



Impressions of a Country: Ethiopia

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Valuechainsolutions (VCS) has had the opportunity to work extensively in Ethiopia since June 2018, analysing and developing various end-to-end value chains across the country. Ethiopia, being slightly smaller in size than South Africa is situated in the Horn of Africa and has a population in excess of 100 million people, double that of South Africa. Its proximity to the Middle East and Europe, together with its access to the major ports in the region, enhances its ability for international trade. Covering an area of approximately 1.104 million square kilometres, Ethiopia is bordered by the Sudan on the west, Somalia on the south-east, Djibouti on the east, Eritrea on the north and Kenya on the south.

The country has two distinct climate regions; the highlands where average temperatures rarely exceed 20 degrees celsius and the more sparsely populated lowlands with typically sub-tropical and tropical climates. At approximately 850mm, the average annual rainfall for the whole country is moderate by global standards. In most of the highlands, rainfall occurs in two distinct seasons: the “small” rains during February and March and the “high” rains from June to September. The potential for development of irrigated production areas is high.



Official Name: Federal Democratic Republic of Ethiopia **Political system:** Federal State with multi-party system **Capital City:** Addis Ababa, which is also the seat of the African Union (AU) and United Nations Economic Commission for Africa (ECA). **Area:** 1.104 million square kilometres **Arable land:** 513,000 square kilometres (45%) **Irrigated land:** 34,200 square kilometres (3%)¹

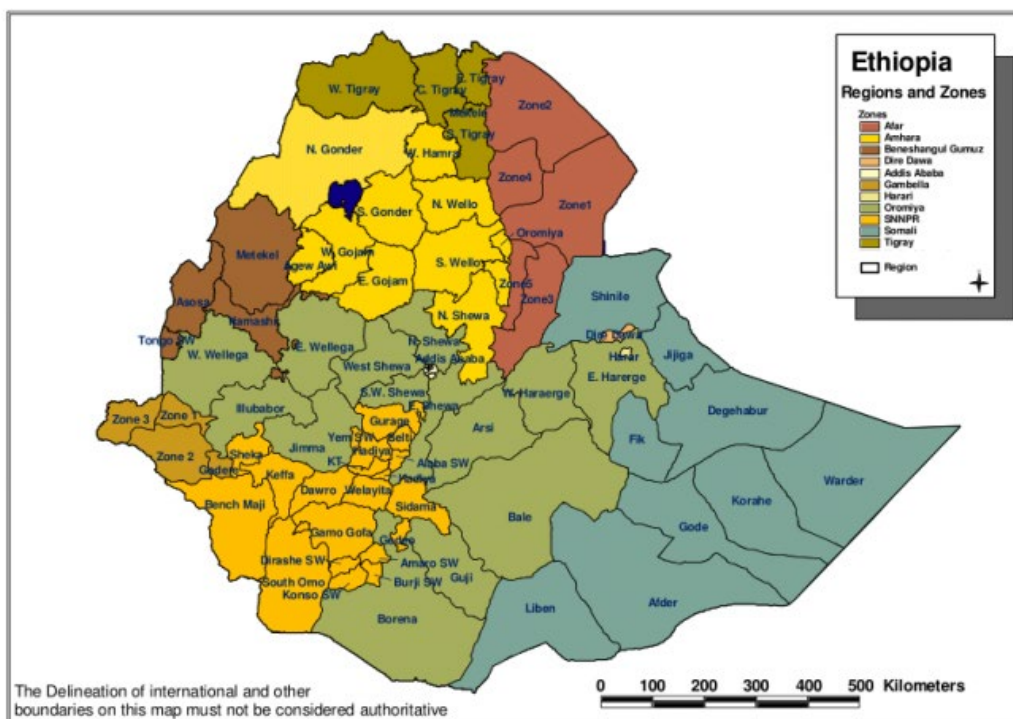
Due to the two distinct climate regions and varied topography, Ethiopia is suitable for the cultivation of various crops. The highlands have an average elevation of 2200 meters above sea level, while the lowlands elevation ranges from 400m to 1700m. The top five crops by hectares are Maize, Teff, Wheat, Sorghum

¹ Ethiopian Embassy Country Profile <https://ethiopianembassy.be/ethiopia/country-profile/>

and Barley. These agricultural value chains have traditionally been focused on subsistence and local markets due the large-scale policy drive of the government and aid organisations to ensure food security.

However, this reality is evolving at a rapid pace with Ethiopia already being one of the largest exporters of high value products such as cut flowers to European markets. In most regions in Ethiopia, efforts to develop agricultural value chains are evident. The country finds itself at the critical junction of finding the balance between food security and market development.

The regional diversity of Ethiopia is a critical factor to understand and appreciate in any development or investment initiative. The country is indeed the sum of its parts and no two regions are the same. Vast differences in culture, language and approach is a reality which must be clearly understood by any external party wishing to do business in or with Ethiopia. The benefit of this reality and the drive since the 1990's to ensure food security has resulted in an extremely well organized system for agriculture. The production and value chain systems are organized as Region (Provincial)-Area-Woreda-Kebele (Village level) across the country and typically 2 to 3 government extension officers can be found at the base level of farmer organization. Although this results in one of the highest extension support to farmer ratios in Africa, the extension system skillset tends to be multi-crop in nature and focused on ensuring primary agricultural productivity and compliance to government led supply systems for inputs such as fertilizer, rather than market led development of value chains. This characteristic is also evident in Variety and Seed development; although research is well organized, variety and seed systems tend to be disconnected from market requirements. Issues such as these present many opportunities for private sector actors and the need for a truly market led value chain development approach and effective private-public-donor partnerships, something which Valuechainsolutions really understand and hold as a central focus in everything we do.



The **Ethiopian consumer** is mostly based in small rural towns, and although rapid urbanisation is evident, Addis Ababa represents the bulk of the consumer base with a higher average level of disposable income. Per capita income across the country is generally very low, forcing consumers to typically produce own food for consumption on small plots of land or to trade goods at village level. Discretionary type products such as clear beer is consumed mostly in urban areas, with most of the volume being consumed as products produced at home. In terms of value chain development, pricing and margin dynamics favour the farmer given the high demand for food and locally produced products - something quite unique in Africa. Where higher value products such as cut flowers or fish-based protein are produced for exports, the value chains are much better developed and more efficient. Given the vast size and topography of the country, and the decentralised nature of production areas as well as local markets, the need for fact-based value chain development is vital to the success of any investment.

The **political economy** of Ethiopia is highly dependent on maintaining cohesion between the central federal government and a strong regional demographic. This can lead to instability and unrest at any time and hence strong partnerships with entities who understand the local reality remain vital to any foreign investor. Availability of foreign exchange to pay for imported services and goods and the balance between local re investment and the ability to extract profits are further issues to consider for any foreign investor.

In closing; Ethiopia represents a region with one of the highest investment potentials in Africa for any foreign investor willing to follow a fact based and risk: return focused approach to business and value chain development. The country offers a distinctive balance between high value export orientated market opportunities and a vast and fast evolving domestic consumer market. Valuechainsolutions has gained a thorough understanding of the evolving giant which is Ethiopia.

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Picture 1: Addis Ababa, typical scene



Picture 2: Ethiopian small holder farmer trials



Picture 3: Farmer Cooperative Office



Picture 4: Aggregation warehouse in grain value chain



Picture 5: Farmer applying Agricultural Chemicals

