

8. ECONOMIC ACTIVITIES IN ETHIOPIA

8.1. Introduction

Nation's economic activity can be classified as:

I. Primary Sector:

Involves *production of raw material and basic foods.*

Includes *agriculture (both subsistence & commercial), mining, forestry, hunting & gathering, and fishing.*

II. Secondary Sector:

Involves *manufacturing (finished & semi-finished goods), construction and power production.*

III. Tertiary Sector (Service Sector):

Involves *retail and wholesales, transportation and distribution, entertainment, restaurants, tourism, insurance, banking, healthcare, education and legal sectors.*

IV. Quaternary Sectors: Information, research, defense and top managements.

V. Quinary Sectors: Executive decision makers.

8.2. Mining Activity in Ethiopia

8.2.1. Introduction

Search and extraction of *minerals from the crust of the earth*.

Mining contributes **1.5 % of GDP** (USD 32 billion) to country's economy.

The **oldest (Precambrian) rocks** and the **sedimentary (Mesozoic) rocks** host most of the **metallic & nonmetallic mineral deposits in Ethiopia**.

Large scale gold mine in Ethiopia is the **Lege-dembi gold mine**- is largest **gold mine** owned by MEDROC, **located** in Shakiso, Guji zone.

There is also **small-scale open pit mine** of **tantalum at Kenticha** in the **Adola belt**.

Tantalum is highly demanded.

It is used for making electronic devices such as mobile phones, cameras and computers.

Ethiopia presently supplies close to **10%** of the World production of tantalum.

8.2.2. Status of the mineral sector investment in Ethiopia

The ***Mining laws of Ethiopia*** have been issued in 1993 and amended recently, to ***attract private sector investment***.

Presently a number of ***world class mining companies*** are operating in Ethiopia in different mineral commodities:

- ***Ethiopian Mineral Development Share Company(EMDSC)***, a Gov't organization, engaging in all mining activities in the country;
- ***Ezana Mining Development***, a ***privately owned Ethiopian enterprise*** in consulting in all aspects of mining;
- ***MEDROC Gold***, operating in Shakiso, involved in gold mining;
- ***National Mining Corporation***, a private company involved in all aspects of mineral and petroleum product production.
- ***Allana Potash***, a ***Canadian mining company*** operating ***potash mining in Afar Regional State***;
- ***Indian Sainik Potash*** - working in the Dallol depression.

8.2.3. The Importance of Mining Sector in Ethiopia

A. Economic Benefits:

1. Generates Revenue From Sales, Taxes, Royalty:

Federal gov't has been collecting **royalty** of about **4.4 million USD** from the large-scale gold production every year.

Regional gov't also collect **royalty from the small scale and artisanal production of precious minerals, industrial & construction materials.**

2. Generates Foreign Currency Earnings:

About **135 million dollars** every year from the export of **gold, tantalite concentrate platinum, decorative dimension stones and gemstones.**

Such export contributes up to **7-10 %** of the total export foreign currency earnings of the country.

3. Employment opportunity: Small employment contribution b/c the mining sector is **not a labor-intensive industry.**

Artisanal mining on the other hand is likely to involve several hundred thousand workers.

B. Social Benefits:

- ✓ Expansion of ***infrastructures*** (roads, electric power, telecommunication) and ***social services*** (health facilities, schools & school equipment, water facilities & airstrips for the local communities.
- ✓ Train local communities to engage in other form of business such as plantation of coffee and other trees, irrigation agriculture.
- ✓ Promote small entrepreneur's engagement in the local community services such as ***hotel, mini- markets, stationeries, etc.***

8.3. Forestry

It is related to ***exploiting forest products***, which include gathering of fuel wood, production of timber and charcoal, and building and construction materials.

Economic Significance of Forest:

- Contribution to the national economy(2.5% of total GDP).
- Fuel wood,
- Timber for furniture
- Building and construction

The ***commercial exploitation of forest resources*** in Ethiopia is still in its infancy stage, mainly b/c of the following factors:

- Rapid deforestation
- Low demand for timber
- Lack of modern lumbering technology
- Inaccessibility of natural forest

8.4. Fishery

8.4.1. Introduction

Involves *harvesting of fish resources* from water bodies.

Ethiopia has *great potential for fishing* due to the *presence of numerous lakes, river and reservoirs rich in fish resources*.

In Ethiopia, *more than hundred local fish species* have been identified.

Main fish species in Ethiopia are: **Tilapia, Bargas, Clarias and Labeo-** from which the bulk of the production is made.

In the two Rift Valley lakes, *Chamo & Abaya*, *Nile Perch* is caught in significant quantity(See Table 8.1).

8.4.2. Fishing Grounds in Ethiopia

In Ethiopia fishing grounds could be classified as *Lakes & Rivers*.

1. Lake Fishery:

Ethiopian lakes supplies about **79 %** of the total yearly fish production of the country.

The most important lakes from which much of the fish production comes include *Tana, Ziway, Langano, Hawassa, Abaya and Chamo*.

Among **101 species of fish** available in the country **25 of them** are commercial fish species and are found in the lakes.

2. River Fishery:

Most rivers of Ethiopia have high fish resources. *E.g. river Baro* alone supplies a maximum sustainable yield of 2,500 tons per year.

Most fish production from river is only for **local consumption** by villagers living near and around river banks.

Table 8.1: Estimated fish Resource potential of Ethiopian lakes

Lakes	Annual Potential (1000 kg live weight)	Main Fish Species
Tana	15,000	Barbus, Clarius, Tilapia
Abaya	7,000	Nile perch, Bagrus, Barbus Clarius, Labeo
Ziway	3,000	Tilapia, Barbus
Chamo	3,000	Nile perch, Bagrus, Barbus, Clarius, Cyprinus
Koka	2,000	Tilapia, barbus Clarius, Cyprinus
Langano	3,000	Tilapia, barbus Clarius
Awassa	1,000	Tilapia, Barbus Clarius
Metahara Beseka	2,500	

8.4.3. Demand and Consumption of fish

The domestic fish market (local fish consumption) is low.

The factors which account for this low level of local fish consumption are:

- Fish has not been integrated into the diet of food.
- Religious influences on consumption patterns and demand for fish is seasonal. ***The demand for fish is higher than supply during fasting seasons.***
- Limited supply of the product and its high price.
- Long distance of the fish production sites from densely populated areas and its perishability.

Socio-economic contribution of the fishery sector

Its role in national economy: Contribution to the GDP (0.1%)

Trade: Contributed to Ethiopian cross-border fish trade (export and import).

Food security: An important sector that contribute in achieving food security for the growing population.

Employment: A considerable workforce is employed, ***both directly and indirectly.***

Fish meal as animal feed source: It is an excellent source of protein for animals.

Sport fishing as a recreational value: Recreational fishing (port fishing) is common in southern part of Lake Tana.

8.4.4. Constraints and opportunities of the fishing sector

A. Extraction of minerals and Factories are the sources of major pollutants affecting water bodies & their fisheries:

✓ ***Extraction of minerals*** from ***Lake Abijata*** could have negative effect on fish stocks,

✓ ***Effluents*** from the ***tannery at Koka Reservoir*** and ***textile industries at Hawassa*** and ***Arba Minch*** can affect the fisheries.

B. Increasing rate of deforestation → drying up of water bodies.

C. Inadequate legal and policy frameworks- Though there are fishery laws and regulations, they are inadequately implemented → Resulting in overfishing of some important species.

D. Limited human resource availability: The sector suffers from limited human resource availability, with an acute ***shortage of trained personnel***. This poses serious constraints on ***fishery management, technical and extension support services***.

E. Public and private investment in fishery and aquaculture is low

F. Traditional method of fishing: Traditional fishing techniques.

G. Poor transportation and facilitating services.

8.5. Agriculture in Ethiopia

8.5.1. Introduction

Cultivating of crops and rearing of animals for local consumption or commercial purpose.

The sector is dominated by:

- ***small-scale farmers that practice rain-fed mixed farming,***
- ***employing traditional technology,***
- ***adopting low input,***
- ***low output production system.***

8.2.1. Contributions, Potential & Characteristics of agriculture in Ethiopia

The Contributions of agriculture in Ethiopia:

- ❖ Backbone of country's economy- *accounts for 30- 42% of GDP.*
- ❖ Agricultural products *account for more than 90 %* of foreign exchange earnings of the country.
- ❖ It provides *raw materials* for the processing industries.
- ❖ *More than 80%* of Ethiopian population derives its livelihood directly from agriculture.

The Agricultural Resource Base/potentials of Ethiopia

Ethiopia has *abundant agricultural resource base* due to its varied agro-ecological zones.

Has also *vast grazing land and livestock population* standing first in Africa and 10th In the world.

Land Use In Ethiopia

Ethiopia has a total land area of about *113,000,000 hectares*.

Land use pattern in Ethiopia:

- **12.6 million hectares(10.3%)** of the total area is *intensively cultivated*,
- **15.3 million hectares (12.5%)** is *moderately cultivated*.
- **6.9%** - High forest and wood land areas
- **30.5%** -of the total area is grassland

Agricultural Land Use in Ethiopia

Agricultural land refers to the share of land area that is ***arable, under permanent crops*** and ***permanent pastures***.

Land under permanent crops: Land cultivated with crops that occupy the land for long periods & not replaced after each harvest, like land under ***flowering shrubs, fruit trees, nut trees, coffee and vines***.

Permanent pasture: Land used for ***five or more years*** for forage, including natural and cultivated crops.

Cropping seasons & Cropping Patterns in Ethiopia

There are two main cropping seasons in Ethiopia: ***Belg and Meher.***

I. Belg crop season is officially defined as ***any crop harvested b/n March and August,***

This season receive RF from ***February to June***

II. Meher crop season is defined as ***any crop harvested b/n September and February.***

This season receive RF from ***June to October***

The ***meher crop season*** is the ***main season and produces 90-95%*** of the nation's ***total cereals output,*** and the ***belg crop season*** harvest provides ***5-10%*** of cereal output.

Animal Husbandry

Ethiopia has a large livestock population (1st in Africa).

The distribution of livestock production in terms of agro-ecological zones and administrative regions is very uneven.

- *About 75% of the **cattle & sheep population** are found in the highland zone,*
- *70% of the goat and 100% of the camel population are found in the lowlands.*
- *More than 90% of the livestock population is found in **Oromia, Amhara and SNNPR.***
- *Most of the total value of livestock output (70%) is contributed by cattle.*
- *The **average number of cattle per HH (per capital holdings)** for the less densely populated **Afar region and Somali** is the highest.*

Characteristics of Ethiopian Agriculture

1. Subsistence Orientation: Farmers in Ethiopia produce/cultivate d/t crops mainly for their own ***household consumption (80%)*** & only a limited proportion for market.

2. Fragmentation of farm plots & Small size of Holdings: B/c of ever-increasing population and continuous division of farmland among members of families in the form of ***inheritance***, the land holdings become ***smaller & smaller***.

3. Low level/ use of input & Traditional farming Method: Agriculture in Ethiopia is characterized by **low use of natural and chemical fertilizers**.

- ***Less than 60%*** of farmers used **chemical fertilizers**;
- ***only 10%*** used ***organic fertilizers***.

Lack of modern inputs, such as fertilizers, and backward technology are the major characteristics of agriculture in Ethiopia.

4. Susceptibility to Disasters (drought & soil degradation):
Vulnerability to natural disasters, like ***periodic severe droughts***.

Traditional methods of farming practices combined with ***heavy summer rains***, the sector is exposed to ***soil erosion***.

5. Limited practice of irrigation & dependence on rainfed agriculture

Although Ethiopia has vast area of irrigable land, the proportion of cultivated land using irrigation so small.

8.5.3. Agriculture Systems in Ethiopia

Agricultural system is a ***practice & ways of life*** carried by rural people who are confined to relatively ***similar agro-physical resource basis and share more related socio-cultural, economic and livelihood structures and patterns.***

The agricultural systems of Ethiopia can be classified based on:

- ❖ ***Agro-ecological patterns***
- ❖ ***Dominant types of crops or animals reared or combinations***
- ❖ ***Farming methods and tools used for cultivation***
- ❖ ***Level of technological input and the disposal of output***

Based on the ***dominant crops cultivated or animals reared & main implements used in cultivation***, farming systems are classified as:

1. ***Highland mixed farming system***
2. ***Lowland mixed farming system***
3. ***Pastoral system***
4. ***Shifting cultivation***
5. ***Commercial agriculture***

1. Highland Mixed Farming System

- Involves *integration of cultivation of crops and livestock production/animal rearing*.
- A dominant farming system practiced in high land parts of Ethiopia, where elevation is **above 1500m**(in **dega and Woina dega agro-ecological zones**).

Farmers mainly depend on:

- **Cereal crops** (Barely & wheat, teff) with pulses and oil crops for subsistence.
- **Cash crops** such as Enset, coffee, chat & various *horticulture crops*.

2. Lowland Mixed Agriculture

- Practiced in areas below 1500 meters
- Common in the *hot and dry mountain foothills, Rift Valley and northern areas of Awash River*.

Dominant crops grown are: Different oil crops, lowland pulses & drought-tolerant varieties such as sorghum, maize, wheat and teff.

3. Pastoral Complex:

- Animal Husbandry/ Pastoral system practiced *by nomadic and semi-nomadic community* of ***Afar, Somali, Borena zone & lowlands of southern Omo & Lake Turkana area.***
- Livestock rearing is the main economic activity in sparsely populated dry and vast areas.
- **90%** of the live animals exported come from pastoral areas.

4. Shifting Cultivation

It is the ***cut-and- burn cultivation system*** whereby a given plot of land is cultivated *after clearing and until its natural fertility is exhausted* and *then shift for another clearing.*

In Ethiopia it is practiced in ***W^{rn} & SW^{rn} highlands & lowlands in Benishangul-Gumuz and Gambella*** regions.

Currently declining due to gov't intervention of ***settlement/ sedentary farming.***

5. Commercial Agriculture-

Modern farming practice involving the ***production of crops or animal for market using mechanization.***

Introduced in the **1960s** by ***Haile Selassie Government*** with the aim to meet the growing ***demand for food in the urban areas and agricultural raw materials for industry.***

Concentrated in the ***Awash valley, Arsi, Sourthern Shoa and Humera.***

8.2.4. Major problems of Ethiopian Agriculture

The major obstacles to the development of agricultural sector include:

- 1. *Land Degradation*:** *Because of the rugged topography, the cultivable land is exposed to soil erosion.*
- 2. *Variable Rainfall*:** *Agriculture is heavily dependent upon **unreliable rainfall**.
Rain sometimes comes early or late; and at other times it falls for short period with insufficient amount.*
- 3. *Land Fragmentation*:** *Declining per capita landholding due to increasing rural population size.*

4. Land Tenure Insecurity: Land remains under the *state control* in **EPDRF**.

Lack of effective land property right is among major problems that erodes the incentive to invest in permanent conservation & improvement on individual holdings.

5. Backward Technology: Dependence on *traditional tools and farming practices, low application of modern inputs(fertilizer, pesticides, and improved seeds, poor animal breeds etc)* are among common problems of *Ethiopian farming*.

6. Poor Rural Infrastructure: Agricultural outputs are usually carried long distance by traditional transport means like pack animals or by humans, to sale place.

8.6. Manufacturing Industry in Ethiopia

8.6.1. Introduction

Industrial development in Ethiopia is *extremely backward* which is an indication of the *low-level development of the Ethiopian economy.*

The *contribution of the industrial sector to the GDP* is only **11.7%.**

Manufacturing is a *process of changing commodities to consumable forms.* In this process there is an *addition of value.*

Meaning, the *value of commodities is more after processing.*

Employment in Industries:

The number of persons engaged in **machinery & equipment** grew tremendously from 2012/2013.

The employment distribution of the different firm size within the manufacturing sector indicated that:

- **Micro enterprise employ(51%)**
- **Small enterprise employ(3.9%)**
- **Medium enterprise employ(5.4%), and**
- **Large enterprise(39.7%)**

The value of Industrial Production:

The Ethiopian **large and medium size manufacturing sector** is dominated by **food and beverages**.

It accounted the **largest proportion of the overall manufacturing value added**.

8.6.2. Types and characteristics of manufacturing

Two types of industries identified in Ethiopia: ***Traditional or cottage industries and manufacturing industries.***

I. Cottage (traditional) industries:

Includes Weaving, woodcarving, pottery, metal works & basketry.

The cottage industries in Ethiopia were **remain static; i.e., they existed with little changes and refinement.**

Major factors were:

Negative traditional attitudes towards such activities- that were considered of ***low social cast activities.***

People engaged in such activities were ***despised & were given various pejoratives*** such as "***buda***" "***faki***" etc.

II. Manufacturing Industries:

The development of manufacturing industry is *measure of development stage of country's economy*.

Light Industries:

Most of the manufacturing industries are light industries i.e. *industries that process consumer goods like textiles, food, tobacco etc.*

Heavy Industries:

Heavy industries that manufacture *capital goods*(machineries and construction materials) **E.g: Chemical, Vehicles, etc are very small.**

Industrial parks/zones in Ethiopia

Today, the ***agro-processing industries***, like leather & textile products, and related sectors have been given ***top priority manufacturing industries in Ethiopia***.

The main reasons include:

I. Strong linkages with the agricultural sector as they use inputs from the livestock and cotton sectors.

II. Are labour intensive, thus absorbing labor from the agricultural sector.

III. Have major export potential & low entry barriers.

Considering such facts, the government begun to establish ***industrial parks across the country*** since 2014.

Three mechanisms are in place for the establishment of ***IPs/SEZs***:

- A. Fully developed by the ***federal or regional government***;
- B. Developed by **PPPs** with Industrial Parks Development Corporation (***IPDC***)
- C. ***Private developers*** only.

Industrial parks in Ethiopia can also be ***categorized based on their focus sector***:

- ☐ Textile and garment;
- ☐ Leather and shoes
- ☐ Agro-processing,
- ☐ Pharmaceutical and IT park.

Contributions of Industrial Parks in Ethiopia

- Stimulating investment and creating employment.
- Facilitating export growth and foreign exchange earning.
- Developing industrial clusters through ***forward/backward linkages***.
- Eliciting knowledge transfer and technology spillover.
- Establishing connections to global value chain
- Fostering Sustainable Growth and social equality.
- Enforcing implementation of national industrialization strategy.

8.6.4. Industrial Dev't in Ethiopia: Challenges & Opportunities

Challenges	Opportunities
High logistics & transportation cost	Relatively cheap electricity charge in comparison to other African countries
Limited research/study and action on export incentives and market	Macroeconomic stability and rapidly growing economy
Low labor productivity	Relatively cheap labor force & increasing number of trained employees
High cost of imported raw materials	Access to wide market (large domestic market, COMESA, AGOA, EBA opportunities, China market etc.)
Limited compliance to the international requirements & market	Competitive incentive packages which include export incentives
Underdeveloped rural infrastructure in the potential areas	Integrated Agro-Industrial Parks (one stop shopping for all the services, economies of scale, extension services, development of common infrastructure)
Weak supply chain integration, market institutions and information system	Global attention due to its remarkable economic growth and credit worthiness
Low level of technology	

8.7. The Service Sector in Ethiopia

8.7.1. Introduction

Tertiary economic activity involves the ***distribution and provision of goods and rendering services.***

Tertiary institutions include wholesale and retail outlets, banking and other financial services, governmental and educational services, medical facilities, Security services, transportation, information and telecommunication services, tourism, health services, education institutions and research centers all are ***vital tertiary economic activities.***

8.7.2. Transportation and communication in Ethiopia

8.7.2.1. Transportation

There are **five different types** of transport in Ethiopia:

- 1. Traditional Transport:** Includes the use of pack animals (donkeys, mules, horses, camel) and goods carried by humans.
- 2. Road Transport:** The most dominant means of transport in Ethiopia.
- 3. Railway:**
- 4. Airways:** Domestic and International
- 5. Waterways:** seaways and Inland waterways

Seaways: Currently, Ethiopia is using ***Red Sea through Djibouti port*** for external trade.

Inland waterways: on rivers and lakes.

8.7.2.2. Communications

It is the process of conveying messages.

An effective communication system plays a vital role to:

- ✓ *accelerate the pace of development,*
- ✓ *enhance closer social integration, and*
- ✓ *promote the basic aim of economic activities*

Some of the communication services that are commonly used in Ethiopia include *radio, television, internet, satellite, print publications, fixed and mobile telephones, and post offices.*

Contribution of Transportation to Socio-Economic Dev't

Transportation plays the following important *economic, social and political roles*:

- It creates job opportunity
- It promotes investment opportunities
- Plays a big role for both national and international trade (Particularly Transportation).
- It serves as a source of income generation both for gov't and the public;
- It contributes to the maintaining a country's peace, political wellbeing and stability;
- Plays a role in rural-urban interconnecting;
- Contribute to the development of tourism, entertainment, sports and peaceful relationship among people.

8.7.3. Trade in Ethiopia

Trade is a process of **exchange of products/ commodities**.

Trade is the result of **uneven distribution of resource**.

A country could carries out **two types of trade: *Internal trade and external trade***.

Internal trade: Refers to the exchange of goods & services within the country(can be done b/n regions or within a region).

External Trade: Refers to the exchange conducted b/n countries.

Concerned with **import-export trade**.

The Structure of Export and Import

Ethiopian economy is an agrarian economy, so that its **export** is determined by ***agricultural products***.

The most dominant merchandise export item of the country are ***coffee, oil seeds, pulses and chat***.

- ***Coffee*** dominates the total merchandise export item of the country, accounts for **29.5%** of export earnings.
- ***Oilseeds*** account for **14.9 %**
- ***pulses account for 9.5 %***
- ***chat account for 9.5 %***

➤ *The major export destinations for Ethiopian goods are:*

I. Continental destination

- ✓ *Asia account for 39.8%*
- ✓ *Europe account for 28.7%*
- ✓ *Others account for 20.9%*

II. Individual Countries

- *Five countries(China, USA, Netherlands, Saudi Arabia and Djibouti are important.*

8.7.4. Tourism in Ethiopia: Types, major tourist attraction sites and challenges

According to UNWTO (2002)

*"Tourism comprises the activities of persons **traveling to and staying** in places outside their usual environment for not more than **one consecutive year** for leisure, business & other purposes."*

Tourism is one of the largest and most important **smokeless industries** in the world in terms of employment creation and generation of foreign revenue.

Types of Tourism & Major Tourist attraction sites in Ethiopia

Major Tourist attraction sites of Ethiopia

Historic Attraction sites:

- i. The Obelisk of Axum*
- ii. The Churches of Lalibela*
- iii. The Castles of Gondar-*
- iv. The Walls of Harar-*

Natural Attraction sites

- i. The Blue Nile Falls-*
- ii. Simien Mountains-*
- iii. The Rift Valley Lakes-*
- iv. The National Parks:*

The Role of Tourism in the Economy of Ethiopia:

- ***Tourism is the 3rd source of export revenue*** after ***agriculture & industry***, so that it is an important economic sector in the country
- Important source of employment that account for **2.4%.**

Challenges of the sector to be addressed

The following major challenges are also confronting the sector:

- Weak institutional framework, skilled human resources and financing.
- Very limited accommodating capacity of international standards for leisure tourism, with investment concentrated in main cities and business-type hotels
- Lack of basic and IT infrastructure
- Narrow product range offered to the market by incoming operators
- Weak private sector associations
- Unplanned destination development
- Poor visitor management in natural & heritage sites
- Poor tourism statistics

THE END



Thank You