

AGRIBUSINESS IN ETHIOPIA: CHALLENGES & PROSPECTS

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Abstract:

The aim of the review article is to understand the challenges and prospects of agribusiness in Ethiopia. The literature reveals that the predominant areas of agribusiness, which affects the success of a firm, are political & legal factors of a given country, working place factors of firm, technological factors, infrastructural factors, marketing factors, financial factors, management factors, and entrepreneurial factors. This article discusses the above factors in the context of developing countries, where the success of small and micro agribusiness enterprises are determined with given factors. This article is useful for future researchers, scholars and policy makers with regard to agribusiness.

Key Words: *Agribusiness*

Introduction:

According to the estimates of World Bank approximately one billion people in the world are still living in intense poverty. The growth of agricultural sector still remains important to poverty reduction, particularly in the poor & developing countries. Most of the population in these countries relies on agriculture for their livelihood. On the other hand, the global demand for some of the key agricultural product is growing due to the growth in population, incomes, and dietary shifts. It becomes extremely important to increase agricultural productivity and growth, if we want to meet the demand for food products and reduce poverty, particularly in the poor developing countries. Between 1998 and 2008, the period covered by this evaluation, the World Bank Group has provided \$23.7 billion in financing for agriculture and agribusiness in 108 countries. This includes various areas like irrigation and marketing to research and extension. Based on the picture at hand, this article is a modest attempt to review the challenges and prospects with regard to agriculture and agribusiness in Ethiopia with following reasons.

First, the agribusiness is one of the most prioritized sectors designed by National Micro and Small Enterprises Development Agency for the proper achievement of the second 5 year national Growth and Transformation Plan (GTP II) Ethiopia's objectives and strategies for sustaining rapid and broad based economic growth path is highly dependent on maintaining agriculture as a main source of economic growth. Even the transformation of economy from agriculture & services to industry is also highly expected to use agricultural products as main input.

Second, a wide range and diversified problems are associated with the sector, which need to be addressed in order to make the economy competitive.

Hence, this articles attempts to identify the major challenges and prospects of agribusiness in Ethiopia. This article is divided in four parts. The first part discusses the present scenario with regard to economic and agriculture sectors in Ethiopia. The second part discusses meaning and nature of agribusiness. Further, the third part focuses on literature with regard the agribusiness challenges, prospects and conceptual framework in context of Ethiopia. Finally, the last part of the paper summarizes and concludes the agribusiness in Ethiopia.

Present Scenario

According to World Bank report, Ethiopia is the second largest populated country in Sub-Saharan Africa with a population of 99.4 million. The population growth rate recorded as 2.5% in 2015. The per capita income in Ethiopia is \$590 is substantially lower than the regional average (Gross National Income, Atlas Method). The government of Ethiopia desires to achieve lower-middle income status over the next decade. The economy of Ethiopia has experienced growth over the past decade, averaging 10.8% per year in 2003-04 to 2014-15. It is interesting to note that the expansion of the services (43.3%) and agricultural sectors (40.5%) account for most of this growth, while manufacturing sector (16.2%) performance was relatively meek in the year 2015.

In the year 2015, the contribution of agricultural sector in the GDP of Ethiopia is almost 40.5%. Agricultural sector contributes nearly 81 percent to Ethiopian exports, and agricultural sector accommodates approximately 85 percent of the labour force. In the Ethiopian exports basket of agri-commodities, major crops include coffee, cereals, oilseeds, pulses like beans, potatoes, vegetables and sugarcane. An export of coffee is the largest foreign exchange earner, and its flower industry becoming a new source of revenue. Thus, we can say agribusiness can be considered as the prominent means for economic growth and poverty reduction in developing country like Ethiopia. The poverty reduction through the development of Agribusiness is the principal concern to most of policy makers in the country.

Agribusiness: Meaning & Nature

Clover and Darroch (2005) defined an agribusiness as a business having a high degree of interdependence with agricultural production in general terms. Agriculture has evolved in to agribusiness and has become a vast and complex system that reaches far beyond the farm to include all those who are involved in bringing food and fiber to consumers. Agribusinesses include the firms that provide the inputs (for example Seed, fertilizers, chemicals, credit etc.), process the output (for example milk, grain, cereals, meat etc.), manufacture the food products (for example cream, bread, breakfast cereals etc.), and transport and sell the food products to consumers (for example restaurants & supermarkets). Smit (2009) asserted millions of people in the growing cities of the world have become urban farmers in recent decades and became agribusiness operators. He also added that it is a new vision of the city, seen as part of the natural resource base and as a producer of agricultural goods rather than only as a customer.

Urban agriculture, as it is stated in the Ethiopian Federal Micro and Small Enterprises Development Agency, is interchangeably used to mean MSABs (Micro and Small Agribusinesses). And definitions, terms and other concepts included in micro and small enterprises are agribusiness inclusive.

In successful developing countries, MSABs by virtue of their size, location, capital investment and their capacity to generate greater employment, have demonstrated their powerful propellant effect for rapid economic growth (FeMSEDA, 1997). In the case of Ethiopia, by quoting FDRE Ministry of Trade and Industry 2007, (Hirity, 2009), stated that small businesses have been recognized to create job opportunities for a substantial segment of the population. MSABs Sectors employ large numbers next to the agricultural sector. A survey conducted by Clover and Darroch (2005) on 44 small, micro and medium agribusiness owners in South Africa, listed as funding constraints at start-up, lack of access to services, access to tender contracts, lack of management capacity in the enterprise, complain costs associated with VAT and labor legislation; liquidity stress, lack of collateral, and lack of institutional support as the major constraints that hinder their business growth. There exist a large number of studies on the importance of small business in the development of small economies. However, only a number of these studies focus on the constraints faced by small businesses (Reddy, 2007).

Parallel to this, The ECA (2004) classified factors that hamper Micro and Small Enterprises' economic performance in different forms: some are internal to the enterprise, while others belong to the economic and social environment in which they operate. Some are generic to all MSABs while others are sector specific. Some factors seem to have a more immediate impact on enterprise output, while others have time lags. Some can be directly targeted through the government intervention, while others are more effectively promoted through market channels.

The Ethiopian government drafted its first Micro and Small Enterprise Development Strategy in 1997 and this has been re-emphasized in Plan for Accelerated and Sustainable Development to End Poverty (PASDEP), Growth & Transformation Plan (GTP) I and GTP II. However, although measures are being taken to support them, most of the challenges that agribusiness face are yet to be tackled. Some of these challenges include: 1) unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices; 2) lack of access to markets, finance, business information; 3) lack of business premises (at affordable rent); 4) low ability to acquire skills and managerial expertise; 5) low access to appropriate technology; and 6) poor access to quality business infrastructure (DWCP, 2009).

Many of the researches emphasized on the non-agribusiness sub-sector and generalized it for the whole MSABs. But, for example, some business constraints might be serious problems to micro firms in some subsectors but not to others.

Review of Literature

What Is Agribusiness?

According to Fleet, Fleet, & Seperich (2013) agribusinesses traditionally use the cooperative form of organization. Cooperatives (co-ops) have played an important role in the development of agribusiness, but their numbers have been decreasing. There are three distinct types of cooperatives in agribusiness: *input* (supply/purchasing), *output* (marketing), and *support* (service) cooperatives. Input cooperatives, as the name implies, purchase feed, seed, fertilizer, fuel, and other inputs using the co-op size to obtain quantity discounts, thus reducing costs to members. Output cooperatives provide marketing and branding for members to increase sales. Support cooperatives provide services to members at reduced rates. Support cooperatives include banking and credit services, irrigation, or other specialized services.

Thus, we can say that agribusiness involves the production, distribution, and consumption of food, clothing, and even shelter. It includes all economic activity in the food and fiber system, which encompasses the input supply industries, agricultural production, and post-harvest, value-added activities such as commodity processing, food manufacturing, and food distribution (Fleet, Fleet, & Seperich, 2013; Sonka, & Hudson, 1989).

Ramabulana (2011) identified the critical success factors of agribusiness and highlighted the factors that restrict and/or enhance the competitiveness and profitability of smaller agribusinesses and analyse the power relations between the players in the supply chain. Moreover, savings of MSABs are considered as one of the strategic variable in the economic growth, which determine both individual and national wellbeing. However, saving level in Ethiopia particularly in rural areas is very low and little is known empirically about its patterns and determinants (Teshome, Kassa, Emanu, & Hajil, 2013). But, both domestic and global markets are experiencing strong demand for agri-products, which is likely to continue and managers in agribusiness are facing challenges in decision making due to dynamic, complex, and uncertain environment (Byerlee, et. al., 2013; Fishera, Norvellb, Sonkaa, & Nelson, 2000).

Agribusiness in Ethiopia

GTP II has been developed around the following five high-level objectives for the agriculture sector in Ethiopia: first, accelerated growth in agricultural production with a gradual shift towards high value commodities, second, sustainable, broad-based, and inclusive agricultural development, third, elimination of national food gap (and ultimately, contribution by the agriculture sector to national capital formation), fourth, establishment of a market system that benefits farmers and non-farm actors, and lastly, improved implementation capacity: institutional and human resource (attitudes, skills, competency).

GTP-II emphasizes on high (8%) growth rate in agricultural production, but with a focus on strategic crops—identified as key food crops, export/high value commodities (coffee, spices, horticulture, livestock); and, industrial inputs.

Micro and Small Agribusiness Enterprise

The role played by MSABs, through the various socio-economic benefits emanating from the sector was found to be eminent in the overall development effort and process of nations. In other words, by generating employment, levels of income, poverty reduction, consequently enhancing living standard of society (Mukras, 2003:58-69). Joshi & Mihreteab (2016) asserted the critical success factors of MSABs in Ethiopia and proposed conceptual model that depicts the success of the firm largely depends on entrepreneurial characteristics, firm characteristics, and contextual factors. Poverty is widespread and remains a major challenge of sustainable development and stability in Ethiopia (Lutheran World Federation of Ethiopia, 2006 cited in Eshetu & Mammo, 2009:2). By now, it is clear and agreeable that poverty, both in urban and/or rural areas, is all about lack of basic needs, low or inadequate level of income and consumption, poor command over resources, and high level of social exclusion, inequality and vulnerability. Current international thinking is in tune with a view that acknowledges MSABs as a tool to fight poverty in the long run.

Conceptual Framework

Micro and small scale enterprises particularly with regard to agribusiness have been accepted worldwide as an instrument of economic growth and development in developing countries. No wonder that government in developing countries has made tremendous efforts and established policies to enhance the capacity of micro and small scale enterprises. MSABs are important both to the individual and to the nation. Ethiopia's highly productive small and medium-sized enterprises (MSABs) remain scarce (Brixiova, & Asaminew, 2010).

Factors affecting MSABs can be divided in to internal and external factors like access to financial services, market, infrastructure, government regulations and policies, business support services, business knowledge and managerial problems. A study conducted by Weatherspoon et. al, (2001) generalized that forces constraining agribusinesses in Sub-Saharan Africa are social and cultural characteristics, economic demographic, and technological factors, and the legal and regulatory framework. In identifying challenges

and opportunities on the business operations of micro and small agribusiness enterprises, the idea is to ascertain the variables that are perceived to be of importance for the daily operations of firms and consequently having a direct impact on profitability of the enterprises.

The external environment encompasses many components among which the finance, marketing regulatory and policy environment, infrastructure, technology and the provision of business development services are of point of discussion in this study. The government regulatory and policy framework is expected to be the source of both the MSABs opportunities and challenges. And thus, it is discussed in latter part of this literature review. To see some part of this category, the following empirical evidences of variables are summarized.

Constructs

Economical & Political Factors

Economic and political change usually has both positive and negative impacts. Changes in international economic conditions: incomes, exchange rates, energy prices, as well as political changes, monetary and fiscal policies are all important. Agribusiness firms must be aware of changing views on competition policy, tax policy, government expenditure priorities, environmental, health and employment regulations as they all impact agribusiness success (Scrimgeour et. al., 2006). The contemporary theories of politics tend to portray politics as a reflection of society, political phenomena as the aggregate consequences of individual behaviour, which affects other institutions (March, & Olsen, 1983). Changes in the political environment can affect returns directly through damage to plant and equipment and degradation of the economy as a result of conflict. Returns can also be affected indirectly through changes in government policy such as expropriation local content regulations, and restrictions on the remittance of dividends (Kobrin, 1979). The organization of agribusiness tightly embedded in its institutional environment. Ménard & Klein (2004) compared agribusiness firms across different environments to see what factors determine organizational innovation and success. Perspectives on Political & legal factors affect the value chain of agribusiness and researchers can consider the role of government as a factor of production, which agribusiness firms must manage in their value-added chains and strategic decision making (Boddewyn, & Brewer 1994; Schwenk, 1989). Political variables such as proportional representation election systems, frequent elections, and infrequent revolutions or coups seem linked to larger financial sectors and higher conditional rates of economic growth (Bordo, & Rousseau, 2006).

Working Place Factors

Mulder & Gulikers (2011) studied work-oriented curricula in East-African countries for the purpose of increasing the competitive strengths of businesses, to add economic value to the country. The researchers discussed competence-based education with a strong focus on workplace-oriented learning in Ethiopia. The researchers suggest that workplace learning for agribusiness and the horticulture curriculum needs to be changed to become a competence-based curriculum which should incorporate as much workplace (oriented) learning as possible.

Alemayehu, & Gecho, (2016) conducted their study in Durame Town, Kembata Temaro zone, Southern Ethiopia. The objective of the study was to find out factors that determine growth of Micro and Small Enterprises and to assess current status of Micro and Small Enterprises in terms of employment and capital growth. Researchers found factors to be significant for employment growth were: entrepreneurship training, location of enterprise, motivation of owner, market linkage, access to finance, access to water. Factors found to be significantly influencing capital growth were: education level of owner, motivation of owner, number of owners, initial employment size, social network (Nichter, & Goldmark, 2009).

Technological Factors

Technological change is a critical component of agribusiness success. This is partly a matter of introducing new technologies as a result of scientific research or technical innovation, and partly as a result of organizational response to market conditions. Technology can influence either agribusiness in general, or merely sectors within it. New generic technologies such as ICT have substantially impacted almost all agribusiness activities (Scrimgeour et. al., 2006).

Infrastructural Factors

One of the problems hindering reduction of poverty in the developing world is the absence of adequate infrastructure. Adequate infrastructure is a necessary, if not a sufficient, requirement for enhancing the creation and application of science, technology and innovation in development (Juma and Yee-Cheong, 2005). There are wide variety of constraints impending upon entrepreneurs, such as: poor infrastructure, high-production costs, poor access to market information, limited access to technology and finances, poor linkages with support services, gaps between policy and its implementation, and an altogether unfavorable business environment (Singh & Belwal, 2008). Well-developed physical infrastructure like transportation,

water, electric power, warehousing and telecommunication has an influence on MSABs development and the most infrastructural challenge is power interruptions (Mishra, & Kahssay, 2015).

Marketing factors

Carson (1985), Considers the characteristics of small firms from a marketing perspective. Examines the marketing undertaken by firms at different stages of development from startup to the medium sized firm. Proposes that this normally consists of four stages: initial marketing strategy; reactive selling; the DIY (direct interaction between marketers and customers). Marketing approach; and integrated proactive stages. Looks at these stages, suggesting that these provide a framework and starting point for further analyses of small businesses. Romano and Ratnatung (1995) also acknowledged marketing activities as being most important factors affecting small business success.

In the marketing of agribusiness, the key functions within each of the sectors of agribusiness are the food sector, the production agriculture sector, and the input supply sector. Therefore, the entrepreneurs of agribusiness must evolve their marketing program, which represents an integration of several different activities like selling, advertising, web page design, promotions, marketing research, new-product development, customer service, and pricing. These marketing activities should be focused on customer needs, wants, and, ultimately, the quest for customer satisfaction (Barnard, Akridge, Dooley, & Foltz, 2012, P. 5).

Gaur, Vasudevan, & Gaur, (2011) collected the data for this research through intensive surveys of the CEOs or top managers of small and medium-sized enterprises in India. This study found a positive link between two sub dimensions of market orientation – customer orientation and inter functional coordination – and manufacturing performance. Competitor orientation, however, did not have a positive impact on manufacturing performance. Further, the paper found that firm resources and competitive intensity moderate the relationship between some of the sub-dimensions of market orientation and firm performance.

O'Dwyer, M., Gilmore, A., & Carson, D. (2009). the literature relating to the characteristics of MSABs, and innovative marketing are reviewed to identify the key elements of innovative marketing and MSABs. This review and the key elements identified contribute to an overall conceptualization of innovative marketing for MSABs. The discussion considered and provided a description of innovative marketing in MSABs. Innovative marketing does not just relate to products, new product development, and technological development but is also evident in other aspects of marketing related activities and decisions and is very specific to the context and needs of the SME. The marketing of agricultural commodities are different from the marketing of manufactured commodities because of the special characteristics. Perishable, seasonality of production and variation in quality of products are few once.

Financial Factors

Agribusinesses represent a fundamental link in connecting farmers with retailers and consumers, yet little research has been done to examine the historical financial performance of these food processing firms (Katchova, & Enlow, 2013). According to Mishra, Wilson, & Williams, (2009) Returns on assets (ROA) is a measure of financial performance, which is widely used in the farm management literature, is the ratio of net farm income plus interest payment to total assets. This measure has been used by Gloy and LaDue and Gloy (2002) to measure financial performance of farmers in New York. Yago & Zeidman (2005) in their study in Israel MSABs reported that the failure to get financial support services is among the big challenges the enterprises faced. Finally, one of the Ethiopia's MSABs areas of noticeable weakness is poor access to finance (loans, equity & venture capital) that finally is rated to be the most challenging in many cases (Joshi & Mihreteab, 2016). In eastern Amhara, the principal source of funds for initial investment and operating capital in MSABs is one's own savings, friends & relatives (Tegegne & Demekw, 2004). Some of the obstacles faced by Nigerian MSABs include the inadequate access to credit particularly on moderate terms and commercial banks find it uneasy to assess risk premiums properly (Aremu & Adeyeni, 2011).

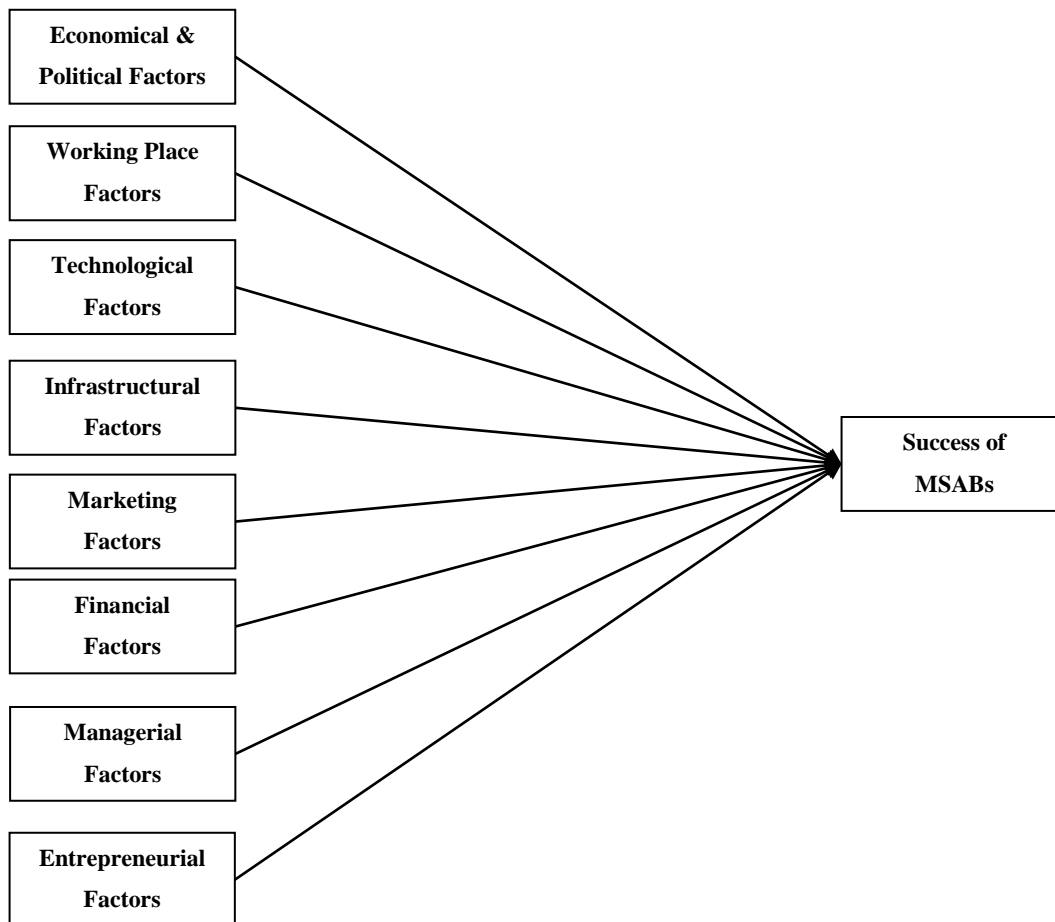
Managerial Factors

The basic goal of managerial function at large is to improve efficiency & effectiveness in output in ethical and socially responsible way. Monitoring and evaluation of the success of managerial function must be continuous and directed to control of realization of set goals. Result of successful managerial function is to achieve financial and other organizational goals. Dilemma of managerial function is critical issue in MSABs, viz; in some large scale companies there are entire teams of consultants handle or address the critical issues, whereas in MSABs this work is done by owner or manager. Therefore, there is a need to address the issue of selection and working of new employees, since every mistake in this activity can cause far-reaching consequences on functioning of SME (Ceranic, & Popovic, 2009).

Entrepreneurial Factors

Knight, (2001) investigated the interrelationships of entrepreneurial orientation, marketing strategy, tactics, and firm performance among MSABs affected by globalization. The author offers empirical findings and conclusions on the critical roles of entrepreneurship and marketing to assist SME managers.

Figure 1: Conceptual Framework



Conclusion

An agribusiness as a business having a high degree of interdependence with agricultural production in general terms. Millions of people in the growing cities of the world have become urban farmers in recent decades and became agribusiness operators. Agribusiness contributes to the sustainability of rural areas and cities in various ways- socially, economically and environmentally. In the case of Ethiopia, small businesses have been recognized to create job opportunities for a substantial segment of the population. We cannot deny the importance of large industrial and other enterprises for the growth of the Ethiopian economy.

This study fundamentally focuses on the small and micro agribusinesses for a number of reasons. First, the agribusiness is one of the most prioritized sectors for the proper achievement of the second 5 year national Growth and Transformation Plan (GTP II). Second, a wide range and diversified problems are associated with the sector (which is of course discussed above as part of all MSABs); which need to be addressed in order to make the economy competitive. Hence, this paper tries to identify the major challenges of MSABs and prospects in Ethiopia.

Finally, the research has come up with certain factors which are affecting the performance of the agribusiness firms in the study area. The main political-legal challenge that can affect the performance of micro and small agree business enterprises is the bureaucracy in company registration and licensing followed by the tax levied on my business is not reasonable. As per the responses regarding work place factors the absence of own premises and high rent of house are the main challenges including lack of work place for micro and small agribusiness enterprises from the government side in the town and the work place support offered by the government for the enterprises is for five years term. Regarding the effect of technological factors the main challenge micro and small agribusiness enterprises are faced is lack of money to acquire new technology. Moreover, the challenges of agribusiness enterprises in the study area are inadequate market for the product, followed by difficulty of searching new market for the products and the absence of relationships with marketing research institution. The interview result also supports the findings. As it is revealed in the interview, agribusiness enterprises are facing challenges of lack of market for their product especially for

dairy products due to seasonality in consumption of the product religious reasons like fasting (in Christians) and lack of big milk processing machine in the town. The seasonality of demand for agricultural products is forcing owners to sell their product even a price lower than the cost of the product. Furthermore, enterprises are challenged to search new markets as their size is small and absence of large firms playing the role of marketing intermarries by collecting such products and selling to new markets. In addition, the linkage with marketing research organization is not promising and agribusiness enterprises are facing difficulty of accessing market information that's why they are challenged to get adequate markets for their products.

The main financial challenges of micro and small agribusiness enterprises in the town are shortage of working capital, high collateral requirement by banks and lending institutions and high interest rates loans. Respondents are also tending to perceive the loan application procedures are highly complicated and there is lack of cash management system. On the other hand, the availability of micro finance institutions can be seen as a great opportunity to MSAB enterprises operating in the study area.

The study shows that the politico-legal, working premises, infrastructure, technology, marketing, financial, management and entrepreneurial factors are affecting the performance of micro and small agribusiness enterprises operating in Ethiopia.

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- <http://www.worldbank.org/en/country/ethiopia/overview>