This research looks at marginality and extreme poverty in rural Ethiopia and tries to identify opportunities for the private sector to contribute to poverty reduction – as a business case. For this purpose, marginality hotspots were identified and the agricultural input sector analyzed in order to assess investment opportunities that benefit the marginalized poor. The study is part of the MARGIP research program at ZEF, which is funded by the Bill & Melinda Gates Foundation.

Marginality in Ethiopia
The research analyzed the role that the private sector can play in reducing poverty and marginality in Ethiopia by providing improved agricultural inputs, especially seeds, to marginalized poor farmers. Using Geographic Information System (GIS) software, a marginality map of Ethiopia was created by overlaying seven indicators capturing different aspects of marginality. Results showed that marginality is a severe and widespread problem in Ethiopia with more than 40 million people being severely marginalized.

Opportunities for the private sector to contribute to the reduction of poverty and marginality
Against the background of an enormous shortage of improved seed in the country, an institutional analysis of the seed market was carried out to understand the frictions in this market and to assess possibilities for the private sector to contribute to the reduction of poverty and marginality through adequate investment. An analysis of more than 60 expert interviews carried out in Ethiopia showed that the market for seeds of major crops is highly regulated by the government, with institutions favoring public companies. One implication of this system is that all seed is distributed via one channel, which, amongst other implications, causes a lack of agro-dealers and implies a lack of traceability of the seed and, thus, insufficient accountability and incentives to improve on quality for seed producers.

Necessary institutional changes to motivate investments
Several institutional changes are necessary to motivate private companies to invest in agricultural input markets and to cater to the marginalized poor. For seed companies, access to breeder seed, the assignment of more land and the availability of plant breeders are crucial elements. Moreover, access to finance at reasonable cost, especially with lower collateral requirements, is essential to expand operations. Successful role models, support from other stakeholders and successes with investment incentive schemes in other sectors in Ethiopia could encourage the government to gradually liberalize the market. However, when the government surrenders control of seed distribution, it must be ensured that the marginalized poor too have access to improved inputs.

Christine Husmann
The author is a junior researcher at ZEF
Contact: husmann@uni-bonn.de

Private companies can contribute to reducing poverty in Ethiopia.