fishery and Forestry; Consumer Products (amongst others apparel); Services (amongst others tourism). As of 2017, CBI ceased to cover the sector "cut flowers" (CBI).

An evaluation of CBI for the period 2005 - 2012 conducted by IOB mentions that CBI had funds of EUR180mio available in this period (IOB 2015: 27). There was a lengthy quarrel between two camps about the direction CBI should take. The one wanted to concentrate CBI's activities purely on making market information available, while the other believed that companies and business support organizations also needed assistance in business development in general; finally the second camp's opinion prevailed. The evaluation noted that - in contrast to the Ministry of Foreign Affairs' PSD policy objectives to give priority to low-income countries - CBI's activities were performed 90% in lower middle-income countries and only 3% in low-income countries (ibid.: 28 ff). In addition, CBI's interventions focused more on the individual company level instead of activities which aimed at initiating structural changes in partner countries (ibid.: 37). However, it was mentioned that up to 2012, the Ministry of Foreign Affairs did not provide adequate steering and management attention to the role of CBI, which changed after the establishment of the Minister for Foreign Trade and Development Cooperation within the Ministry of Foreign Affairs resulting in efforts for a better alignment with the trade and aid agenda.

A more proactive course taken by CBI led it to cooperate with international and national PSD organisations in a more structured manner. Despite good intentions [...], CBI is unfortunately seen as a ‘standalone’ service provider, not actively searching for or engaging in joint programmes that require more strategic approaches in country and sector promotion. The reports also indicate that during the period under evaluation, the CBI programme was developed and implemented autonomously, i.e. independent of the respective governments’ national development strategy and MFA’s [Ministry of Foreign Affairs] country programme (as implemented by the embassies). (IOB 2015: 51)

Finally, as of January 2015 CBI was integrated into the Netherlands Enterprise Agency due to the skepticism about its focus, only modest successes on assisting companies in their export efforts “[...] mostly due to unclear or misguided targeting of participating companies and target countries.” (ibid.: 149) and lack of adequate monitoring systems (Bitzer et al. 2017: 20).

7. THE NETHERLANDS - ETHIOPIA RELATIONSHIP

7.1. Dutch ODA to Ethiopia

On a global level, the Netherlands have been for decades and still are one of the largest donor nations being the 7th donor country amongst the OECD’s Development Assistance Committee (DAC) (see section 6.1./p.50). At the time of the start of the emerging cut flower industry in Ethiopia in 2005, the net ODA disbursements of the Netherlands to Ethiopia amounted to USD58,7mio constituting 4,12% of the Netherlands’ total net ODA disbursements to African developing countries of USD 1.422,4mio. Up to 2007, the Netherlands’ net ODA disbursements to Ethiopia stayed basically stable at around the level of 2005, but jumped to USD113,6mio in 2008 due to a severe malnutrition and starvation crisis. From 2009 - 2011 they fluctuated between USD85,9mio (2009) and USD54,5mio (2010) averaging USD69,4mio in this period. From 2012 - 2017 they averaged USD80,5mio fluctuating annually +/- 10 - 15% around this level. Throughout the period 2005 - 2017 the Netherlands have held the 5th or 6th position amongst Ethiopia’s largest DAC donor countries amongst which the USA (2017: USD1.026,7mio) and the United Kingdom (2017: 420,0mio) were consistently the two largest donor nations with the exception of the year 2005 when the United Kingdom held the 3rd rank. All figures and calculations above and below are derived from OECD 2011b: 50-51, 139; OECD 2015: 54-55, 170; OECD 2019: 56-57, 174.

Seen from a different angle, Ethiopia’s position as a recipient country of Dutch ODA for Africa has increased in the period 2005-2017. In 2005, Ethiopia was the 8th largest recipient in Africa of Dutch ODA improving its recipient position in 2009 to 4th place. Ever since 2012 up to 2017 Ethiopia has maintained its position as the most important African recipient country of Dutch net ODA disbursements. Ethiopia’s share of Dutch net ODA disbursements to Africa increased gradually

from 4,12% in 2005 to 7,1% in 2009 and was 11,5% in 2017. It has to be mentioned though that this percentage increase is due the decreasing overall Dutch ODA disbursements to Africa which amounted to USD716,1mio in 2017 and the relatively stable contributions to Ethiopia.

7.2. The Dutch private sector development policy in Ethiopia

The Dutch development policy from 2005 on focused, amongst others, on economic development and on promoting partnerships with parties in the business sector. Given the significant role of the Netherlands as donor nation to Ethiopia the following quotes document exemplarily the relationship between the Netherlands and Ethiopia for which the involvement of the Dutch business sector seems to be a differentiating characteristic from other donor nations:

The Dutch Ministry of Foreign Affairs [State Secretary Ben Knapen; appointed to State Secretary for European Affairs and Development Cooperation in Oct 2010] states the following about the economic relations between Ethiopia and the Netherlands: 'Economic relations between Ethiopia and the Netherlands are good. Since 2003, spurred on by Ethiopia's major agricultural potential, many Dutch entrepreneurs have set up businesses in the agriculture and horticulture sector, taking particular advantage of the favourable climate and tax incentives... Dutch businesses retain control over their own production, transport and sales. (IOB 2012: 6)

Although many donors are active in Ethiopia and the influence on government policy is limited, there is broad appreciation of the Dutch effort, in particular because of the innovative character and the involvement of the Dutch business sector (as a unique selling point compared to other donors). (ibid.: 10)

During the period 2005 - 2011, the Dutch private sector development policies were moved forward by a number of actors and instruments, mainly through central programmes managed from the Netherlands the major ones being PSOM/PSI, PUM and CBI, and partly through local initiatives and activities conducted e.g. through the Dutch embassy in Addis Ababa.

7.3. Dutch private sector development programmes in Ethiopia 2005 - 2011

The Netherlands contributed funds for various programmes and projects to overcome the described binding constraints in all five clusters (see section 5.6.). In the period 2005-2011 total funds provided amounted to EUR72,3mio and related to 33 instruments of which 16 instruments were accounted for by the *skills and knowledge cluster* to which more than 50% of the funds were attributed, i.e. EUR47,9mio. What is also apparent is that 82% of the instruments had less than EUR5mio of funds available and averaged around EUR900thsd. The graph below shows the distribution of instruments and funds over the five clusters:

Graph 15: Dutch PSD expenditures per cluster in Ethiopia (2005-2011)

PSD Cluster	No. of instruments	Expenditures in EUR, (2005-2011)
Finance	4	7.839.572
Infrastructure	1	3.362.169
Legal & Regulatory	4	5.413.219
Skills and knowledge	16	47.866.458
Market Access	4	7.836.246
Multiple clusters	4	Spread over the above clusters in %
Grand Total	33	72.317.664
<i>Of which grants</i>		70.238.783 (97%)
<i>Of which loans / guarantees</i>		2.078.881 (3%)

Table 8: Size of instrument			
Size	Total expenditures 2005-2011	No. of instruments	% of total expenditure 2005-2011
> 5 million EUR	€ 47.743.818	6	67%
< 5 million EUR	€ 24.573.846	27	33%

Source: Triodos Facet 2013: 16

Within the *skills and knowledge cluster* EUR15,9mio were attributable to 36 PSOM/PSI enterprise focused projects (Triodos Facet 2013: 28; however on page 36 it is mentioned that in subject period 39 projects were completed). These projects created 244 jobs/project, EUR1,5mio in incremental sales/project and follow-up investments of EUR1,2mio/project. Triodos Facet's evaluation report mentions that results of the projects should be considered with care as often final project evaluations were not done and thus, project conclusions were drawn from internal project documentation (Triodos Facet 2013: 27 f.). The PSOM programme became operational in Ethiopia 2004 and focused on the sectors which were also of priority interest to the Ethiopian government: agriculture and manufacturing. Projects for a number of enterprises in the floriculture sector were good examples for other investors for the feasibility of the venture. But the report also states "Most projects have more attention for CSR [corporate social responsibility] issues than typical 'local' businesses." (ibid.: 36)

PUM projects in the period 2005 - 2011 accounted for EUR488thsd and covered 92 expert missions which translates in average to some EUR5.300/mission. Normally, the travel expenses for the Dutch expert were covered by the PUM programme, while the local expenses were borne by the local SME. The expert delivered his/her services voluntarily for a period of usually 7-10 days on site. It is noteworthy that during the period 2005-2011 only 6 out of the 92 expert missions referred to the agriculture and horticulture sector, whereas the largest number of missions, namely 19, related to tourism, hotels and catering. No evaluations as to effectiveness and efficiency were available to Triodos Facet making it impossible to judge the value of PUM in Ethiopia (ibid.: 37). The overall assessment of the Dutch efforts to overcome the binding constraints regarding *skills and knowledge* was: "Overall, it can be said that the Dutch PSD programme 2005-2011 did make a contribution to

improving skills and knowledge, but the contribution is very modest, certainly in the light of the large population of Ethiopia.” (ibid.: 39)

In the cluster *market access* there was also CBI included as a programme. CBI disposed funds of EUR620thsd over the period 2005 - 2007 during which it supported 16 companies - none in floriculture and only one in fruits and vegetables - with its main service, export coaching. It was discontinued in 2007 due to lack of demand from the Ethiopian side (ibid.: 39 f.). As to the cluster *legal and regulatory framework* four projects were funded partially by the Netherlands. Amongst these, there was a project which had as an objective to implement plant breeders rights in Ethiopia for which funds in the amount of EUR260thsd were made available in 2010 (ibid.: 24) and up to 2012 in sum EUR440thsd (IOB 2012: 14). The project was assisted by Wageningen UR. It was aimed to amend a government proclamation of 2006 which however, was changed in 2017 only. With respect to the cluster *legal and regulatory framework*, Triodos Facet states:

In a few cases, the Dutch PSD programme eased administrative barriers in the horticulture sector, related to the PPP (plant breeder’s rights, regulations for import of agricultural inputs, IPM [integrated pest management]). However, the Government of Ethiopia makes its own plans, and in some cases changed priorities or its interpretation of the objective of the programme, which sometimes resulted in projects becoming ineffective or even sorting adverse effects.... In short, the private sector in Ethiopia is still strongly controlled by the government and the Dutch contribution to resolving these binding constraints has been very limited. (Triodos Facet 2013: 26)

There were also multiple cluster projects which addressed more than one cluster at the same time and consisted of projects in a specific business sector or geographic area. Three cross cutting projects referred to public private partnerships (PPP) in horticulture, oilseeds and seeds which had the following expenditures: horticulture EUR4,1mio (2007-2011), oilseeds EUR1,5mio (2009-2011) and seeds EUR950thsd (2009-2011). Due to the export success of the horticulture sector, i.e. the significant growth of cut flowers exports from Ethiopia, subject PPP was the most visible and effective of all the Dutch PSD instruments to contribute to changes in the binding constraints, but the Ethiopian government’s incentives for this sector should not be overlooked. The Dutch PSI programme helped investors to start in this sector in a more expansionary way regarding social and environmental aspects of the business, but based on feedback from investors they would have started in this sector also without PSI funding. “Growth of the horticulture exports sector is thus only limitedly attributable to the Dutch PSD funding.” (ibid.: 56)

While Triodos Facet’s report comments its findings regarding the access to financial services as “It should be noted [...] that the access to finance was extremely low, and the challenge of access to financial services remains pressing.” (ibid.: 56), it summarizes the overall contribution of the PSD

policy programmes to resolving the binding constraints on a positive note, mentioning specifically the Ethiopian-Netherlands Horticulture Partnership:

Overall, it can be stated that the contribution of the Dutch PSD instruments to changes in binding constraints or the development of the private sector in Ethiopia has been visible, especially in the agricultural sector.... The sub-sector where the Dutch PSD programme has clearly had an evident impact is the horticultural exports sector. The main PSD instruments that supported the sector were the PSOM/PSI programme and the Ethiopia Netherlands Horticulture Partnership (ENHP or PPP horticulture). (ibid.: 61)

However, these positive conclusions should be seen with some caution as the details of the report show a somewhat different and critical view.

7.4. The Dutch Embassy in Ethiopia

At this juncture it is useful to address the role of the Dutch embassy in Addis Ababa with regard to implementing or assisting in implementing Dutch development policies both through programmes centrally managed from the Netherlands or programmes and projects under the responsibility of the embassy. The Netherlands have an embassy in Addis Ababa since 1950. Next to the embassy's representation in the African Union, providing development assistance has been one of the core elements of the embassy's tasks. It is one of the few Dutch embassies which have the private sector development (PSD) as a key development objective in their Multi Annual Strategic Plans (MASP) which are drafted and reviewed regularly by the embassy and accorded with the Directorate-General for International Cooperation at the Dutch Ministry for Foreign Affairs. The role of the Dutch embassy with respect to private sector development is depicted by the following quote:

In the period 2005-2011, Dutch business interest and investment in Ethiopia are on the rise, especially in the floriculture sector. The embassy throughout the period under review is quite busy facilitating trade missions, promoting investments by Dutch companies and providing support to individual Dutch enterprises on issues with the Ethiopian government. Also, the EKN [Dutch embassy] in Addis provides input to the 'instruments for businesses' (PSOM/PSI, PUM etc.), by advising project applicants on whether their proposals are in line with the country's focus and the Embassy's themes and priorities, and by giving advice and establishing new connections (also to avoid duplication). (Triodos Facet 2013: 13f)

The MASP 2005 - 2007 and MASP 2008 - 2011 covered a broad spectrum of areas which the embassy wanted to pursue, such as governance, human rights situation and security, but also work on fostering sustainable growth, poverty alleviations, education and health issues such as Aids/HIV. During the period 2005 - 2011, the embassy funded PSD projects with a total expenditure of EUR72mio (Triodos Facet 2013: 12 f.; IOB 2012: 13.). In the MASP 2008 - 2011, the embassy described a set of strategic results to be achieved with respect to sustainable growth:

Graph 16: Sustainable growth objectives - extract from the Netherlands Embassy's MASP 2008-2011

Table 6: Extract on PSD from the Royal Netherlands Embassy MASP 2008-2011	
Level	Description
Strategic EKN results	<ul style="list-style-type: none"> - Restructuring the policy dialogue between government and donors on strategic issues of agricultural development and private sector involvement, combined with a well-structured follow up through a multi donor support programme; - At least three public private partnerships established on horticulture, oilseeds and seed sector; - Increased added value and chain integration in fruits, dairy, oilseeds and honey; - Graduation of formerly food aid dependents to self-sufficiency through the Productive Safety Net Programme; - Stronger business organisations and better position within public-private dialogue.
Source: Royal Netherlands Embassy MASP 2008-2011	

Source: Triodos Facet 2013: 13

The above objectives were aimed to be reached through the main instruments of the embassy of policy influencing, of non-financial support to the private sector and of developing and funding PSD programmes and projects. As to the policy influencing, the embassy sought the dialogue with the government bilaterally as well as in its function as an active member in a donor coordination body, the Development Assistance Group (DAG) for Ethiopia. Currently, the DAG Ethiopia comprises 30 bilateral and multilateral development partners. “The main objective of DAG is to foster policy dialogue and coordinate/ harmonize development partners' support for effective implementation, monitoring and evaluation of the national development plan and Sustainable Development Goals (SDGs).” (DAG) Triodos Facet stated that the embassy's bilateral private sector development dialogue with the Ethiopian government was fairly effective regarding the floriculture export sector, but in other private sector areas the effects of such dialogues were not tangible.

With respect to the effects of EKN's [Dutch Embassy] “policy dialogue” on private sector development with the Government on Ethiopia, this was found to have been effective (to a limited extent) in the horticulture export sector, which has GoE's [Government of Ethiopia] priority attention and where EKN is perceived as an appropriate policy dialogue partner. In the PSD related donor coordination groups, or in bilateral policy dialogue promoting more general changes in the PSD policies of the GoE (e.g. on access to finance), the effects are not tangible. (ibid.: 61)

The embassy's non-financial support referred to advising Dutch investors and intermediating between government authorities and the entrepreneurs. Since 2004, 50 Dutch companies started joint ventures in Ethiopia which brought the total of Dutch companies to some 100 (MASP 2011: 4). A very visible achievement of the involvement of the embassy was the set-up of the Ethiopian Horticulture Producer Exporters Association (EHPEA) in 2002 and the conclusion of the Ethiopian-Netherlands Horticulture Partnership in 2006.

7.5. Ethiopian Horticulture Producer Exporters Association

The strains and efforts of the flower growing pioneers in Ethiopia such as Golden Rose, Sher Ethiopia and a small number of domestic firms in the early 2000s would not have been successful if the Ethiopian government had not realized the potential of the flower sector for exports and foreign exchange revenues. For making the government aware of these potentials the foundation of the non-profit organization Ethiopian Horticulture Producer Exporters Association/EHPEA in 2002 was instrumental. It undertook lobbying at the government level for investment incentives, availability of land and transportation necessities (Melese/Helmsing 2010: 65). At foundation there were 5 members which have increased to 119 members at present. The members are active in the production of flowers, vegetables, fruits, herbs, and cuttings (EHPEAa). The mission of EHPEA and some of its objectives like representing and promoting the interests of its members, introducing a code of practice to ensure sustainability of production and corporate social responsibility are best summarized:

The Mission of the Ethiopian Horticulture Producer Exporters Association is to promote and safeguard the sustainable competitive position of the Ethiopian horticulture sector within the global market. This will be achieved by [...] Representing and promoting the interest of its members at local, national and international level and working to ensure good working relations and cooperation between the Sector and Government and between members and key Stakeholders in the sector [...] Developing and introducing a Code of Practice that will guide members in the implementation of sustainable practices relating to Production Practices, and Corporate Social Responsibility [...] Implementing a system of Auditing for the Code that has international credibility and which will ensure that members get recognition for the implementation of sustainable production practices and corporate social responsibility on their Farms. (EHPEA 2007: 2)

The Dutch embassy in Addis Ababa was an important actor in setting up EHPEA through providing funding and assistance. Since then, most of the funding of EHPEA and its projects has come from the Dutch embassy. While figures from the early years were not available, funding from 2010-2017 totalled some EUR5mio; for the period 2017-2021 EUR 4,0mio were budgeted during which specific focus should be given to Responsible Business Conduct issues such as working and wage conditions, gender themes, environment, land issues and community relationships (Bitzer 2019: 14, 23 ff.).

In accordance with EHPEA's mission and objectives as described above, various activities of EHPEA were funded like the development of a Code of Practice with respect to social and environmental conditions and performance of flower farms resulting also in the definition of sustainability standards Bronze in 2007, Silver and Gold in 2010. In a subsequent phase of funding EHPEA's focus was laid on Integrated Pest Management, capacity building, business environment

and support to emerging producer exporters whereby EHPEA's task was to do specialised trainings on farms, including trainings on gender and Sexual and Reproductive Health and Rights (SRHR) (ibid.: 15). EHPEA played an important role in the establishment of the Ethiopian-Netherlands Horticulture Partnership (ENHP) in 2006.

7.6. Ethiopian-Netherlands Horticulture Partnership

To promote the cut flower growing sector in Ethiopia, EHPEA also established relationships with a number of donor organisations, e.g. the UK's Department for International Development, French Development Corporation and the Dutch government. It was the Dutch Ministry of Agriculture, Nature and Food Security which opened an office at the Dutch embassy with the appointment of an Agricultural Counsellor in Addis Ababa in 2006 to focus on public private partnerships and value chain development and to promote bi-lateral relations with a particular focus on floriculture. As well in 2006, the Ethiopian-Netherlands Horticulture Partnership was signed. It is a partnership between the Dutch Embassy, the Ethiopian Ministry of Trade and Industry, the Ethiopian Ministry of Agriculture and Rural Development, the Ethiopian Horticulture Development Agency¹⁰ and EHPEA representing the horticultural sector in Ethiopia (Triodos Facet 2013: 44 f). The agricultural counsellor at the Dutch embassy in Addis Ababa played an important role as he drafted the mission statement for the partnership. The partnership should contribute, amongst others, to

1. A competitive, demand driven, self sustaining and innovative horticulture cluster well connected in international networks.
2. Environmentally and social friendly production.
3. Human resource development and enlarging the positive spin-off on local, regional and national social development.
- [...] 6. A institutional framework which enables the sector to meet (future) market demands and opportunities and to operate in a social and environmental friendly and broadly accepted manner.
7. Strengthening the cooperation between Ethiopia and the Netherlands. (de Jager/Helder 2006: 14)

The partnership was governed by a partnership committee which set the priorities, approved projects submitted by members of the association, monitored and reported on the progress of the partnership projects and made evaluations of finished projects. In the partnership committee, there was a strong representation of the Ethiopian public sector institutions:

- Chair: Ministry of Trade and Industry (as of Dec 2008 the PC will be chaired by a representative of the Ethiopian Horticulture Development Agency) (public)
- Ethiopian Horticulture Producers and Exporters Organization (private)

¹⁰ "The Ethiopian Horticulture Development Agency (EHDA) is an autonomous Federal Government Institution established by the Council of Ministers Regulation No 152/2008. The Agency is headed by a Director General appointed by the Government. The major objective of the Agency is to ensure the fast and sustainable growth of the horticulture export industry by providing support in the area of three pillars of development, i.e. investment, capacity building, and market promotion." (EHDA)

- Crop Protection Department, Ministry of Agriculture and Rural Development (public)
- College of Agriculture and Veterinary Medicine, Jimma University (public)
- Ethiopian Institute for Agricultural Research (public)
- Ministry of Trade and Industry (public)
- Agricultural Office, EKN (donor) [Dutch embassy]

Source: de Boer/Pfisterer 2009: 17

In connection with the conclusion of the ENHP there were missions to Ethiopia headed by Wageningen University & Research (Wageningen UR) in May and October 2006 to determine the goals, the priorities and activities of the partnership and to design an action plan for the period 2006-2007. The involved stakeholders included the Agricultural Counsellor at the Dutch embassy, Wageningen UR, EHPEA, representatives of the Ethiopian Ministry of Trade and Industry (responsible for the floriculture sector) and the Ethiopian Ministry of Agriculture and Rural Development (responsible for the fruits and vegetables sector) and farm representatives.

The mission report from May 2006 elaborated the jointly developed and proposed project activities for the floriculture sector in the framework of the partnership: “1. Capacity building in the floriculture sector in Ethiopia; 2. Code of Conduct for the floriculture sector; 3. Capacity building phytosanitary unit; 4. Market Information Service; 5. Integrated Pest Management; 6. Decision support model for location of flower production.” (de Jager/Helder 2006: 6) These activities were different from those of the fruits and vegetables sector due to their highly different characteristics and growth potentials (ibid.: 4). As to the implementation of the activities the mission report stated: “The activities will be implemented jointly by Ethiopian stakeholders, institutions and research centres and Dutch organisations, mainly Wageningen UR. The Dutch input in the activities focuses on expertise and capacity development as well as establishing Ethiopian-Dutch linkages and networks.” (ibid.: 6) The detailed activities plan in the report which also included a timeline and responsibilities for implementation assigned a central role to Wageningen UR as representatives from the Dutch side (ibid.: 9-13).

The mission in October 2006 focused on the domain “Capacity building in the floriculture sector in Ethiopia” aiming at identifying the needs and priorities as well as at formulating a strategy for capacity building for 2007-2012 to be started as of 2008. Identified areas for capacity building included basic horticultural knowledge, practical skills, pesticide use, post-harvest requirements, upkeep of machinery and equipment, skills to operate a farm to name a few (de Jager et al. 2006: 5 f.). The mission concluded that Jimma University located some 350km southwest of Addis Ababa should play an important role in the development of a capacity building programme as it offered

higher education in agricultural sciences with graduation possibilities as BSc and MSc. As there did not exist in Ethiopia any floriculture industry specific practical training, there was an urgent need for training of floriculture practical skills and knowledge as well as of an understanding of the general requirements and standards of the floriculture marketplace. Thus, the recommendation was to develop and to offer short part-term practical trainings, train-the-trainer programmes and through Jimma University higher level education in floriculture. In the short term, training should be based on existing material, but in the long term fully fledged programmes were considered necessary covering such areas like basic crop production, integrated pest management, post-harvest and supervisory skills. The capacity building and the training programmes should be industry-driven and over time self-sustainable without donor support (ibid.: 14-19).

There is a report from March 2009 commissioned by the Dutch Ministry of Foreign Affairs and the Dutch Ministry of Agriculture, Nature and Food Quality which had the task to review the Ethiopian-Netherlands Horticulture Partnership within the framework of the World Summit on Sustainable Development (WSSD) public-private partnership program on “Capacity Building and Market Access”. This report describes basically the findings of the two mission reports above and drew first conclusions about the partnership to operate on equal footing of the stakeholders which was a new concept for the Ethiopian government being used traditionally to a hierarchical and non-participatory style of government and being mainly concerned with the enforcement of rules and laws. The working together of the various stakeholders - Ethiopian government institutions, the Dutch embassy, in particular the agricultural counsellor, EHPEA, private sector representatives, Dutch training and research experts - on programme and project level contributed to a mutual understanding and two-way learning experience which made the partnership also efficient in terms of cost and time investments of the various partners. The factors which contributed to the efficiency of the partnership referred to the pro-active role of the agricultural counsellor and the support of the Dutch embassy, stakeholder involvement on highest levels, good support by Dutch experts and the commitment of the Ethiopian government to be actively involved in the partnership (de Boer/Pfisterer 2009: 29, 32 f.). Even though at the time of the review (late 2008/early 2009) the partnership had been in existence for 2 years only, the report concluded that the training and capacity building measures taken had been effective, i.e. had added value, in terms of laying the groundworks for the sustainability of the sector thanks to implementing a code of practice adapted to Ethiopian specificities, to improving post-harvest handling methods as well as to introducing integrated pest management research and pilot studies in the Ethiopian rose sector (ibid.: 31). In another review about the Dutch WSSD partnership programmes in Tanzania, Kenya, Ethiopia, Zambia and Uganda it is stated that the horticulture public-private partnership in Ethiopia appeared

to be the most effective one in comparison to the other countries due to the fact that the development of the horticulture sector was both an integral strategy of the Dutch embassy as well as of the Ethiopian government as the joint view facilitated the search for synergies with other funds and built cohesion for the sector (de Boer et al. 2009: 6).

In a later review (Triodos Facet 2013) it is noted that most of the partnership activities started in 2009 only. In the period 2009-2011 ENHP supported 25 projects of which 18 were partly finished in 2011. As shown in the table below, in sum EUR1,32mio were provided for ten projects (2005-2011) of which the development of a code of practice accounted for the highest expenditure of EUR314thsd (23,8% of total) followed by expenditures for management capacity building and integrated pest management (ibid.: 45). As is evident from this table, expenditures for the various projects cannot be considered to have been of any sizeable amounts.

Graph 17: Ethiopian Netherlands Horticulture Partnership - Public Private Partnerships - Horticulture projects 2005-2011

Area of intervention and purposes	Projects supported	Expenditures in euros
1 Management Capacity Building: <i>To improve yield and quality of flowers production through improved on farm technologies and management systems.</i>	2	299.275
2 Code of Practice: <i>To guide and monitor the sustainable development of the sector and to provide a tool to communicate progress and achievement in the areas of social and environmental performance</i>	2	314.058
3 Integrated Pest Management (IPM): <i>To promote IPM on flower, herbs and fruit farms through different trials and build the local knowledge and human capacity base.</i>	2	278.786
4 Capacity building in Fruit and vegetable: <i>To strengthen Fruit & Vegetable export based on conducting national & international conditions assessments.</i>	2	49.650
5 Post harvest handling: <i>To study & recommend an appropriate packaging standard for flower exporting and also system for improvement of the cool chain</i>	2	99.126
6 Building national professional capacity: <i>To build professional HR capacity through supporting higher education up to level of post graduate in horticulture.</i>	2	45.000
7 Market development: <i>To study and explore new windows for market place diversification and development.</i>	3	116.758
8 Produce post harvest training manual	1	1.500
9 Support smooth operation of the ENHPP: <i>support secretariat and general expenditures like accountancy and banking</i>	1	36.757
10 Improving export guidelines	1	74.385
Total for projects	18	1.315.297

Source: Annual and biannual reports EPHEA 2009-2011
Note: only projects of which a half or more of the budget was spent at the end of 2011 are in this table. For that reason, some project numbers are missing, for which EHPEA already received money from the EKN. This explains the difference between the table above (total expenditures) and the current one.

Source: Triodos Facet 2013: 45

One of the projects of the ENHP which caught a lot of attention was the development of the Code of Practice for Sustainable Flower Production. The code was introduced by EHPEA in 2007. “It is meant to be a voluntary standard in order to guide, monitor and communicate the social and environmental performance of flower farms engaged in export production. By this, the code is setting requirements for good agricultural practices, protection of the environment, worker welfare and employment practices on different levels (Bronze, Silver and Gold).” (Mengistie et al. 2017:

799) In 2011, the Ethiopian government legally defined the Bronze level as a minimum mandatory requirement for horticulture farms to obtain an export licence (Triodos Facet 2013: 46). In a survey by Mengistie et al. (2017) about sustainability standards conducted with 29 flower farms, it is noted that the EHPEA-Code of Practice was adopted by 90% of the sampled farms with the majority at Bronze level (ibid.: 799). The implementation of a code of practice in 2007, further gradations in 2010 and their continued applicability and use ensure the entry and access to the international flower markets. However, it has to be mentioned the EHPEA floriculture sustainability standards are just one of many more international floriculture sustainability standards which grant or restrict, respectively, access for flower growers to the international markets. Amongst the most important of such standards are MPS set by Dutch growers and auctions or Global-GAP of the coalition of European supermarkets.

8. ETHIOPIA'S DEVELOPMENT PLANS

8.1. Ethiopia's political development

Ethiopia's history in the last century is marked by various time periods including an imperial regime from 1941-1974 under Emperor Haile Selassie, the Marxist-Leninist Derg regime from 1974-1991 and the present regime of the Ethiopian People's Revolutionary Democratic Front (EPRDF) since 1991. It is remarkable that Ethiopia throughout its history has always kept its independence even through the time of the Italian occupation from 1936-1941. The imperial regime was marked politically by strict hierarchical structures, which could be called feudal, and a centralized administration which gave almost no autonomy to the regions. The country became member of the United Nations and allied with the United States which enabled Ethiopia to incorporate the former Italian colony of Eritrea in 1952. Peasants' unrests in some areas due to unsatisfactory land reforms, student demonstrations inspired by revolutionary thinking of Marxism-Leninism and increasing dissatisfaction with the government finally led to a military coup in 1974 (Clapham 2019: 35 f.).

The authoritarian Derg regime which was headed up by Haile Miriam Mengistu as president from 1977-1991 envisioned a classless society and allied with the Soviet Union, nationalized all rural and urban land and most of the industries. To a large extent it also collectivized the agricultural sector. The Derg regime induced or forced, respectively, small farmers to form agricultural producers' cooperatives moving them into compact villages ("villagization") which, however, had further negative effects on agricultural production. Due to drought, the Derg regime was faced in 1984-1985 with a most serious famine which it was accused not to fight against sufficiently as it gave central priority to the fight against the Tigray People's Liberation Front (TPLF) which wanted more

autonomy in the Tigray region and the Eritrean People's Liberation Front (EPLF) which fought for independence from Ethiopia. The Derg regime's general mismanagement and its violent rule created strong opposition. In addition, the gradual breakdown of the East Bloc from 1989 on and the Perestroika in the Soviet Union which fell apart in 1991, contributed to the stop of the economic support of the Derg regime. As a result, the weakened Derg regime was overthrown by TPLF and a few other opposition forces in 1991 (ibid.: 36-40).

They formed the Ethiopian People's Revolutionary Democratic Front (EPRDF) as a political coalition headed by Meles Zenawi who was the leader of TPLF. Zenawi acted as president of the interim government from 1991-1995 and after elections in 1995 as prime minister until his death in 2012. Under his reign important policy steps for Ethiopia's political, economic and social development were initiated which will be described in later sections of this chapter 8. EPRDF has been in government power ever since 1991. In November 2019, the party chairman of EPRDF and current prime minister Abiy Ahmed in government office since 2018 and awarded the Nobel Peace Prize in 2019, dissolved the EPRDF to found officially the pan-Ethiopian Prosperity Party (PP) as of December 1st, 2019 in which with the exception of the TPLF all other ruling coalition parties are part. The goal of Ahmed for this new party formation is reportedly to overcome the political landscape of strongly ethnicized politics which meant that in the last 30 years political parties pushed their ethnically determined agendas causing constant interethnic tensions relating to - amongst others - land ownership and political representation (Gerth-Niculescu 2020). National elections scheduled for August 2020 where this new party would have been up for election for the first time were postponed until 2021, explained by the government by the need to overcome first the current COVID-19 crisis. The postponement is seen by some as a means to secure Ahmed's power being criticized to becoming more and more authoritarian (Schiwkowski 2020). Since September 2020 tensions have grown between the federal and the Tigrayan government escalating to a military confrontation in mid November. Tensions escalated due to regional elections held in Tigray in September against the wish of the federal government which then also stopped federal funding for Tigray. Observers consider the escalating tensions as a result of decreasing influence of Tigray which despite its low population of only some 5,3mio people had had the major influence on government policies prior to Ahmed's taking power (New York Times 2020).

8.2. Ethiopia as a “developmental state”

Ethiopia has been characterized as a developmental state (DS) in recent years due to the decades of the high degree of state intervention in the economy and the state's focus in its development efforts on industrialization drawing its considerations from the East Asian development experiences of the

Tiger states, primarily South Korea and Taiwan, as well as Japan (Hauge/Chang 2019: 824). Referring to East Asian development experiences and developmental states' literature Hauge/Chang denote - in fundamental terms - a developmental state as a state which 1. is orientating itself strongly on the development experiences of the Asian tiger economies and Japan; 2. combines private ownership with strong state intervention; 3. prioritizes economic development to be achieved through industrialization; 4. draws its legitimization from its achievements of its economic development efforts; and 5. has a professional bureaucracy which keeps equidistance to the private sector and everyday politics, but can partner with the private sector and mediate between various key interest groups (ibid.: 826 ff.). They point out that the experiences of the East Asian development models were rooted intellectually early on in the thinking of high ranking members of the Tigrayan People's Liberation Front, amongst others Meles Zenawi, having studied them already prior to their taking power in 1991 (ibid.: 828 f.). From 2008 on, Ethiopia started regular dialogues with Japanese experts from the National Graduate Institute for Policy Studies, Tokyo (GRIPS); between 2009-2011 a delegation from GRIPS held quarterly meetings with Meles Zenawi and his economic advisors providing input for the five year national development plan, the Growth and Transformation Plan I, of the Ethiopian Ministry of Finance and Economic Development which covered the years 2010/11 - 2014/15 and had industrialization programmes at the core of this plan (ibid.: 829). High level ministerial meetings between Ethiopia - Japan continued also after Meles Zenawi's death in 2012 in which achievements in Ethiopia of the respective development plans were regularly reviewed and where the Japanese side provided feedback and input also for the Growth and Transformation Plan II (2015/16-2019/20). In addition, numerous study tours were made in Japan and Ethiopia (Ohno/Ohno 2019: 846 ff.).

Altenburg lists a number of areas indicative for developmental states, on which Ethiopia's development path was based in the following of East Asian examples:

[...] early focus on productivity growth in agriculture in order to accumulate capital, increase supply for agro-industries, and generate demand for manufactured goods; restriction on ownership of land; a nationalised banking system that has enabled governments to channel credit from rent-seeking to value-creating activities; incentives for export-orientation; 'carrot and stick' policies for enterprises, e.g. setting productivity and export targets; a focus on export-led industrialisation; and control of industries as a 'cash cow' to generate the financial means the ruling party needs to retain political hegemony. (Altenburg 2010: 16)

8.3. Ethiopia's development plans

After taking power in 1991, the EPRDF government's efforts focused on reconciling and reconstructing the country following the continuous slipping of wider sections of the population

into poverty during the Derg regime. As elaborated in more detail in the following sections the new government initiated market based reforms recognizing the role of the private sector, aimed to foster competition by setting new competition rules, planned to privatize a number of state owned companies and to reduce its interventions in trade and factor markets. Through an investment law passed in 1992 it tried to create a domestic and foreign investment friendly environment by offering a number of investment incentives such as tax holidays, duty-free import of capital goods, duty drawbacks on exports, etc. However, land ownership remained at the state and state control was maintained for a number of strategic industries, such as telecommunications, power generation and the national air carrier. The financial sector continued to be dominated by state owned banks. The government instituted a number of sector development programmes aimed at expanding education, health, road and power generation infrastructure. These measures helped to stabilize the country in the 1990s; but only since 2003 economic growth had taken off as described in section 5.2. (Altenburg 2010: 7 f.; Manyazewal/Shiferaw 2019: 143 f.).

8.3.1. Agricultural Development-Led Industrialization (ADLI)

The Ethiopian government adopted an economic policy in 1993, called Agricultural Development-Led Industrialization (ADLI). It can be regarded as the starting point for industrial development and also intended to ensure the political support of the large rural population which constituted 87,1% of total population in 1991 and is still 78,8% in 2019 (World Bank 2020). It considered the smallholder agriculture as the base for development as labour intensive producers of surplus which would then be processed into goods for the international markets. This would allow peasants to grow out of subsistence farming and thus leave their impoverished environment (Clapham 2019:44). While this policy had a strong element of poverty reduction, its primary goal was to increase productivity in smallholder agriculture through giving better access to modern agricultural inputs, advisory services and road connectivity. This should finally lead to industrial expansion and a structural transformation. “The underlying premise is to exploit the country’s comparative advantage in agro-processing industries. These efforts to increase value addition domestically were backed by trade policies that restricted the export of raw hides and skins through high export taxes imposed in 2008. Increased agricultural income was, in turn, expected to raise demand for manufactured consumer goods.” (Manyazewal/Shiferaw 2019: 144) Although the agricultural sector grew faster than in the past with also some more exports, there was no evidence that it helped industrial expansion. “The expected linkages between smallholder agriculture and manufacturing turned out to be elusive.” (ibid.: 144)

8.3.2. Plan for Accelerated and Sustained Development to End Poverty (PASDEP)

PASDEP followed the Sustainable Development and Poverty Reduction Strategy Plan (SDPRP). SDPRP covered the years 2002/03 - 2004/05, was interwoven with and built upon ADLI, respectively. Policy measures in the agricultural sector were the overriding focus of SDPRP as the bulk of the poor lived amongst the rural population (MoFED 2002: i). Utilizing labour resources, intensifying the use of land, making agricultural products internationally competitive and apt for exports as well as capacity building through training were cornerstones of SDPRP (ibid.: iii; v; 51 f.).

PASDEP covered the period 2005/06 - 2009/2010. It built on the development strategies pursued under ADLI and SDPRP. The drawing up of the plan took a little bit more than one year and involved various ministries, the parliament, all federal states, civil society organizations, the Addis Ababa and Ethiopian Chamber of Commerce and the donor community organized in the DAG - a very broad effort undertaken for the first time in Ethiopia (MoFED 2006: 45).

The vision for Ethiopia was expressed in the Plan as follows. “In the coming 20 to 30 years, Ethiopia's vision is to reach the level of middle-income countries where democracy and good governance are maintained through people's participation and where good will and social justice are secured.” (ibid.: 44) The plan put a major focus on growth “[...] with a particular emphasis on greater commercialization of agriculture and enhancing private sector development, industry, urban development and a scaling-up of efforts to achieve the Millennium Development Goals (MDGs).” (ibid.: 1) whereby the need for a significant acceleration of the growth, primarily in agriculture and in the private sector development, was stipulated as a requirement for the reduction of poverty (ibid.: 46). This commercialization of agriculture to be supported by private investments, could take place in two ways: 1. “[...] in the Highlands with a focus on high-value horticulture products where production can take place on limited land but abundant labour”; and 2. “through large-scale commercial investments in areas where there is extensive land but labour scarcity prevails (mainly in the Lowlands).” (Gebreeyesus 2019: 690).

In order to accelerate agricultural development PASDEP considered it necessary to shift to higher value crops - both for domestic consumption and export - , to identify and to develop agricultural areas for intensified use taking into account Ethiopia's different regional agro-ecological conditions, to support large-scale commercial agriculture and to better link the millions of farmers to domestic markets. All this would have to come mainly from the private sector. In order to ignite this acceleration PASDEP foresaw a broad set of measures listed below:

- Constructing farm-to-market roads;
- Development of agricultural credit markets,
- Specialized extension services for differentiated agricultural zones and types of commercial agriculture;
- The development of national business plans and tailored packages for specialized export crops (such as spices, **cut flowers**, fruits and vegetables);
- Supporting small-scale irrigation and area irrigation through multi-purpose dams;
- Measures to improve land tenure security, and to make land available where feasible for large-scale commercial farming;
- Reforms to improve the availability of fertilizer and seeds; and,
- Better-functioning agricultural markets for both inputs and outputs, and institutions, including improved value chains, information flows, quality and standards support, and cooperatives that strengthen the position of farmers in the market.

(MoFED 2006: 47; highlighted by the author)

8.3.2.1. Floriculture in PASDEP

At this point, it is important to mention that during the time period of PASDEP when the Ethiopian floriculture sector started to lift off, investments of Dutch flower farmers were made and the Dutch government, the Dutch embassy in Addis Ababa, the Ethiopian Horticulture Producer Exporters Association and the various parties of the Ethiopian-Netherlands Horticulture Partnership, amongst others the Wageningen University & Research, became significantly involved in the floriculture sector using the Netherlands' global strengths in the agricultural, flori- and horticultural field.

PASDEP addressed the floriculture sector only quite superficially whereas a number of other agricultural products were pointed out specifically for which - in line with Ethiopia's tradition of state-led development policy setting - product plans and growth targets were determined. These products included coffee - the largest export item of Ethiopia - , tea, cereals, oil seeds, pulse, fiber crops, fruits, vegetables and spices (ibid.: 72-77). Cut flowers were not listed in detail, except for a short note that the 322ha of land covered by flower production by the end of Feb 2004/2005 should increase by the end of the plan period 2009/10 to 2.000ha of which 1.600ha should be covered by greenhouses. Employment in this sector should increase from some 21.400 people from the end of Feb 2004/2005 of which 64.4% were women, to more than 70.000 persons by the end of the plan period (ibid.: 154). Reference was also made that the floriculture sector with support from the government, had developed its exports significantly in the last three years prior to the start of PASDEP which would be a good ground for further expansion and could serve as an example also for other sectors (ibid.: 157).

8.3.2.2. Private sector in PASDEP

The second key component of PASDEP referred to the acceleration of the private sector where the government “[...] will pursue every avenue available to accelerate the growth and development of the sector.” (ibid.: 48) The three main components for this acceleration referred to 1. the strengthening of the institutional framework related, amongst others, to the implementation of a free competition policy and of regulatory reforms regarding land ownership and land tenure security for investment and trade purposes, to upgrading the skills of the workforce through intensified training and vocational education, to financial sector reform, to intensified infrastructure development; 2. the exploitation of niche-markets, specifically mentioning promoting the expansion of tourism, livestock, horticulture and floriculture, and mining; and 3. pushing exports with the target of export earnings from goods and services to reach 15 to 20% of GDP by the end of the plan period in 2009/2010 (ibid.: 47 f.). It should be noted already here that Ethiopia’s emphasis to accelerate its private sector development certainly matched well with the Netherlands’ development aid policies regarding private sector development.

8.3.2.3. Industrial policy in PASDEP

PASDEP reiterated Ethiopia’s commitment of its Industrial Development Strategy based on ADLI and implemented since 2001/2002, to the ultimate goal of becoming an industrialized country. PASDEP acknowledged that industry had been in a state of infancy and that the linkages between agricultural and the industrial sector had been very limited which hampered socio-economic transformation. The limited scope of industry including manufacturing, construction, hydropower and mining was reflected by its average share of less than 14% of GDP (ibid.: 150). PASDEP stated that the agricultural sector should play a major role in supplying inputs to the industrial sector as well as creating the market for outputs of the industrial sector. “This involves strengthening of inter-sectoral linkages (between agriculture and industry) on the domestic front and through exploiting the potentials and opportunities of regional and global economic integration. The rural-centered ADLI within the framework of a free market economy is the principal driving force of the strategy.” (ibid.: 151) Targets were set for the textile and garments sector, the leather and leather products sector, the cement industry and for sugar production (ibid.: 152-154).

8.3.2.4. Results of PASDEP

Drawing up a plan with ambitious goals and implementing and controlling it are two different things. In the Growth and Transformation Plan I (GTP I) which succeeded PASDEP and covered the objectives and goals for the years 2010/11 - 2014/15 (see section 8.4.3.) also the achievements

and shortfalls from PASDEP were described. As to the years 2005/06 - 2009/10, the development of the macroeconomic situation showed an average GDP growth of 11% p.a. as well as average growth rates for the agricultural and the service sector above the set growth targets, but the average growth of industry did not reach the target.

The Ethiopian economy has shifted to a higher growth trajectory since 2003/04. This has been sustained, and during the last five years, overall real GDP has grown rapidly at an average of 11% per annum (See Table 1. and Figure 1. below.). Agriculture, Industry and Services have registered an average annual growth rate of 8.4%, 10% and 14.6, respectively. (MoFED 2010: 4)

Graph 18: Ethiopia - Growth in GDP 2005/06 - 2009/10 and main sectors share (in percent)

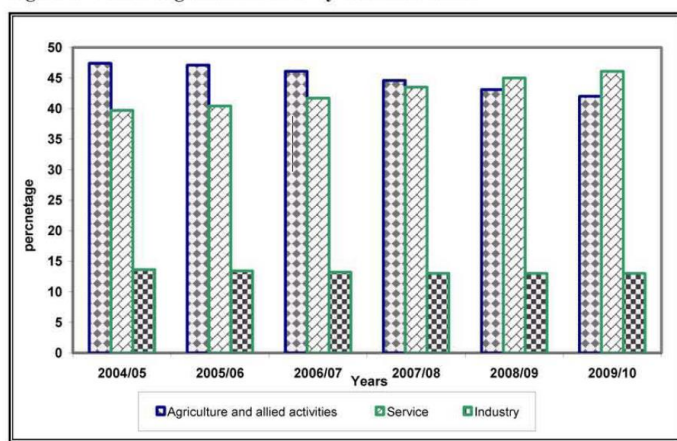
Sector	Average growth target planned (2005/06-2009/10)		Average growth achieved (2005/06-2009/10)	Percentage share of Real GDP (2009/10)
	Base Case	High Case		
Real GDP	7.0	10.0	11.0	100
Agriculture	6.0	6.4	8.4	41.6
Industry	11.0	18.0	10.0	12.9
Services	7.0	10.3	14.6	45.5

Source: MoFED 2010: 4

The aim of PASDEP to push industrialization at the expense of the agricultural sector failed as the industry sector's share of GDP stagnated in this period. The share of the agricultural sector of GDP declined whereas the service sector's share grew, but none of the sectors reached the target shares - 43.9%, 16.5% and 39.6% for agriculture, industry and services, respectively (MoFed 2010: 4) (note: percentage figures differ somewhat from those of the World Bank in graph 15/p. 58).

Graph 19: Ethiopia - Percentage share of GDP by economic sector 2004/05 - 2009/10

Figure 2. Percentage share of GDP by Economic Sector



Source: MoFed 2010: 4

The underperformance of the industrial sector was explained by “inadequate technical and managerial skills in the sector, foreign exchange shortages to import essential raw materials, spare parts and other inputs, power disruptions, constraints of access to efficient and effective credit services.” (ibid.: 20)

The development of the agricultural sector showed mixed results. Coffee production reached only 81,3% of the planned 419.610tons, meat production amounted to 72,3% of the planned 837.000tons whereas milk production was very close (96,2%) to the target of 3,3mio tons (ibid.: 9). The positive development of the floriculture sector in the PASDEP plan period sticks out. The revenue generated from flower exports increased from USD12.6mio in 2004/05 to USD170mio in 2009/10. The export revenue of fruit and vegetable exports increased from USD14.07mio to USD 31.7mio, but the planned production area for fruits and vegetables of 419.000ha by 2010 was missed by almost 64% (ibid.: 10). During the PASDEP period, a master plan for the expansion of Bole International Airport was designed and the construction of storage facilities for perishable horticultural products at the airport was completed. The number of air passengers doubled to 3,1mio; cargo lifted doubled as well (ibid.: 14).

Altenburg noted that the efforts of the Ethiopian government regarding the agricultural sector pertained also - amongst others - to investments in rural infrastructure, primary education and health, rural vocational training and increasing areas of irrigation as necessary preconditions for rural development, but that all these measures did not provide significant results. “Farming and livestock management systems are still mostly archaic, productivity gains are far from satisfactory, and the number of specialised farms producing high-value cash crops (such as cut flowers, fruits and vegetables) remains far too low to improve overall indicators.” (Altenburg 2010: 18) Altenburg saw the lack of private investment as the underlying key problem due to the issues around public land ownership and very small plot sizes. The government’s support for export oriented sectors to push exports in order to counterbalance the chronic trade balance deficit and shortage of foreign exchange showed limited results except for the positive example of the floriculture and to a lesser degree for the fruits and vegetables sector, which raised the question of some critics whether efficient import substitutions might not have the same positive effects on the foreign exchange availability (ibid.: 10). The chronic trade balance deficit remained during the plan period and averaged -20,9% (MoFED 2010: 8).

8.3.3. Growth and Transformation Plan I

The Growth and Transformation Plan I (GTP I) succeeded PASDEP and covered the years 2010/11 - 2014/15 formulating visions, strategies, objectives and goals for the new planning period and

stating that PASDEP provided a lot of experiences on which to build on in the GTP I. The vision maintained to achieve the status of a middle-income country was stressed, but in contrast to PASDEP where the government estimated a period of 20-30 years, this vision under GTP I should become real in 2020-2023. GTP I saw two pillars for the economic development of the country: a modernized agricultural sector with enhanced technology and an industrial sector which would contribute substantially more than in the past (MoFED 2010: 21 f.). “The agricultural sector will continue to be the major driver of economic growth. Industrial growth will be given particular focus. Rapid growth of an industrial sector that increases the competitiveness of Ethiopia's exports and results in import substitution will be encouraged.” (ibid.: 22)

There were two planning scenarios: a base case and an optimistic case. In the base case, the average growth of 11% p.a. during the PASDEP period was planned to be continued also for the new plan period whereby the agricultural sector should grow by 8,6%, industry by 20,0% and services by 10,6% - all percentages are averages. The development of the respective sector's share in GDP from 2010/11 - 2014/15 was foreseen as follows: agricultural sector to decline from 40,6% to 36,9% of GDP, industry to increase from 13,2% to 15,6% of GDP and services to decrease from 46,2% to 44,3% of GDP (ibid.: 28 f.).

8.3.3.1. Sector development targets

Identical to PASDEP, the GTP I formulated again sector development strategies and targets to be achieved. The graphs below depict a number of indicators about the planned economic development.

Graph 20: Ethiopia - Indicators for external sector and economic development 2009/10 - 2014/15

External sector		
Total exports as% share of GDP	13.6	22.5
Total imports as% share of GDP	33.0	35.7
Resource gap as% share of GDP	(19.3)	(13.1)
Merchandise export as% share of GDP	6.7	15.6
Merchandise import as% share of GDP	26.5	32.0
Poverty & Welfare		
Total Poverty Head Count (%)	29.2	22.2
Food Poverty Head Count (%)	28.2	21.2

ECONOMIC DEVELOPMENT		
Agriculture		
Agricultural and allied activities growth (%)	7.6	8.7
Crop productivity (qt/ha)	17.0	22.0
Flower (mln stem)	2,748	5,859.1
Land covered with multipurpose/versatile trees (thousands ha)	6,058	16,210
Number of extension service beneficiaries (thousands)	5,090	14,640
Coffee exports (Tonnes)	319,647	600,970
Meat exports (000 Metric Tonnes)	10.18	111
Number of households participating in Productive Safety Net program (mln)	7.1	1.3
Industry		
Sugar production (000 tonnes)	314.5	2250
Sugar export (000 tonnes)	0	1,246.3
Export of sugar (USD mln)	0	661.7
Textile and garment industry export earnings (USD mln)	21.8	1000
Leather and leather products industry exports (USD mln)	75.73	496.87
Total cement producing capacity (mln ton)	2.7	27
Metal consumption per capita (kg)	12	34.7

Source: MoFed 2010: 35

A number of very ambitious growth targets were set both for the agricultural as well as the industry sector which should contribute to reduce the trade balance account deficit from -19,3% of GDP in 2009/10 to -13,1% in 2014/15. With respect to coffee the number one export commodity of Ethiopia, its exports measured in tons should increase by 88% to 601.000tons. Flower production which had lifted off from 2003 onwards, was targeted to more than double to 5.9 billion stems from 2009/10-2014/15 and related exports should increase from USD170mio to USD535mio (+215%). Export revenues from vegetable, herb and fruits were projected to grow from USD 32mio to stunning 948mio (ibid.: 48). Worth mentioning are also the planned exceptionally high increases for sugar production and exports, for the textile and garment industry's exports as well as the leather and leather products industry's exports (ibid.: 35).

The strategies in the area of agriculture and rural development aimed to continue the government's efforts to transform subsistence farming to more market led production, to increase farmers' productivity and production, to provide agricultural input for industrial development and to promote further exporting of high-value agricultural products to the international markets.

Main focuses for agriculture and rural development are increasing the capacity and extensive use of labour, proper utilization of agricultural land, taking account of different agroecological zones, linking specialization with diversification, integrating agricultural and rural development, strengthening the agricultural marketing system and effective implementation of the scaling up of best practices in the sector. (ibid.: 45)

Private investors were welcomed as was the case in floriculture, and deficiencies in marketing, logistics and transportation would be removed. In this connection horticulture was explicitly mentioned.

Agricultural development policy explicitly states that private investors can participate in the nation's agriculture development endeavours. As a result of the efforts exerted to implement this policy success has been realised in the floriculture.” (ibid.: 45)

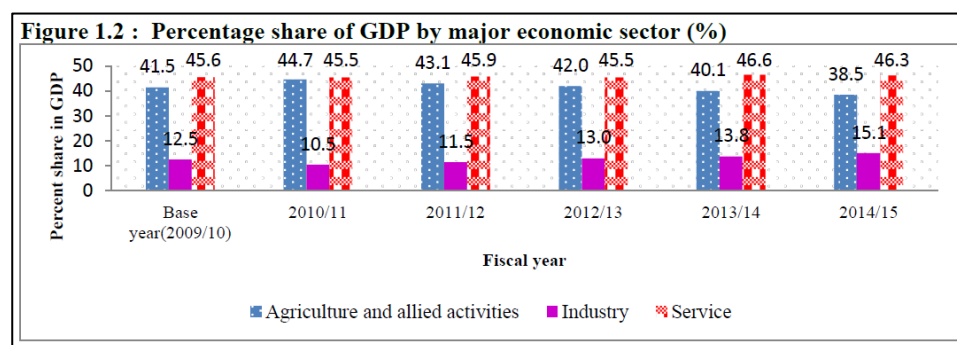
Horticultural development: Cluster based development that has developed in selected areas around horticulture export ventures, particularly those supported by greenhouse technology, will be strengthened. Measures will be continuously taken to address the three major problems of the sector: marketing problem, logistical constraints, and transport limitations. These problems will be addressed in collaboration with actors in the sector. (ibid.: 45)

It is interesting to note that the GTP I contained a separate section about air transportation services which was not addressed in PASDEP and which is particularly important for the floriculture and horticulture sectors. “Standardized cargo terminal and cooling systems at different airports will be built to facilitate the import and export trade of horticulture, meat and perishable commodities.” (MoFED 2010: 81)

8.3.3.2. Results of GTP I

The Growth and Transformation Plan II (2015/16-2019/20) (see section 8.4.4.) contained also a review of the achievements and failures under the plan period of GTP I. Regarding the overall assessment of the GTP I, it was stated that GDP growth continued at double-digit growth rates, averaging 10,1% p.a., more than double the sub-Saharan average growth. Investment expansion and employment generation contributed to an improvement in living standards as reflected by an increase of per capita income from USD377 in 2009/10 to USD691 by the end of 2014/15. However, the closing of the gap between merchandise exports and imports failed, on the contrary the trade balance widened from USD 6,3bn in 2009/10 to USD 13,4bn by 2014/15. Structural transformation of the economic sectors did not take place or was very slow, respectively (see graph 19). The National Planning Commission summarized: “Despite the growth spur during GTP I period, not much progress has been forthcoming in terms of structural transformation of the economy.” (National Planning Commission 2016: 70)

Graph 21: Ethiopia - Percentage share of GDP of major economic sectors from 2009/10 - 2014/15



Source: National Planning Commission 2016: 8

GTP I had envisioned a significant growth in the floriculture and horticulture sectors as they were seen as having two significant roles: foreign exchange earnings and employment generation. However, the growth rates for flowers, vegetables and fruits were missed by a significant margin. While total exports of these product groups were planned to reach USD1,5bn by 2014/15, only USD249,7mio or 16,6% of the target were generated during the plan period (ibid.: 26). The following explanations for the shortfall were given in the review:

The horticulture industry still employs a large number of labour the majority of which are women. But given its potential, the employment opportunities created thus far leaves much to be desired. The major factors for the poor performance of the subsector were difficulties in supplying land required for development of horticulture, concentration of market destinations and inability to diversify export markets and limitation in supplying the required inputs. (ibid.: 26)

8.3.4. Growth and Transformation Plan II

The Growth and Transformation Plan II (2015/16-2019/20) set objectives, goals and targets for the new plan period which are briefly described below to draw a line to present times. Given the time span of some 12-14 months in the past to draft the plans, a new plan for the coming five years up to 2024/25 is currently most likely in the working.

Reaching the status of a lower middle-income state¹¹ by 2025 continued to be the national vision of Ethiopia's government in GTP II (in GTP I it was 2020-2023) which is strongly emphasized in the plan. "In the coming 10 years, Ethiopia's vision is to reach the level of lower middle-income countries where democracy, good governance and social justice are maintained through people's participation." (ibid.: 76) which will require an average growth rate of 11% p.a. determined for the plan period (ibid.: 80). Broadly speaking and not surprisingly due to the necessity of a consistent

¹¹ "As of 1 July 2019, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,025 or less in 2018; lower middle-income economies are those with a GNI per capita between \$1,026 and \$3,995; upper middle-income economies are those between \$3,996 and \$12,375; high-income economies are those with a GNI per capita of \$12,376 or more." (World Bank Development Indicators)

long-term path in developmental efforts, identical or very similar topics to GTP I were mentioned in GTP II which were regarded crucial for the further development. Agriculture was to maintain its central role. “In GTP II period, agriculture will remain the main driver of the rapid and inclusive economic growth and development.” (ibid.: 78). Modernization in the agricultural sector, further industrial development with a focus on light manufacturing, further promotion of export revenue generation, productivity and product quality increases, further promotion of horticulture, vegetables and fruits, linking young educated farmers with private investors to name a few, and to eliminate related barriers were areas to pay attention to (ibid.: 78). “Besides, in production of strategic food crops, enhancing productivity and quality in the horticultural, livestock, and agricultural products destined for industry input and export diversification will be given utmost emphasis.” (ibid.: 83)

It is also worth noting a new strategic vision in the plan, namely that “A new vision has been set to render the country a leader in light manufacturing in Africa and one of the leaders in overall manufacturing globally.” (ibid.: 78) This seems to be a quite ambitious goal, as over the last two decades the contribution of manufacturing to GDP and to merchandise exports stayed at only 5% and 10%, respectively (Gebreeyesus 2019: 688).

A number of indicators for GTP II are shown below:

Graph 22: Ethiopia - GTPII targets - Macroeconomic indicators - Export - 2014/15 - 2019/20

Table 1.1: Selected GTPII Targets

No.	Sector/ Indicator	Unit of measurement	Baseline year (2014/15)	Plan targets (2019/20) ²
1.	Macroeconomic indicators			
1.1	The Macro Economy			
	Real GDP Growth Rate	percent	10.2	11.00
	Agriculture and Allied Sectors Growth rate	percent	6.4	8.0
	Industry Sector Growth rate	percent	23.5	20
	Manufacturing Growth rate	percent	21.4	21.9
	Service sector Growth rate	percent	10.2	10
	Per capita income @CMP	Us dollar	691	1,177
	Gross Domestic Investment as share of GDP	percent	39.3	41.3
	Gross Domestic Saving as share of GDP	percent	21.8	29.6
	Export of Goods and non-factor Services as share of GDP	percent	9.7	20.6
	Import of Goods and non-factor Services as share of GDP	percent	27.1	32.3
	Resource gap as a share of GDP	percent	-17.4	-11.7
1.6	Export			
	Manufacturing Export Revenue as share of GDP	percent	0.6	3.0
	Agricultural production Export Revenue as share of GDP	percent	3.6	6.5
	Manufacturing Export as share of Total Merchandise Export Value	percent	12.5	25.6
	Merchandise Export as Share of GDP @ CMP	percent	4.9	11.8

Source: National Planning Commission 2016: 94

As to the agricultural sector a general comment includes:

In terms of the sectoral composition of growth, all sectors of the economy are expected to expand during the Plan period. The agriculture sector is projected to maintain its growth momentum of 8% per annum supported by modernization in the food crop, livestock, horticulture and industrial and export commodity subsectors. In line with this, emphasis will be given to agricultural production and productivity growth through scaling-up best practices of model farmers and replicating the same to

other farmers. In addition, farmers will be encouraged to engage themselves in the production of high value commodities, while large scale commercial farming will also be encouraged. (National Planning Commission 2016: 99 f.)

While no detailed development path for the floriculture and the horticulture sector was contained in GTP II, a few targets were set in GTP II:

Graph 23: GTP II growth targets for floriculture and horticulture

	Land coverage in hectares		Exports in USD
	2014/15	2019/20	2019/20
Flowers	1.565	3.066	455
Vegetables	1.298	2.325	76
Fruits	10.779	11.315	29
Herbs	190	447	17

Source: National Planning Commission 2016:127; summarized by the author

In retrospect, these growth targets seem unrealistic when looking at the most recent data of the “International Statistics Flowers and Plants 2019 - Production Data” published by The International Association of Horticultural Producers (AIPH). It mentions that the land used for the growing of cut flowers amounted to 1.695ha in 2016/17 (AIPH 2019a: 39) and total cut flower exports amounted to EUR179,5mio in 2018 (AIPH 2019b: 108) which are still far away from the targets.

8.4. Conclusion of Ethiopia’s development plans

Summing up the overall economic development trajectory of Ethiopia over the last twenty years it must be stated that there is still a very long way to go despite the undoubted achievements so far. The structural transformation of the economic sectors has hardly taken place, the agricultural sector did grow but focused almost exclusively on productivity in staple foods for domestic consumption and unprocessed commodities for export markets such as coffee (Dercon/Collin 2019: 463), industrialization has not yet lifted off, the private sector is still underdeveloped and the trade account balance is still chronically in deficit. With regard to the private sector development Gebreeyesus notes that its underperformance can be attributed also to the poor and deteriorating national business environment. The government is directing its current focus on the business environment in industrial parks to foster industrialization and manufacturing activities, but this is only selectively effective and not nationwide. In contrast to the government’s desire that investments should flow into productive sectors, they are flowing into areas where large and rapid rents are achievable such as into the service sector, like real estate and rental, trading and construction, and not as laborious as in manufacturing and in exporting activities. In addition, the

private sector development is hampered amongst others by “[...] bureaucratic red tape and the incompetence of the civil service.” (Gebreeyesus 2019: 701), not adequately monitoring the implementation of policies and incentives and preventing distortions (ibid.: 701 f.).

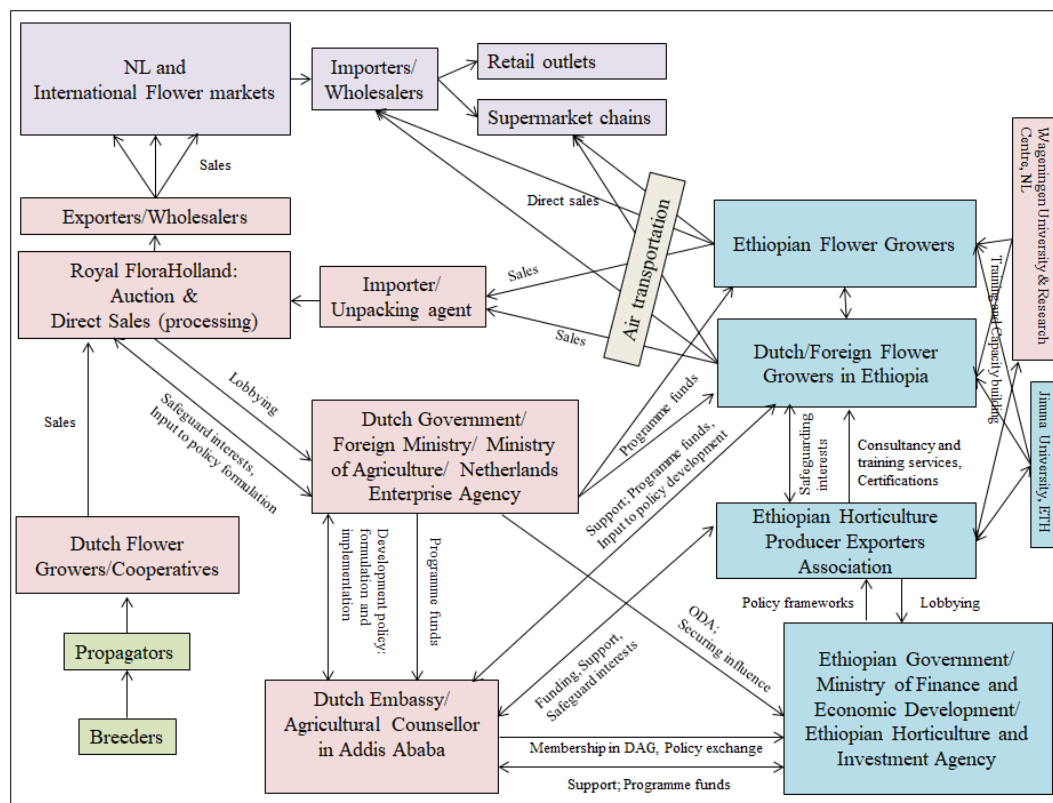
Regarding the development of the floriculture sector, PASDEP, GTP I and GTP II included only a few remarks of sector development targets, but several references to the floriculture sector were made as a showcase and role model for other sectors. Significant growth was achieved in the PASDEP plan period helped by various government incentives stimulating private sector investments both from foreign, primarily Dutch, as well as domestic investors. Important was also the increase of the air cargo capacities of Ethiopian Airlines and the improvement of cold storage facilities at Bole International Airport in Addis Ababa. However, this growth induced, if not misled, the government to formulate unrealistic growth targets for the floriculture sector in the GTP I plan period which were not achieved by a big margin. It seems very likely that also the growth targets for the floriculture sector in the current GTP II will be failed considerably.

9. THE DUTCH - ETHIOPIAN FLORICULTURE PRODUCTION NETWORK AND THE DEVELOPMENT IMPACTS IN ETHIOPIA

This chapter will use and interrelate the various findings and elaborations in the previous sections in order to sketch a picture of the Dutch - Ethiopian cut flower global production network and its developmental impacts.

9.1. The Dutch - Ethiopian floriculture production network

The global production network framework chosen for this master thesis does not look at interfirm roles and governance structures only, but also integrates the role, positions and powers of other participants of the GPN into its framework as well as considers the institutional and regulatory frameworks of the GPN. In the previous sections of this work, the dominant positions of the Dutch floriculture sector and Royal FloraHolland in the global floriculture industry, the Dutch government's goals in its development assistance policies and the goals of the Ethiopian government to create conditions for the emergence of an Ethiopian floriculture industry within the framework of the Ethiopian government's strategic national development plans have been described.



Source: Graph developed by the author

The above graph shows clearly the numerous parties in the Dutch - Ethiopian floriculture GPN, a visualization which presents the interconnections between the various parties which developed during the second half of the 2000s and in many aspects reach up to the present times in some altered forms, in particular with respect to the sales and marketing channels which have become more differentiated over time. This visualization demonstrates also the applicability of the analytical framework of the global production networks theory. Aspects and factors of input-output structures, value creation, value enhancement and value capture; of governance regimes referring to corporate powers (lead firm's decision power and influencing capabilities), institutional powers (e.g. national and local states, supranational organizations) and collective powers (e.g. trade unions, employer associations, environmental and human rights NGOs); of territorial and network embeddedness referring to the historic, cultural, social and economic characteristics of a location or of the structure or composition of a global production network, are all relevant.

Royal FloraHolland can be considered the centerpiece of this GPN. Organized in the form of a cooperative, it is by far the most dominant auction as well as with total sales in 2019 of EUR4,79bn the most important floriculture hub in the world which can hardly be circumvented by flower growers from the global South wanting to sell in Europe. The auction's institutional rules which are

largely considered as market based governance and function as minimum standards for the whole floriculture value chain, are determining the insertion of suppliers of the global South into the value chain. To maintain its decade long dominant position Royal FloraHolland allowed foreign suppliers to become members of the auction in 2006 after having banned them from selling through the auction from 1994 on, realizing that including them would strengthen its competitive position, not only with respect of avoiding the foreign suppliers' establishment of their own sales channels, but also being able to offer an extended assortment of flowers to stimulate and to satisfy increasing customer demand for all year flower supply. In view of the trend of increasing direct sales affecting the key position of Royal FloraHolland, as well as to expand its geographic reach to Asia, for instance in the growing Chinese market, it is working to have all product offerings by growers wherever they are located, and all sales transactions conducted by buyers wherever they are located, handled 100% digitally via its platform Floriday by the end of 2020. This should ensure its continued dominance as floriculture hub. Royal FloraHolland has been of crucial importance as distribution channel for the growers in Ethiopia right from the beginning of the growth of the cut flower sector in Ethiopia in 2004/2005 as can be seen from graph 9, where some 88% of total Ethiopian cut flower exports in 2008 went to the Netherlands and still constituted a share of some 81% in 2017.

Given the importance of the agricultural sector which generated a trade surplus of EUR30,5bn in 2019 for the national economy of the Netherlands the interest and support of the Dutch government in the development also of the floriculture sector seems obvious demonstrated in a few examples. The merger in 2008 of the two largest Dutch auctions, the Aalsmeer Flower Auction and FloraHolland to become Royal FloraHolland, was approved by the Dutch government on the basis of a ruling of the Netherlands Competition Authority which did not assess this merger with respect to its effects for the Dutch market only, but evaluated it in the wider context of the competitive situations and effects in the European Union which enabled the positive assessment and facilitated the approval by the Dutch government. Regarding Ethiopia, the Dutch Embassy in Addis Ababa was an important contributor to the establishment of the Ethiopian Horticulture Producer Exporters Association/EHPEA in 2002 which started with five members and now has 119 members, with providing funding and assistance since then. The institution of an Agricultural Counsellor at the Dutch Embassy in Addis Ababa in 2006 aimed to support the establishment of Dutch flower growers in Ethiopia and together with the Embassy to lobby Dutch interests vis a vis the Ethiopian government. The Agricultural Counsellor drafted the documents for the foundation of the Ethiopian - Netherlands Horticulture Partnership. Throughout the period 2005-2017 the Netherlands have held the 5th or 6th position, respectively amongst Ethiopia's largest DAC donor countries. Dutch net

ODA disbursements to Ethiopia averaged EUR80,5mio from 2012-2017 and constituted the highest net ODA disbursements of all African recipient countries of Dutch ODA. During the period 2005-2011, funding of various programmes and projects mainly under the centrally managed umbrella of PSOM/PSI, PUM and CBI with the involvement of the Dutch Embassy and the Agricultural Counsellor, respectively, focused on creating an investment appropriate environment and on removing obstacles for local businesses in line with the Netherlands' private sector development policies at that time. The Dutch Embassy regularly drew up plans, so called Multi Annual Strategic Plans/MASPs, in which it pointed out its main objectives and measures for its tasks which covered amongst others the agricultural/floriculture sector. The MASPs are accorded with the Directorate-General for International Cooperation at the Dutch Ministry for Foreign Affairs.

The Ethiopian government is an important player in the GPN as to setting the policy frameworks for economic and social development and as to its regulatory authority. In its various strategic national development plans from the 1990s onwards, agricultural development has been always named by the government as the top priority for fighting poverty and to achieve a structural transformation of the economy. In this context, the floriculture sector's growth has been for the government a showcase for e.g. employment creation and generation of export revenues, assisted also by the provision of a number of government incentives for foreign investment. However, a fairly large number of binding constraints remain. The perishable nature of flowers requires fast transportation to the consumer markets. The Ethiopian government supported from 2009 onwards an expansion investment programme of the national air carrier Ethiopian Airlines which plays a key logistics and transportation role for the Ethiopian floriculture sector.

The role of EHPEA was not only one of representing its members and lobbying for the horticulture sector, but also providing capacity building seminars, courses and trainings for the various layers of staff of the flower growing farms within the frame of the Ethiopian-Netherlands Horticulture Partnership. For these purposes, Wageningen UR, being in the Netherlands the key scientific agricultural research and competence center, as well as Jimma University in Ethiopia having an agricultural discipline of study, were used to provide professional input. With Dutch funding EHPEA developed sustainability standards with respect to environmental and social conditions - Bronze in 2007, Silver and Gold in 2010 - which were to ensure the acceptability of Ethiopia grown flowers in the international markets.

As described above, flower growers in Ethiopia sell overwhelmingly through Royal FloraHolland and not yet via direct sales. Local flower firms do this because profit margins achieved at the

auction tend to be higher than for direct sales for which buyers might be required from the buyers to have higher capabilities regarding e.g. more flower varieties, higher productivity, different production processes and the like leading to higher costs at the suppliers (Whitfield et al. 2020: 14 f.). Dutch owned growers in Ethiopia have their shipments for the auction at Royal FloraHolland handled mostly by their own subsidiaries or parent companies while local Ethiopian flower growers use independent unpackers. The role of the unpackers can go beyond the actual function of unpacking and preparing for the auction, but can also comprise feedback and input on e.g. quality requirements, market developments and customer demands to name a few, as well as can provide access to interpersonal relationships with other market participants.

The importance of direct sales is reflected by the fact that these have increased their share in Royal FloraHolland's total turnover in the last years constituting 59,5% of the total turnover in 2019. Given the fact that Royal FloraHolland will implement 100% digitization of all transactions between suppliers and buyers by the end of 2020 it reckons that direct sales will further grow which might become much more relevant also for the flower growers in Ethiopia. It must be noted though that large direct buyers such as supermarket chains can have their own sustainability standards different from for instance the ones from EHPEA or other broadly accepted industry standards, as well as can exercise strong competitive price pressures.

9.2. Motives and interests of the Dutch and Ethiopian stakeholders

Since the EPRDF came to power in 1991 a number of strategic national development plans were drawn up which are described in detail in previous sections of this work: ADLI, PASDEP, GTP I and GTP II, the latter one covering the period 2015/16 - 2019/20. Common to all these plans were the overall strategic goals to extricate Ethiopia's population from poverty and to become a lower middle-income country by 2025 (goal in GTP II; GNI per capita: USD1.026 - USD3.995 according to World Bank Development Indicators). This meant to give the top priority as far as economic development was concerned, to agricultural development also in view of the overwhelming majority of the population living in rural areas, still amounting to 78,8% in 2019.

The floriculture sector offered itself as a growth area, but it needed "first movers" such as AfriFlora/Sher Ethiopia, meanwhile the largest rose farm in the world, to induce more flower growers for investments in Ethiopia. Only once the Ethiopian government saw this positive trend they grasped the opportunities, addressed the floriculture sector in their plans and offered a number of incentives to investors. Subsequently, foreign flower farms came to Ethiopia creating new employment, mostly for women. Current employment in the floriculture sector is estimated at more than 50.000 persons while some 130.000 persons work in non-flower horticulture (Oqubay 2019:

619) whereas EHPEA notes that the horticulture sector (flowers, fruits, vegetables, herbs) currently employs some 200.000 Ethiopians; no breakdown of this figure is provided (EHPEAb). The remarkable export growth of floriculture products generated also foreign exchange of which Ethiopia was and still is in chronic need. The attractiveness to the Ethiopian government of foreign direct investment referred not only to capital import, but also to FDI spillover potentials, i.e. local firms and workers benefitting from the transfer of know-how and technological capabilities from foreign investors through various means such as becoming included in a value chain/production network, through labour markets, through competition, demonstration and/or collaboration (Farole/Staritz/Winkler 2014: 23). Whitfield et al. note that right from the beginning of the emergence of the sector local flower farms used foreign experts, many of which came from Kenya, to select initial sales channels as well as flower varieties. While linkages were established between foreign and local firms on farm manager level, linkages between owners of foreign and local firms were not strong (Whitfield et al. 2020: 15).

The motives and interests of Dutch flower growers to expand to Ethiopia in the 2000s as well as Royal FloraHolland's interests associated with this expansion can be referred to a number of reasons. Flower growing not only in the Netherlands became increasingly costly towards the end of the 20th century as growing climate instabilities required investments in new technologies such as greenhouses, environmental requirements became stricter and wage cost went up. In addition, increasing demand from customers for all year flower supply and new flower varieties could not be met sufficiently. With respect of the flower supply to Europe, Kenya and Ethiopia turned out to offer to not only Dutch growers the most suitable production conditions regarding climate, water resources, an ample labour force and consequently favourable cost structures. For Royal FloraHolland, the arising Ethiopian floriculture sector mainly in the hands of Dutch and other foreign investors, provided the chance to tie new suppliers to its auctions and to expand and to firm its position as global floriculture hub (see also Melese 2019: 133).

The Netherlands have historically been one of the largest donor nations among the DAC members. They have a long standing preference for bilateral ODA. Despite the Netherland's changing of thematic priorities and narrowing down of regional/country recipients in their development assistance policies over time, Ethiopia has always been a recipient country of Dutch ODA. During the time of the significant growth of the Ethiopian floriculture sector in the second half of the 2000s, Ethiopia qualified to receive Dutch development aid as it met the criteria of "low-income country", "fragility not a problem" and "sufficient potential with government structures for cooperation". For the Dutch government, the support of the development of the private sector in a recipient country was an important element in its private sector development policy whereby it

encouraged within its “aid & trade” policy approach explicitly the Dutch private sector to seize opportunities abroad. Thus, in order to follow its policy goals, the Dutch government accompanied Dutch as well as foreign investors in their build-up of flower operations in Ethiopia. As the Ethiopian government had also in focus the private sector development and agricultural development in its strategic national development plans, it seems that there was a good fit between the goals of both governments.

Regarding possible interest conflicts it should be noted that the review of the research material did not point out any evident or significant interest conflicts between the various participants in the floriculture production network except for a few general notes about the Ethiopian government’s little willingness to engage in policy dialogues.

9.3. Development impacts of the Ethiopian floriculture sector

There is no doubt that the emergence and the significant growth of the floriculture sector in Ethiopia has had a number of positive developmental impacts. New employment predominantly for women was created, capacity building and production training courses were provided through EHPEA with the assistance of Wageningen UR and Jimma University, investments in infrastructure in the flower growing areas took place, large flower farms such as those in the Ziway region invested in local infrastructure such as healthcare and education (Sher Ethiopia), investments in transportation and energy infrastructure took place, backward linkages to packaging services were established and the state owned Ethiopian Airlines’ freight handling and transportation services expanded as cut flower and cuttings exports became the 5th most important export goods generating the badly needed foreign exchange revenues.

However, a number of aspects must not be overlooked. While employment in the horti- and floriculture sector was created which according to EHPEA presently amounts to some 200.000 persons of which more than 50.000 work in the floriculture sector, it must be seen in relation to the total Ethiopian population of 112,1mio and its working population. A World Bank study from 2017 notes that in 2016 the working age population was estimated at 54,7mio projected to grow annually by 2mio in the next decade (World Bank 2017: i). Thus, it is evident that the employment in the horti- and floriculture sector provides only a fraction of jobs for employable persons, constituting less than 0,4% of employable persons, however one wants to calculate it. Even when the jobs in the supplementing sectors of the floriculture industry (e.g. packaging, cooling, logistics and transportation) are added, the share remains low. As shown by the global financial crisis in 2008/09 and by the actual COVID-19 pandemic with its lockdowns in almost all countries of the world having dramatic economic repercussions on the respective economies and societies, the global

floriculture sector, and as such also the Ethiopian floriculture sector, is even more exposed to such events - flowers being perceived as sort of luxury good - as customer demand in the global North broke down due to job insecurity, unemployment risks and lower disposable incomes. It will have to be seen what long-term effects the current COVID-19 pandemic will have on the Ethiopian floriculture sector.

When looking at the Ethiopian government's strategic national development plans it has to be stated that numerous strategic goals such as higher productivity and commercialization of the agricultural sector, subsequent ignition of industrialization, the fostering of the private sector were never or only partially reached and the structural transformation of the economy was very slow. Goals were perpetuated from one strategic plan to the new one. In view of the successful development of the floriculture sector flower production was targeted in GTP I to more than double to 5.9 billion stems from 2009/10-2014/15 and related exports should increase from USD170mio to USD535mio (+215%). Export revenues from vegetable, herb and fruits were projected to grow from USD 32mio to an incredible USD948mio in 2014/15. However, the growth rates for flowers, vegetables and fruits were missed by a significant margin. While total exports of these product groups were planned to reach in sum USD1,5bn by 2014/15, only USD249,7mio or 16.6% of the target were generated during the GTP I plan period (see section 8.4.3.2.). While it is easy in retrospect to call these goals overambitious or unrealistic, respectively the question must be admissible on what basis these targets were set in the first place. To put these targets for the plan period 2009/10 - 2014/15 also in relative perspective it should be recalled that flower and cuttings exports in 2018 amounted to EUR206,9mio making the posed question even more justified.

Private sector enterprises were faced with numerous binding constraints (see section 5.6.). In the mid-2000s, binding constraints which still exist today with varying degrees of importance, referred - regarding their highest weight - to corruption, inefficient government bureaucracy and inflation and had changed at the end of the 2000s to limited access to financial services, foreign currency regulations and inflation. The difficult business environment in Ethiopia is also reflected by the World Bank/IFC's annually published report "Doing Business" which started in 2003 and which provides various business indicators about the ease of doing business in all the countries of the world from a business regulatory perspective. Ethiopia's rank deteriorated significantly from 97th place of 175 countries in 2006 to 159th place amongst 190 countries in 2019. Therefore, I argue that it were primarily the Dutch flower farmers' entrepreneurial spirit, risk readiness, tenacity and endurance to deal with bureaucratic hurdles and obstacles, their willingness and need to invest in in-firm training and capacity building and last but not least their relationship building capabilities with the participants in the network - all such traits constituting characteristics of entrepreneurship -

which were decisive for the development of the floriculture sector whereby the professional support of EHPEA should be noted positively. The investment incentives of the Ethiopian government for the floriculture sector might have mitigated or helped to a limited extent to overcome these constraints and obstacles, at least during the growth phase.

The expansion of the horti- and floriculture sector has made land usage a sensitive issue. The making available of land by the government to the sector on a long-term lease basis at almost no cost has exposed the sector to accusation of land grabbing depriving farmers and communities of their use of farmland and thus, the basis of their livelihoods. Aspects of water resources management, of use of pesticides, of waste management and of soil degradation have become even more relevant than in the past.

The value and development impact of the various Dutch development programmes - PSOM/PSI, PUM and CBI - for the Ethiopian private sector including floriculture should be put into relative perspective (see chapter 6.). While positive impacts are widely acknowledged in the literature, I argue that a word of caution about these positive effects seems to be appropriate. The main funding was concentrated on a few projects, thus for the remainder the average funding was relatively low, as follows. Total disbursements for Dutch private sector programmes amounted to EUR72,3mio from 2005-2011 of which 67% were accounted for by 6 projects larger than EUR5mio. EUR47,7mio or 66,3% of EUR72,3mio were attributable to skills and knowledge building. Of these EUR47,7mio, EUR15,9mio (or 33,3%) referred to only 36 PSOM/PSI projects translating into an average project size of EUR441thsd¹². These projects focused mainly on agriculture and manufacturing; details about PSOM projects in the floriculture sector are not available. PUM projects in the period 2005-2011 accounted for EUR488thsd and covered 92 expert missions which translates into an average of some EUR5.300/mission. Only 6 out of the 92 projects referred to the agriculture and horticulture sector. The overall assessment of the Dutch efforts to overcome the binding constraints regarding skills and knowledge was: "Overall, it can be said that the Dutch PSD programme 2005-2011 did make a contribution to improving skills and knowledge, but the contribution is very modest, certainly in the light of the large population of Ethiopia." (Triodos Facet 2013: 39). Having disposed funds of EUR620thsd and supported 16 companies - none in floriculture - over the period 2005-2007 CBI discontinued its services for Ethiopia in 2007 due to the lack of demand from the Ethiopian side.

¹² It is granted that this averaging can be considered distorting, but information about the individual project sizes is not available. But through analogy to the above distribution of the size of projects, it can be assumed that there were a few large skills and knowledge projects and many small.

Within the PSD funds of EUR72,3mio the horticulture public private partnership was funded with EUR4,1mio for the period 2007-2011 which can be considered a fairly low amount for a five year period. It funded amongst others the activities and programmes of EHPEA within the Ethiopian-Netherlands Horticulture Partnership. This is viewed as the most visible achievement of the Dutch PSD programmes as EHPEA provided capacity building courses and introduced sustainability standards for the sector and integrated pest management. This partnership had had also appropriate attention from the Ethiopian government in the beginning as well as served the government as role model also for other agricultural sectors. However, in an evaluation report (Triodos Facet 2013) it is noted that the effects in the bilateral policy dialogue promoting more general changes in the PSD policies of the Ethiopian government, the effects were not tangible.

With respect to the effects of EKN's [Dutch Embassy] "policy dialogue" on private sector development with the Government on Ethiopia, this was found to have been effective (to a limited extent) in the horticulture export sector, which has GoE's [Government of Ethiopia] priority attention and where EKN is perceived as an appropriate policy dialogue partner. In the PSD related donor coordination groups, or in bilateral policy dialogue promoting more general changes in the PSD policies of the GoE (e.g. on access to finance), the effects are not tangible. (ibid.:61)

The just said must be supplemented that another evaluation report about the Dutch PSD programmes (IOB 2014) noted that the Dutch private sector development programmes would need a better alignment with local needs which is hampered by the fact that three quarters of these programmes were managed from the Netherlands.

10. SUMMARY AND CONCLUSION

My master thesis dealt with questions around the Dutch growers' expansion to Ethiopia in the mid-2000s. This expansion sparked off an impressive growth of the Ethiopian floriculture sector which made Ethiopia meanwhile the second largest flower supplying country in Africa behind Kenya. To answer the research questions as laid down in the "Introduction" chapter, looking at the global production networks in the global as well as Ethiopian floriculture industry and applying its theory formed the basis. A global production network chart was developed specific for the Dutch - Ethiopian floriculture production network which shows all the participants of this GPN; and to name the major ones: the Dutch flower growers, Royal FloraHolland as the world's largest floriculture hub, the Dutch government as one of the largest donor nations to Ethiopia, the Ethiopian government, the Dutch embassy and the Dutch Agricultural Counsellor in Addis Ababa, the Ethiopian Horticulture Producer Exporters Association/EHPEA, the floriculture sector industry association, and last but not least Ethiopian Airlines. In this GPN, the roles, positions, motives and

interests of the individual parties contributing to the Ethiopian floriculture sector development, were looked at, potential interest conflicts between the participants in this floriculture production network were tried to be identified and the development impacts of the Ethiopian floriculture sector for the economic development of Ethiopia were assessed. The elaborations of this master thesis are based on extensive desk research including the review of GPN theory, floriculture specific literature, Dutch and Ethiopian government papers and official evaluations. My summary and conclusions are contained below.

Having a share of 43% of the worldwide trade in floriculture products makes the Netherlands the dominant player in the global floriculture industry. The dominance of the Dutch floriculture industry is due to manifold reasons: its historical trajectories, regulatory contexts and the strategies of the Dutch flower breeders, propagators and flower growers how to meet competitive pressures and how to shape relationships in the global chains/networks. Dutch breeders, propagators, growers, the Dutch auction, Royal FloraHolland and the Dutch government have been allies for decades sharing the common goal of keeping the industry's top competitive position. The merger of the two largest Dutch auction enterprises in 2008 to form Royal FloraHolland was approved by the Dutch government even though it obtained thereby a monopoly in the Netherlands, but achieved also the unrivalled number one position in Europe and globally.

As the floriculture GPN is largely defined as a buyer-driven chain and as the Dutch auction is considered the most important floriculture hub in the global floriculture industry, Royal Flora/Holland holds the most powerful position in the chain. Royal Flora/Holland and other big buyers such as supermarkets widely determine, also in consideration of public regulations such as phytosanitary requirements and plant breeders property rights, the requirements and standards to which the growers have to comply in order to be included in the value chain, to get access to markets and to be competitive. Royal FloraHolland's institutional rules are largely considered as market based governance and function as minimum standards for the whole floriculture value chain. This and the fact that there are numerous flower certification schemes influence the growers' decisions what floriculture products to grow, where to sell and to deliver.

The expansion of Dutch growers to Ethiopia was due to the emerging customer demand for all year flower supply as well as due to the growers' increasing costs in the Netherlands as a result of the requirement for new technologies such as greenhouses to counter the effects of climate changes, of increasing environment protection demands and increasing wage costs when much more favourable conditions could be found in Ethiopia due to its geographic location as well as natural and human resources. The growers' expansion to Ethiopia was also in the interest of Royal FloraHolland as it

gave Royal FloraHolland the opportunity to tie new suppliers to its auction. Royal FloraHolland's present plan to have all transactions via the auction and the direct sales between suppliers and buyers handled a 100 percent digitally by the end of 2020 to which also the Ethiopian suppliers will have to become parties as the flower growers in Ethiopia overwhelmingly sell through Royal FloraHolland, is a means to secure further Royal FloraHolland's global position and to extend its geographic reach.

The Dutch government's interest in assisting the expansion can be attributed to its general support of the Dutch agricultural and the floriculture sector as well as was grounded also in its development assistance policies oriented as far as economic development assistance is concerned, in promoting the private sector development in countries of the global South. Creating an appropriate investment environment for the private sector, tackling and removing binding constraints for businesses and bringing in specific Dutch expertise as well as encouraging Dutch businesses to expand abroad to broaden their commercial interests were pillars of this policy. This "aid & trade" policy however, caused a critical note by the OECD (2011) not to mix development objectives with the promotion of Dutch commercial interests. Reviews and evaluations of the Dutch government's private sector development policy instruments - PSOM/PSI, PUM, CBI - also applied in Ethiopia show critical comments as to their effectiveness and impacts which even goes so far to consider part of them intangible. The Dutch funds for the private sector development instruments for Ethiopia over the seven year period from 2005 - 2011 amounted to a total of EUR72,3mio which should be considered quite low in comparison to the overall net Dutch ODA disbursements to Ethiopia fluctuating annually around EUR58,7mio during 2005 - 2007 and averaging EUR69,4mio per annum in the period 2009 - 2011, of which funds for the private sector development were part. The involvement of the Dutch Agricultural Counsellor assigned to the Dutch embassy in 2006 regarding the Ethiopian - Netherlands Horticulture Partnership established in 2006 and his assistance also to the work of EHPEA is noted widely to be the most visible and effective result of the Dutch development assistance policy. As the development success, the efforts and results of professional capacity building, the introduction of sustainability standards, the visibility and the standing of the Ethiopian floriculture sector all show it can be concluded that EHPEA had done an adequate job as a sector representing association.

The Ethiopian government's attention towards the floriculture sector was high when the floriculture sector started to grow; the sector was seen also as a showcase for other agricultural sectors. But government attention seems to have faded and been directed to other sectors. The government's ambitions for the floriculture sector were documented in its strategic development plans - PASDEP, GTP I and GTP II. However, the perceived growth opportunities and targets drafted in these plans

for the horti- and floriculture sector turned out to have been overambitious or even unrealistic, respectively even though the Ethiopian government provided a range of incentives attracting foreign direct investment and intending to stimulate FDI spillovers, certainly helpful for igniting and spurring the development, but lacking a long-term perspective. Whether these government incentives were really that decisive to attract foreign investments as mentioned in a number of texts should be substantiated by concrete financial numbers about the total incentives granted in order to assess their magnitude and concrete effectiveness: e.g. how much income tax foregone due to income tax holidays and loss carry backwards, how high tariffs and duties lost due to the removal of tariffs and duties on capital goods, spare-parts and inputs. It would be necessary to identify and substantiate also the benefits of these incentives to the government in the long run in terms of e.g. incremental corporate, wage and other tax income obtained. Such information is missing in the literature. I consider it not sufficient to determine the success of the government incentives alone on basis of how many new enterprises were started, additional employment created and export revenues generated.

The impressive growth of the Ethiopian floriculture sector during the 2000s is a remarkable story on its own. The chart of the Dutch - Ethiopian floriculture production network developed in this master's thesis shows the numerous participants of the GPN and aims to depict their interrelations. This GPN has emerged from the beginning of the growing of flowers in Ethiopia in the mid-2000s until the present time. Based on my findings I argue that - in some deviation of existing literature - the success of the emergence and development of the floriculture sector is due to the strong entrepreneurial qualities of the flower growers in Ethiopia, such entrepreneurial qualities comprising the will and the ability to expand into new areas, risk readiness, determination, tenacity, management capabilities, technological know-how, in-house training and capacity building efforts as well as relationship building capabilities to link with the various distribution channels. To have these entrepreneurial traits were the absolute necessity and requirements for the flower growers for coping with the numerous business obstacles and binding constraints which - in my assessment - Ethiopian government incentives granted were not able to remove sufficiently, but to mitigate at best. Quite a number of significant business obstacles such as e.g. land issues, access to credit and foreign exchange, input supplies and an inefficient bureaucracy remained or even worsened as underlined also by the World Bank's "Doing Business" Indicators for Ethiopia. Such binding constraints continue to constitute significant challenges not only to the floriculture sector.

Within the framework of the Netherlands' development assistance policies and goals which included also safeguarding Dutch commercial interests, the Agricultural Counsellor at the Dutch embassy in Addis Ababa provided commercial as well as political support to the sector directly as

well as to EHPEA as an active sector representative. Having reviewed in detail a number of extensive Dutch government evaluation reports of the Netherlands' private sector development programmes for Ethiopia I have sufficient ground to argue that the general impact and influence of the Netherlands as one of the most important donor nations to Ethiopia seem to have been rather moderate when judging the low effectiveness and the relatively low EUR amounts of their private sector development instruments, but the Netherlands' other ODA funds might have contributed to attain generally a favourable attitude of the Ethiopian government towards Dutch interests in Ethiopia.

A word of caution is advisable with regard to the macro-economic impacts of the Ethiopian floriculture sector on the overall Ethiopian national economy. Although the sector has created new employment, created backward linkages (packaging) and forward linkages (cooling logistics, air transportation by Ethiopian Airlines) as well as prompted infrastructure investments which all also created new or additional jobs, I argue that their impacts can be considered relatively modest when measured - amongst others - against the total population and employable people. The share of employees in the flori- and horticulture sector of some 200.000 persons¹³ constitutes only 0,4% of employable persons in Ethiopia. These impacts will stay modest or probably become lower in view of the high prospective population growth due to continuing high fertility rates bringing the total population up from 112,1mio in 2019 to estimated 205,4mio in 2050. Thus, the challenges for the Ethiopian government to reach its two top strategic goals of extricating the population from poverty and of becoming a lower middle-income country by 2025 as stipulated in its strategic national development plans will have to be mastered with additional and new policy means and measures stimulating national development in the broadest sense of the word.

In finishing this master thesis on a somewhat different note I would like to provide a statement of John Simko, President of Sunshine Bouquet Company/Esmeralda Group, USA, the two companies having merged in June 2020 and thus becoming one of the largest flower growing and trading groups in the USA, Columbia and Ecuador (Sunshine Bouquet Company; Esmeralda Group). John Simko who has worked in floriculture for more than 50 years, participated in a virtual conference organized by The International Association of Horticultural Producers/AIHP held on September 15th, 2020 where expert international industry speakers shared experiences of the impact of COVID-19 on the horticultural industry and the prospective outlook for the future of the industry (AIHP 2020). Despite the lockdowns and the subsequent breakdown of customer demands for

¹³ EHEPA does not provide a breakdown of employees between the horti- and floriculture sector. In other sources employment in the floriculture sector is indicated at more than 50.000 persons (Oqubay 2019: 619)

flowers in the second quarter 2020 with highly uncertain outlooks for the floriculture industry, Simko was very positive about the recovery and future due to the emotional role flowers have for human beings stating

“I believe that flowers are recession proof, or if not recession proof recession resistant. [...] Flowers are a primary necessity, flowers are a basic need. Flowers a basic need? Basic need would commonly be understood as food and shelter and the like. No, parts of basic needs also include human emotional needs. Can you imagine weddings without flowers, can you imagine funerals without flowers, can you imagine anniversary, birthday, your first date, your child recital? There are so many occasions. Flowers have been around for centuries and they fulfill a basic need.” (AIHP 2020)

I cannot more but to agree to this statement that flowers are a basic need for the human’s emotional well-being.

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