



The Uplifting Africa Program

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Energy and Economics in Ethiopia.



The recent modernization of Ethiopia is seen reflecting in Addis Ababa's skylight panorama.

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Ethiopia's Economic Overview The Uplifting Africa Program



The opening of the Grand Millennium Dam, Photo Credit: Tigray Online

Ethiopia is categorized as an emerging country. According to the World Bank Ethiopia has the fastest growing economy in the region, with 6.1% percent growth in FY 2019/20. It offers vast investment opportunities with its prime location and growing population. With a population of about 115 million as of 2020, Ethiopia is the second most populous country in Africa after Nigeria. Ethiopia is landlocked, bordering Eritrea, Somalia, Kenya, South Sudan, and Sudan, and has been using neighboring Djibouti's main port for the last two decades for its international trade. The recent civil war in Ethiopia has negatively impacted all of these dynamics, however, if peace is restored, the economy may slowly get back on track.



New urban rail service spurs economic and tourism growth in Ethiopia. Photo Credit: Ethiosports

Over the years, Ethiopia has been among the fastest growing countries in the world (at an average of 10 percent per year) because of various factors such as capital accumulation, in particular through public infrastructure. Moreover, foreign direct investment has grown slightly because of various factors such as Gross Domestic Product (GDP). Ethiopia's GDP growth has been averaging 11% annual increase over the past 14 years. However, Ethiopia's real GDP growth slowed down in FY 2019/20 and further in FY20220/21 due to COVID-19, with growth in industry and services easing to single digits. Fortunately, the agricultural sector, which employs over 70 percent of the population, was not significantly affected by the COVID-19 pandemic and its contribution to growth slightly improved in FY 2019/20 compared to the previous year.



Agriculture plays an important role in the Ethiopian economy. Photo Credit Borgen Magazine.

Ethiopia's economy has benefited from seeing a 46% growth in foreign direct investment (FDI) inflow, one of the most dynamic and largest FDI recipients in Africa. The country also has a well-developed infrastructure and large pool of trainable workforce available at competitive wages. Ethiopia is also a member of the Common Market for Eastern and Southern Africa which gives them access to a market of 400 million individuals where an investor can experience first-hand the benefit of Ethiopia's geographic proximity and access to an abundance of high quality industrial and renewable resources.

Renewable Development in Ethiopia

The energy sector can contribute significantly to economic growth in Ethiopia. Ethiopia is endowed with plenty of Indigenous energy, and in particular hydroelectricity, which can enhance export-oriented agricultural production, agro-industrial processing, mineral production and industrial value added in several fields. Ethiopia has the second largest hydropower potential in Africa, with only 10% developed to date but nonetheless covering 90% of the nation's electricity demand. Currently, installed capacity is about 4,330 MW of hydro, but more than 6,600 MW are under construction. By 2020, about 14,000 MW could be in operation. Besides hydro, also geothermal energy and wind are going to be intensively

developed. Ethiopia is already supplying power to neighboring countries, Djibouti and Sudan, and has further ambitions to connect East Africa and Southern Africa via a powerful transmission line. In urban areas and areas with high traffic density, hydroelectricity provides an effective, cost-effective transportation option. An efficient and cost-effective network of transportation can contribute to the smooth functioning of the macroeconomy as well as promote export trade.

Development in Ethiopia

The Program Energizing Development Ethiopia (EnDev) has been among the many development projects focused on developing sustainable energy services for lower-income households, social facilities and small to medium sized enterprises with a focus on rural development. EnDev has multi-donor and multi-implementer energy access partnership. It is currently financed by six donor countries. The project is within its third phase (2019-2022) and has contributed to improved energy access for off-grid households, social institutions and small and medium sized enterprises. The focus is on three different types of technologies: energy efficient cookstoves; photovoltaic systems; and the development of independent power supply systems (mini grids) for remote communities. EnDev has provided photovoltaic solar systems in more than 300 off-grid public social institutions and over 800 small-scale, energy-efficient cookstoves. Roughly 2,000,000 people have benefited from access to modern energy services through the support of EnDev Ethiopia.

Economic and Political Risk Analysis

Ethiopia, like many other countries, has been experiencing unprecedented social and economic impact of the Covid-19 pandemic. Poverty is estimated to have increased as urban employment levels have not fully recovered. Moreover, the civil war and the Tigrayan Massacre have hindered Ethiopia's economic recovery and development. The conflict has resulted in a large-scale humanitarian crisis. This has also attracted international concern, amid reports of starvation and crimes against humanity. Ethiopia has recently experienced the worst locust invasion in decades which could potentially undermine any development efforts, threaten food security and the livelihoods of millions of Ethiopians.

