

2024



Venture
Meda

Job Creation through
Incubation and Acceleration
Support in Ethiopia

E-COMMERCE ECOSYSTEM REPORT

ETHIOPIA

VOL. 01





E-CO
ECCO



COMMERCE ECOSYSTEM

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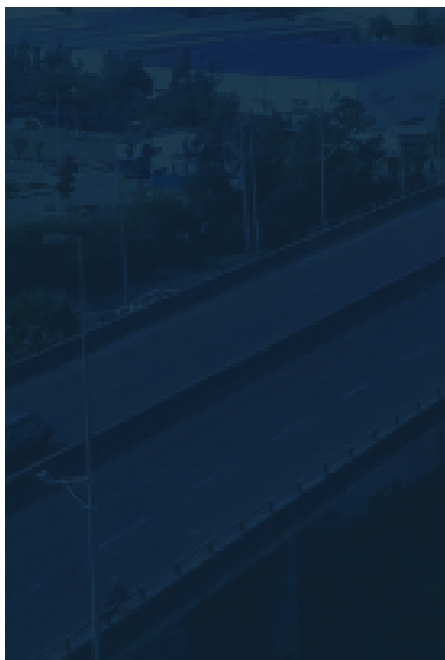
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Venture Meda is a project designed to boost the digital economy by aiding successful digital enterprises (focusing on e-commerce) through a well structured incubation and acceleration programs.

INTRODUCTION TO E-COMMERCE

The global economy is currently undergoing a substantial digital transformation, characterized by the digitization of key economic processes. This transformation aims to enhance the speed, cost-effectiveness, and accessibility of these processes through digital innovation. Notably, the trading sector is among the sectors significantly impacted by this digital disruption. The integration of trade in goods and services with information and communication technology (ICT) is commonly referred to as e-commerce and is reshaping how businesses operate, offering new opportunities and challenges in the global marketplace.

E-COMMERCE REFERS TO THE SALES OF GOODS AND SERVICES VIA DIGITAL CHANNELS, PRIMARILY THE INTERNET

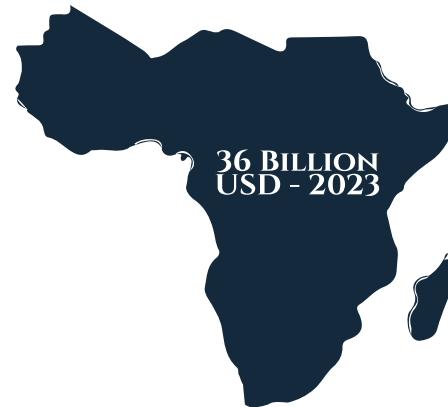
5.7
TRILLION USD
IN 2022

The World Bank estimated that e-commerce sales reached approximately \$5.7 trillion USD in 2022, and are projected to increase to \$7 trillion USD by 2024.



China leads the global market, followed by the United States.

Despite its large population and growing connectivity, Sub-Saharan Africa's e-commerce market remains relatively modest, with estimated sales totalling \$36 billion USD in 2023.



However, the region's e-commerce growth rate has consistently outpaced the global average by 50%, with this trend expected to continue over the next decade.



In Sub-Saharan Africa (SSA), Nigeria, South Africa, and Kenya are recognized as the leading markets. Nigeria boasts the largest business-to-consumer (B2C) revenue, representing about 25% of the market and its shoppers across the continent. In 2021, the sector supported 2.9 million direct and indirect jobs through 90 e-commerce platforms, with Nigeria hosting 40% of SSA's marketplaces. The country is also a hub for several pan-African e-commerce platforms, including Jumia, Kaymu, and Jiji, reflecting its pivotal role in the region's digital commerce landscape.

CASE STUDY

Source – Jumia, Women and E-Commerce in Africa (2021)

Jumia is a pan-African e-commerce platform that was launched in Nigeria in 2012. This Nigeria-based company has expanded its operations across 14 African countries and diversified its services into various sectors, including payment, logistics, and tourism. In 2022, Jumia reported an annual active user base of 8.4 million, and the gross market value of its orders amounted to approximately 1 billion USD, highlighting its significant impact on the e-commerce landscape in Africa.



2012

LAUNCHED

1 BILLION

GROSS MARKET VALUE IN 2022

8.4 MILLION

ANNUAL ACTIVE USERS

14 COUNTRIES

AFRICAN

Ethiopia, with its large domestic market, growing manufacturing industry, and strategic position, holds significant potential for expanding e-commerce within its local and broader continental markets. Despite this potential, significant efforts are required to enhance Ethiopia's e-commerce sector. In alignment with this goal, the Ethiopian government has prioritized e-commerce in its "Digital Ethiopia" transformation strategy. The government posits that capturing just 0.5% of retail trade online could generate 100,000 jobs in the near future. This necessitates comprehensive research to evaluate the current e-commerce landscape in Ethiopia, identify prevailing challenges and opportunities, and formulate a robust strategy for sector development through an ecosystem approach. The research will aim to achieve specific objectives, including assessing the state of e-commerce and devising strategies for its advancement.

THE SPECIFIC OBJECTIVES OF THE REPORT ARE:



Mapping the e-commerce ecosystem to understand the current landscape and key players.



Analysing the stages of e-commerce platforms with respect to revenue, transaction size, job creation, and business models.



Estimating the market size and segmenting the market for Ethiopian e-commerce entities.



Evaluating the presence and effectiveness of necessary enablers within the e-commerce sector.



Identifying challenges within the e-commerce ecosystem, utilizing an established e-commerce ecosystem framework.



Providing strategic recommendations to address the identified challenges impacting the Ethiopian e-commerce ecosystem.

THE DIFFERENT E-COMMERCE BUSINESS MODELS

Business models define the operational logic of a firm, detailing how it delivers value and sustains its operations. A comprehensive business model includes four critical elements:

**Customer Value Proposition:**

This outlines the value a company promises to deliver to its customers, compelling them to choose its products or services over competitors.



Profit Formula: This aspect focuses on how the company maximizes revenue and minimizes expenses to ensure profitability.



Key Resources: These are the essential assets required to operate effectively, including personnel, technology, channels, and brand equity.



Key Processes: These refer to the core operational and managerial procedures that enable the business to deliver on its value proposition effectively.



The shift towards digitizing the trade of goods through the internet has given rise to various e-commerce business models. A significant distinction exists between e-commerce and e-service models. While e-services utilize information and communication technologies, they differ fundamentally from e-commerce in that they do not involve the physical shipment of products. Among the diverse business models through which e-commerce platforms create value,

SOME PROMINENT EXAMPLES INCLUDE:



BUSINESS TO BUSINESS (B2B) E-COMMERCE

The business-to-business (B2B) e-commerce model is an online platform where businesses sell their products and services to other businesses.

83%

Total e-commerce value worldwide

B2B is the largest segment of the global e-commerce market, accounting for 83% of the total e-commerce value worldwide. There are two B2B e-commerce models: traditional businesses using the internet to facilitate sales and transactions with businesses and specialized B2B marketplace platforms such as ZeTwerk, which connect businesses such as raw material suppliers with manufacturing companies. Currently, the first type dominates the B2B e-commerce model. B2B e-commerce is characterized by a larger quantity of products compared to other e-commerce models and requires greater care in the decision-making process.





BUSINESS TO CONSUMER (B2C)

Business-to-consumer (B2C) E-commerce is a process in which businesses sell their products directly to individual consumers through the internet. B2C allows businesses to reach customers in different parts of the country or world and gives consumers more choices to purchase products and compare prices for similar products.

01

Businesses setting up online shops to sell their products

02

Businesses using e-commerce platforms to sell the products directly through the platforms

03

Businesses using social media platforms such as Facebook Marketplace, TikTok, and Telegram to sell their products to individuals.





CONSUMER TO CONSUMER (C2C)

Consumer-to-consumer (C2C) e-commerce refers to an e-commerce model in which a consumer sells their products or services to another consumer through the internet. C2C transactions, unlike the previous two, are only performed through third-party platforms, either e-commerce sites or different social media channels, in which consumers meet each other to buy and sell their products and services online.



THE HISTORY OF E-COMMERCE IN ETHIOPIA

The history of e-commerce in Ethiopia traces back to initiatives by the Ethiopian diaspora in the United States and Canada that began selling Ethiopian products online. Research indicates that the first e-commerce site in Ethiopia was Ethio Link, established in 1998. This pioneering platform primarily targeted the diaspora, facilitating the purchase of holiday gifts for relatives back home, with Ethio Link earning a commission on sales. Despite this innovative approach, the business encountered several significant challenges. Operational and financial difficulties proved substantial barriers, and a majority of the site's traffic originated from abroad rather than within Ethiopia itself, limiting its growth potential and sustainability in the local market.

Following the Ethiopian government's rollout of 3G internet across Addis Ababa in 2012, e-commerce platforms focusing on the local market began to emerge. Early entrants such as Yenestore, Dibsir, Qefira, and 2Merkato launched platforms that facilitated online buying and selling. These platforms typically operated as marketplaces, with business models primarily centered around generating revenue through advertisements. Despite the innovative nature of these platforms, various challenges within the sector have impacted their growth and usability. These challenges ranged from logistical issues, payment processing difficulties, and the need to build trust and digital literacy among local consumers, all of which impacted the overall effectiveness and acceptance of e-commerce solutions in the Ethiopian market.

VENTURE MEDA

A \$4m e-commerce support project launched by iceaddis in partnership with MInT and Mastercard Foundation

In 2019, the Ethiopian government launched the Digital Ethiopia 2025 strategy, aimed at transforming the country from an analog economy to a fully digital economy. This strategy focuses on digital transactions and online interactions, with a particular emphasis on transforming the trade sector through e-commerce. The strategy document identifies key challenges in the e-commerce sector and proposes initiatives to address these challenges, including improving digital infrastructure, establishing a national digital payment system, optimizing regulatory frameworks, and enhancing logistical support through public-private partnerships.

Ethiopia has experienced a significant increase in the number of e-commerce platforms, driven by enhanced internet access, greater smartphone penetration, rising use of digital payments, and improved payment infrastructure since the turn of the decade. In response, the Ethiopian government has implemented a series of measures aimed at improving the environment for the e-commerce sector. This includes the introduction of various laws and actionable steps designed to make the e-commerce ecosystem more inclusive and accessible to all Ethiopians. ecosystem inclusive and available to all Ethiopians.

MARKET INSIGHTS



ECOMMERCE IN ETHIOPIA (MARKET OVERVIEW AND MAP)

MAP OF E-COMMERCE PLATFORMS IN ETHIOPIA

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Market place/
listing

36

B2C

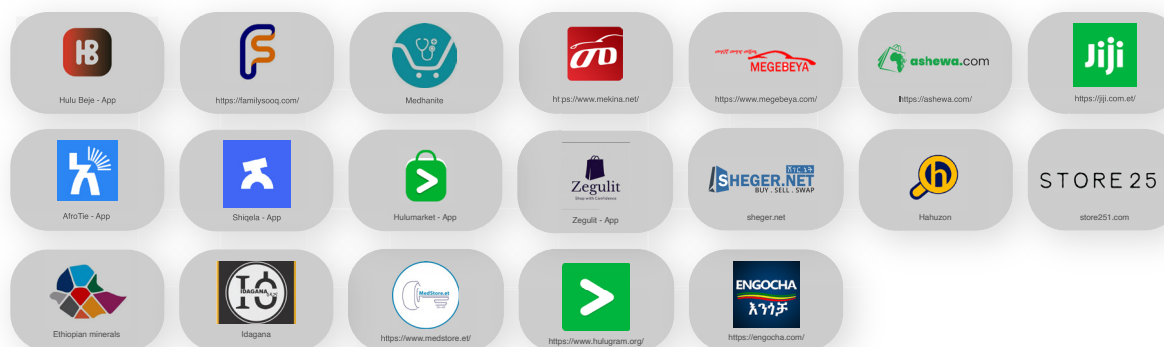
06

B2B

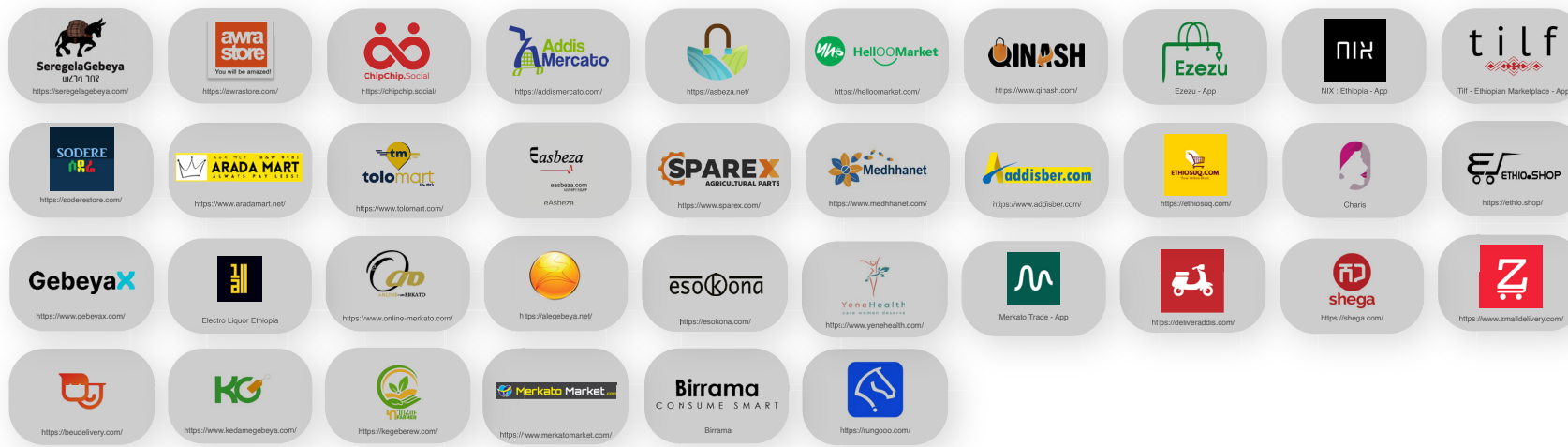
DISCLAIMER

Note that All platforms listed on the study and the next section are all product selling platforms

MARKET PLACE/ LISTING



B2C



B2B



WHY ECOMMERCE (INDUSTRY ATTRACTIVENESS)

There are various reasons for the increasing attractiveness of the Ethiopian e-commerce sector. Some of the factors are based on the general characteristics of the population, which is young and increasingly urbanized, while others are based on the e-commerce framework, with the key nodes improving, making the business environment more attractive for different types of e-merchants.

INCREASING INTERNET USAGE AND COVERAGE

HUGE POPULATION AND URBANIZATION

2.6% 4.9%

Population growth rate as of 2022

Urbanization growth rate as of 2022

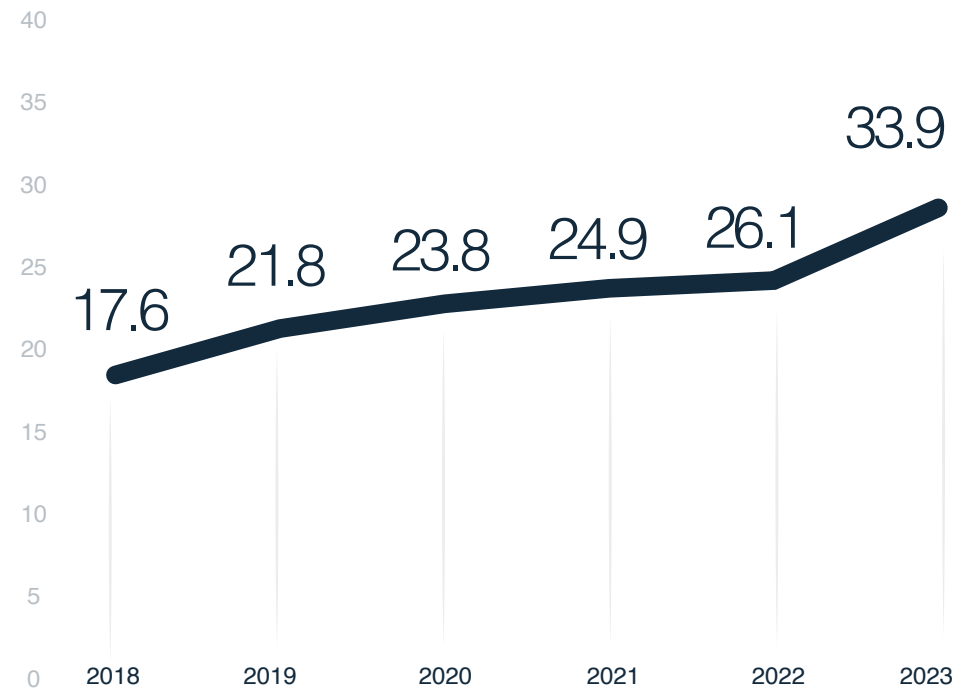
33.9
MILLION

Data and internet subscribers
in Ethiopia as of 2022

DATA AND INTERNET SUBSCRIBERS IN ETHIOPIA

Source - Survey

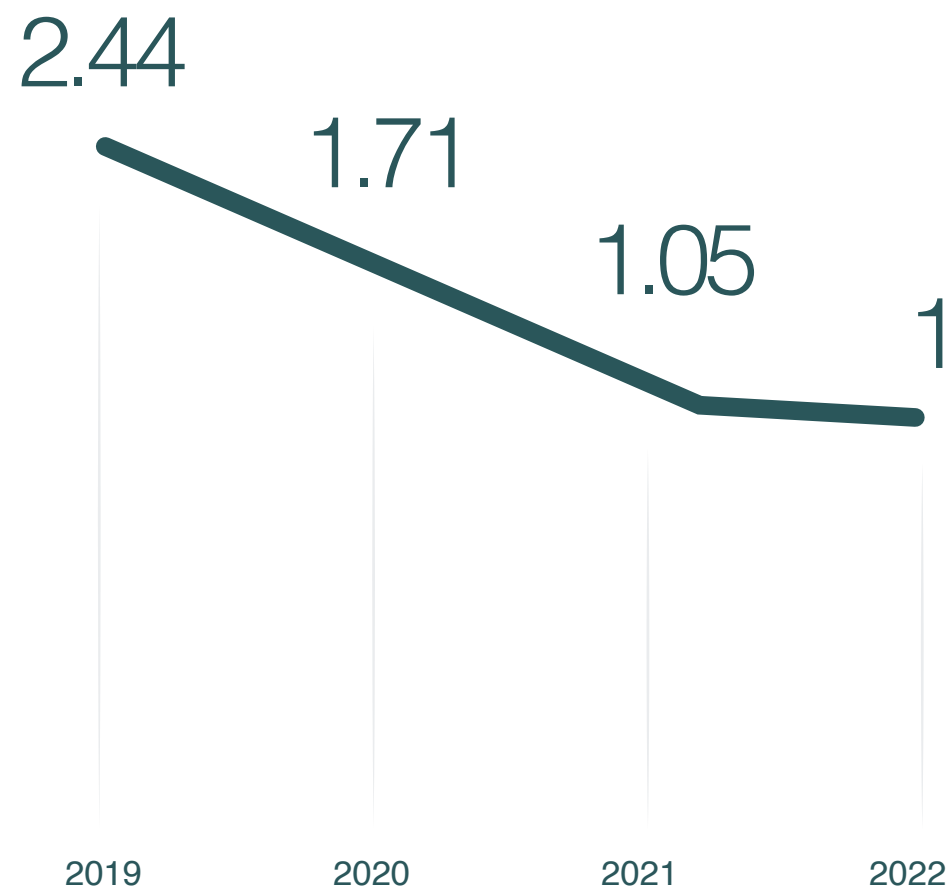
The rise in internet subscribers and usage can be attributed to two primary factors. Firstly, the internet has become more affordable, and secondly, the ongoing digital transformation of the economy has led to an increase in digitized public services and utilities. Furthermore, Ethiopia's internet coverage has increased, with 4G internet now available to 33% of the country as of July 2023, which is essential for a functional e-commerce sector. The increase in internet usage, coverage, and affordability is highly beneficial for the growth of the e-commerce sector, as quality internet is one of the key requirements for the success of e-commerce in Ethiopia.



AVERAGE PRICE OF 1GB IN ETHIOPIA (USD)

Source – Cable (UK)

There has been a significant increase in the number of internet users in Ethiopia. As of July 2023, the total number of data and internet subscribers in Ethiopia reached around 33.9 million people. This marks the largest surge in subscribers per year, with a staggering 23% growth rate or 7.8 million more users in just one year, compared to the 2022 subscriber count of around 26.1 million people .



INCREASING AWARENESS & UTILIZATION OF DIGITAL FINANCIAL SERVICES

In Ethiopia, there is a growing awareness and utilization of digital financial services within the ecosystem. Increasing segments of the population are becoming familiar with and gaining trust in digital finance, as evidenced by the expanding user base and transaction sizes.

A major catalyst for the adoption of digital finance in Ethiopia has been Telebirr, a mobile money platform operated by the state-owned Ethio-Telecom. This platform has seen remarkable growth in its transaction volume. For instance, in the fiscal year 2022/23, Telebirr reported a 152% increase in overall transaction value over the past fiscal year. Specifically, the transaction amount soared to 1.7 trillion ETB in 2023/24, up from 679 billion ETB in 2022/23. This surge highlights the platform's expanding role in facilitating digital transactions across the country.

EXPAND MSMES BUSINESS REACH AND ACCESS.

MSMEs are one of the key crucial enablers in the development of an Economy. To this end, the Ethiopian government has put a key lever on MSMEs as a job creation and revenue expansion tool. A recent study showed that, there exists around 2.29 million MSMEs in Ethiopia, with 70% of them at Micro level, 19% that are small scale, and 8% of them being medium scale enterprises.

2.29
MILLION

MSMEs in Ethiopia

MSMEs in Ethiopia are increasingly leveraging digital channels (e-commerce platforms, social media channels etc) to sale their products and services online. This enables them to reach a wider audience beyond their geographic limitations and enhance their visibility to the wider market, with in some cases MSMEs selling beyond their borders. This results in increased revenue for the business, which trickles-down into increased job opportunity and development for the country.

INCREASE IN DELIVERY COMPANIES

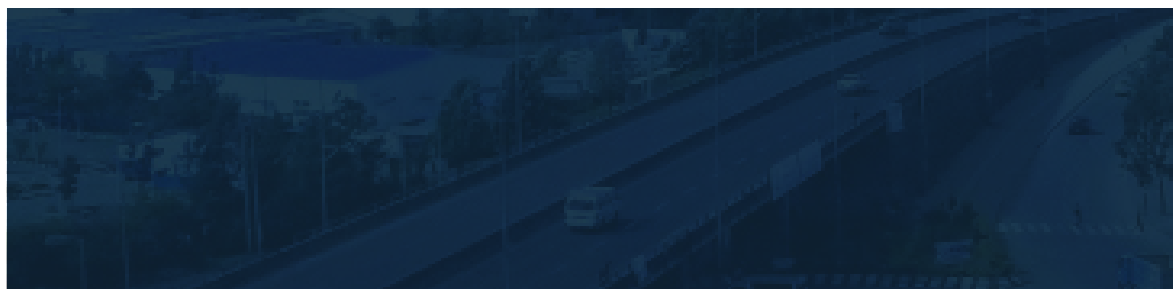
There has been an increase in the number of delivery companies in Ethiopia that provide product delivery services between buyers and sellers. This represents an increase in the option e-merchants must send the product directly to their customers found in Ethiopia. This helps E-Merchants select the most viable option in terms of sending products from buyers to sellers found in Ethiopia.

GEOGRAPHIC AREA

The geographical location of Ethiopia is very strategic in terms of e-commerce, as the country is located as the centre of the Eastern African Region and is very close to the Middle East. The ideal location of Ethiopia has made it attractive for global e-commerce providers who want to expand their services to Africa and Middle East.

Ethiopian Airlines is planning to build a new warehouse in Addis Ababa called an eCommerce hub, which will be used to handle and distribute products bought online. The hub will be able to handle up to 150,000 tons of products every year and will act as a central distribution center for items bought from online stores all over the world . Ethiopian Airlines will then deliver these products to African customers who have ordered them, making it easier for people in Africa to buy products from global online stores.

Ethiopian Airlines has joined hands with Mail Americas (MA) to provide fast and affordable online shopping services between Africa and the Middle East. They have chosen Addis Ababa as a hub for this service . Additionally, Ethiopian Airlines has signed an agreement with Ethio Post to make online shopping easier and faster by using Bole International Airport as the main gateway for e-commerce services across Africa.



150,000
TONS / YEAR



WHAT HAS BEEN HAPPENING A LOT (MARKET TRENDS)

The e-commerce industry in Ethiopia has experienced significant changes in recent years, driven by the increasing use of the internet and digital channels for purchasing goods and services. Key market trends observed include:

THE RISE OF M-COMMERCE

Additionally, Ethiopia has witnessed a considerable rise in mobile commerce (m-commerce) in recent years, fueled by increased accessibility to smartphones and the internet. M-commerce involves using mobile devices to conduct commercial transactions online. As a result, most e-commerce platforms now offer mobile-based applications, which account for the majority of their traffic. This shift has significantly eased the process for many Ethiopians to purchase goods and services digitally. Prominent m-commerce platforms include Jiji, with over one million downloads, and Afro Tie, which has surpassed 100,000 downloads on the Play Store.

PAN-AFRICAN E-COMMERCE PLATFORMS IN ETHIOPIA

Recently, several African e-commerce platforms have expanded into the Ethiopian market, notably Jiji and KikkU. Jiji, a Nigerian and Pan-African e-commerce marketplace, facilitates businesses and sellers in reaching its user base. It launched in Ethiopia in 2020 and has since surpassed one million downloads on the Play Store. As of November 2023, Jiji records over 200,000 monthly site visits, positioning it as one of Ethiopia's largest e-commerce platforms. Conversely, KikkU, a Chinese-based B2C e-commerce site, operates across 24 countries in Africa and Latin America, including Ethiopia. KikkU primarily offers a range of clothing and phone accessories from China, providing free delivery to its users.

SPECIALIZED E-COMMERCE PLATFORMS

The Ethiopian e-commerce market has also witnessed the emergence of specialized e-commerce platforms, each focusing on a distinct sub-sector. Notable examples include Mekina, an exclusive platform for car sales that enables car dealerships and individuals to advertise and sell their vehicles online. Similarly, Betoeh specializes in the real estate sector, facilitating house rentals and sales, thereby expanding business reach within that domain. Additionally, SpareX targets the automotive industry by sourcing various car spare parts and selling them to clients, either through direct requests or by listing available inventory on the platform. These specialized e-commerce platforms have seen significant growth in the Ethiopian market, reflecting a trend towards niche online marketplaces that cater to specific industry needs.

INCREASE IN SOCIAL COMMERCE

Social commerce, which involves the buying and selling of goods and services on various social media platforms, has grown significantly due to the integration of social elements by e-commerce platforms like Alibaba with its live sales and social media platforms like Facebook Marketplace that have incorporated commercial features. In Ethiopia, the latter approach is more prevalent.

With the rise of social media tools like Facebook and Telegram in Ethiopia, the use of social media for commerce has expanded considerably over the past decade. On Facebook, there are three primary methods for transactional activities.

01

The first method involves creating groups where businesses and sellers can post their products in either general or product-specific groups, aiming to reach consumers.

02

The second method is through paid advertising, where businesses and sellers promote their goods and services through Facebook ads to drive traffic to their products.

03


The third method is the use of Facebook Marketplace, introduced in Ethiopia in October 2020, which provides a platform for individuals to discover, buy, and sell items within their local community.

This model has proven especially effective in fostering local economic interactions and enhancing the visibility of small businesses.

Telegram, an instant messaging application, has surpassed WhatsApp and other messaging platforms in popularity within the Ethiopian ecosystem over the past few years. In Ethiopia, Telegram has become a de facto e-commerce platform where customers can purchase various goods and services through product-specific groups or channels. Capitalizing on this trend, numerous small businesses have established their own Telegram groups or channels to market their products and services, leading to market expansion and increased sales.

Several digital startups are leveraging Telegram's features to enhance their business operations. One such startup is Hulugram, an Ethiopian-based instant messaging platform developed using the Telegram Open API. Hulugram includes an online marketplace feature, allowing users to set up shops and sell a range of consumer discretionary and staple products. Another startup, Chapa, an Ethiopian-based payment gateway, has recently introduced a feature enabling online merchants to accept digital payments from their users. This feature facilitates real-time payments, ensuring smooth transactions and the efficient disbursement of goods.

TikTok is increasingly being used as a platform for selling various products in Ethiopia, either through partnerships with influencers to advertise or by creating dedicated TikTok channels for businesses to promote their services online. The rise of TikTok, along with YouTube, is enhancing the potential for businesses to advertise their products online, thereby expanding their sales, customer reach, and overall market awareness.



The first is Hulugram, an Ethiopian-based instant messaging platform built by leveraging the Telegram Open API. One feature of Hulugram is its online marketplace, which allows for Hulugram users to create online shops to sell different consumer discretionary and staple products through Hulugram.

INTEGRATION OF DIGITAL PAYMENTS INTO E-COMMERCE PRODUCTS

The e-commerce payment landscape in Ethiopia has evolved significantly. Initially, e-commerce platforms were largely dependent on cash-on-delivery due to a lack of digital payment infrastructure and available payment gateways. This reliance presented substantial challenges for the growth of the sector, as the absence of payment guarantees led to frequent fake orders, incurring higher costs and making early e-commerce operations unsustainable.

Before 2020, Ethiopian regulations prohibited non-financial institution-based payment services, limiting the market to various financial institution-based digital wallets and payment systems. A significant challenge was the lack of interoperability among these systems, which constrained the viability and growth of both digital financial services and e-commerce in Ethiopia.

In response to these challenges, e-commerce sites initially attempted to integrate directly with each bank's and digital payment service provider's APIs. This process proved to be arduous and inefficient, often taking up to a year to fully integrate with all available payment options. As the number of financial institutions and payment providers grew, this method became increasingly impractical.

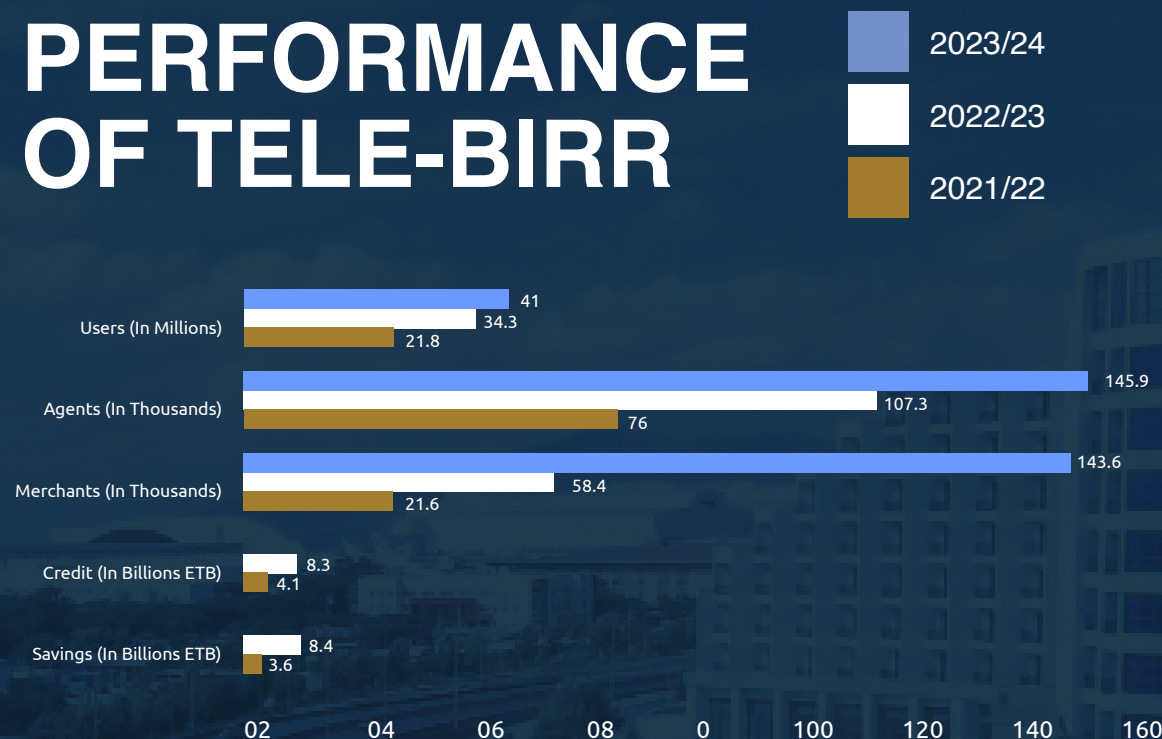
Recognizing the need for a more streamlined approach, the Ethiopian government took two major steps to enhance digital payment services. Firstly, regulation ONPS/02/2020 was introduced, allowing non-bank financial institutions, or fintech companies, to offer digital payment facilitation services. This regulation enabled companies like Chapa and ArifPay to provide e-commerce platforms with the ability to integrate multiple payment options through a single API. Secondly, EtSwitch was tasked with developing a national payment gateway designed to facilitate fast, interoperable, and real-time transactions and payment settlements for businesses. These initiatives have significantly improved the convenience and efficiency of digital payments in Ethiopia, fostering a more robust e-commerce environment.

As an increasing number of businesses in Ethiopia embrace social media platforms for online sales, they have begun adopting various methods for accepting digital payments. Currently, the two most popular payment options include using tele-birr and transferring funds through a Commercial Bank of Ethiopia account. For the latter method, transactions are validated via a screenshot of the transfer, which streamlines the process and enhances convenience for both sellers and buyers. This approach not only simplifies the transaction process but also provides a quick and effective means of payment verification.

INCREASE LAUNCH OF E-COMMERCE PLATFORMS

Based on survey results and a review of various e-commerce platforms in Ethiopia, there has been a notable increase in the number of e-commerce platforms and the introduction of new e-commerce products since the turn of the decade. This growth is primarily attributed to the increasing diversification of products into e-commerce and the emergence of several new startups aiming to disrupt existing business models through their e-commerce platforms. These findings are consistent with the broader trend in the digital economy and startup sector, where a significant majority of startups have been launched in the past three years.

PERFORMANCE OF TELE-BIRR



EMERGING TRENDS (RECENT DEVELOPMENTS)

ETHIOPIAN SUPER-APPS: INTEGRATING E-COMMERCE SERVICES IN THEIR PRODUCTS

Several new developments within the Ethiopian e-commerce ecosystem are anticipated to enhance the sector and transform the purchasing habits of the Ethiopian population. Notably, the emergence of Ethiopian super-apps integrating e-commerce services marks a significant trend:

Super-apps serve as a unified portal to a vast array of products and services. This model was initially popularized in China by WeChat, which integrated over one million mini-applications into its platform. The appeal of super-apps lies in their ability to consolidate diverse goods and services in one digital location, enhancing the user experience significantly. Historically, super-apps have successfully attracted customers with their core offerings. The trust and user base established through these initial services have enabled them to expand into various other business areas globally, showcasing their potential to reshape e-commerce dynamics.

In March 2023, Tele-Birr, the mobile money platform owned by Ethio Telecom, evolved into a super-app. This transformation allows various digital goods and service providers to integrate their 'mini apps' into the platform, which now hosts over 30 applications. Consequently, e-commerce platforms such as Seregela Gebeya, AWRA, Familysooq, and Hulu Beje have leveraged this integration, enabling them to tap into Tele-Birr's extensive customer base and streamline payment transactions through the mobile money platform. Similarly, M-Pesa, a mobile money service owned by the Ethiopian private telecom provider Safaricom, is also planning to incorporate various e-commerce service providers into its platform, aiming to enhance service delivery and expand its user engagement.

Tele-Birr and M-Pesa have recently begun offering unique merchant IDs to businesses and merchants. This allows their customers to easily purchase products online. This allows e-merchants to potentially expand the reach of brick-and-mortar shops and increase their customer base.

Three leading food delivery companies in Ethiopia have recently expanded their operations into the e-commerce sector, each adopting distinct strategies. BeU Delivery and Zmall, two prominent players, have extended their services beyond food delivery to include handling payments and deliveries for a variety of products such as groceries, flowers, gifts, pharmaceuticals, and books. They are utilizing a business-to-consumer (B2C) marketplace model on their platforms to facilitate transactions directly between businesses and consumers.

In June 2023, Z-Mall also signed an MOU with Buy2GO (a B2B e-commerce marketplace connecting retailers of foods and groceries with suppliers). This merger will enable Zmall to provide different food and groceries, sold by Buy2GO, available for direct consumers, with Zmall taking care of the delivery of the products.

DIVERSIFICATION OF DELIVERY COMPANIES INTO E-COMMERCE

E-RECEIPTS AND DIGITAL SIGNATURE IN ETHIOPIA

E-receipts, or electronic receipts, are digital confirmations that a payment or transaction has been executed in a bank account. As of October 2023, the Ministry of Revenue has initiated a nationwide rollout of e-receipts. The adoption of e-receipts allows for a real-time interface and access to transaction reports, greatly benefiting all stakeholders within the e-commerce ecosystem, including buyers, sellers, payment gateways, and delivery companies, by facilitating easy and transparent transactions.

Additionally, the Ethiopian government enacted Proclamation No. 1205/2020, focusing on electronic transactions within the national economy. This proclamation aims to broaden access to and inclusion in e-commerce and to develop legal frameworks that provide equitable foundations for various e-commerce platforms. It addresses several critical aspects of e-commerce, such as domain nomenclature, consumer protection, data privacy and security, dispute resolution, and the use of electronic signatures, thus ensuring a comprehensive regulatory environment for digital commerce.

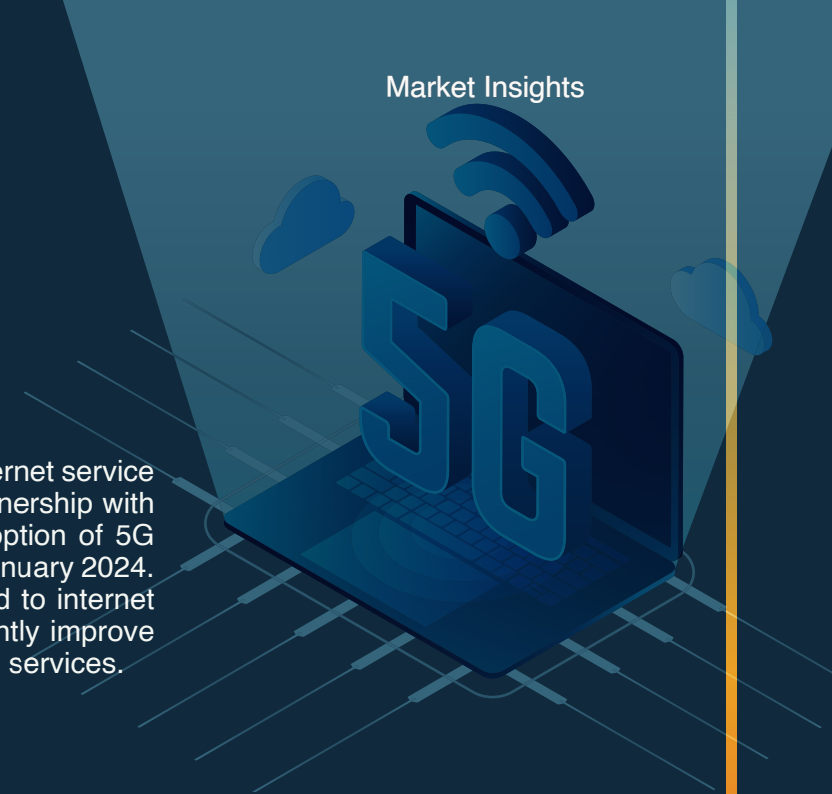
NATIONAL PAYMENT GATEWAY BEING LAUNCHED IN ETHIOPIA

As part of its Digital Payments Transformation Strategy, the Ethiopian government has prioritized the establishment of a national payment gateway to enhance digital payments throughout the country. In response, EthSwitch has recently launched the National Payment Gateway. This gateway serves as a centralized platform that links digital merchants to various financial institutions, encompassing both banking and non-banking entities. It facilitates real-time verification of user identities and payment details while also ensuring the availability of funds. Given the significant role of the Ethiopian ecosystem as a hub for e-commerce, the introduction of the National Payment Gateway marks a crucial development in supporting the sector's continued growth and streamlining digital transactions across the nation.



LAUNCH OF 5G INTERNET

The state-owned telecommunications service provider, Ethio Telecom, has launched 5G internet service at 145 different sites across Addis Ababa. This development was facilitated through a partnership with Huawei, which provided the necessary upgrades to the infrastructure to support the adoption of 5G internet. Ethio Telecom has expanded its services in Adama, Jigjiga, and Dire Dawa as of January 2024. The rollout of 5G internet in Ethiopia is anticipated to address longstanding issues related to internet speed and connectivity for various customers. This enhancement is expected to significantly improve the online purchasing experience, enabling smoother and faster transactions for goods and services.



An emerging trend in the fast-moving consumer goods sector is the increased utilization of digital channels for product sales. For example, Daily Mini Mart, a grocery store in the capital city, has launched an e-commerce mobile application that allows customers to order a broad range of products online for home delivery. Similarly, Debol, another e-commerce application, consolidates products available at Queen's Supermarket into a single platform, facilitating online sales and handling both delivery and payment processing.

SUPERMARKETS SELLING THROUGH DIGITAL CHANNELS

DIGITAL ID

During key informant interviews with various experts, it was highlighted that one of the major barriers to the growth of e-commerce in Ethiopia has been the prevalence of fake orders placed by customers. This issue has significantly increased operational costs for e-commerce platforms. The root cause of this problem was identified as the lack of a robust identification system by e-commerce service providers in the Ethiopian market, which prevented the platforms from effectively identifying and tracking fraudulent customers. This gap in digital identity verification has been a critical challenge that needs to be addressed to ensure the sustainability and security of e-commerce transactions in the region.

The Ethiopian government, aiming to ensure residents' right to be identified and to enhance trust between service providers and receivers, has established the Ethiopian National ID system. This initiative targets identifying 70 million Ethiopians by 2025. . The system is digital, relying primarily on demographic and biometric data to generate a unique 12-digit identification number for each individual, known as Fayda. The introduction of this digital identification and verification process in e-commerce is expected to significantly address the challenge of accurately identifying end-users and authenticating orders, thereby streamlining transactions and reducing fraud.

DIGITAL ADDRESS SYSTEM IN ETHIOPIA

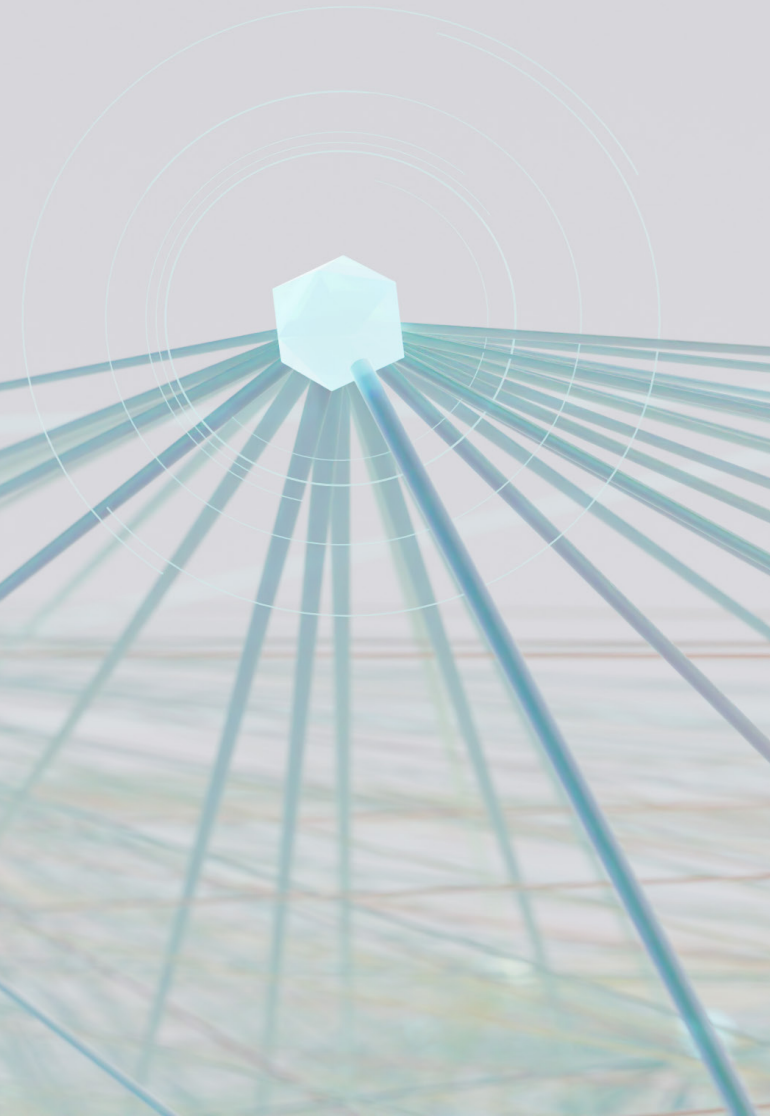
One significant challenge hindering the efficient and cost-effective delivery of goods purchased online in Ethiopia is the absence of a reliable address system in both urban and rural areas. To navigate this issue, logistics companies often rely on landmarks and phone calls to clients for specific directions. This method not only increases the daily operational costs due to additional fuel and phone expenses but also affects the overall efficiency of the delivery process. Moreover, many delivery workers lack the necessary digital skills to effectively use maps, which often leads them to request buyers meet at a general location rather than delivering directly to the buyer's preferred address. This lack of digital proficiency and a structured addressing system significantly impacts the logistics sector's ability to provide prompt and precise deliveries.

The Space Science & Geospatial Institute (SSGI) is currently developing a digital address system to resolve the challenges posed by the unreliable address system in Ethiopia. This initiative is set to encompass 73 large and medium-sized cities, beginning with Bishoftu. Additionally, a feasibility study is underway to implement this system in Addis Ababa. Designed as an alternative to Google Maps, the digital address system will feature robust navigation capabilities, providing detailed information on the location of various assets, including residential houses and infrastructure elements like roads. Each location will be uniquely identified through a numerical addressing system, enhancing the precision and reliability of address identification across the country.

The developers have implemented DAS (Delivery as a Service) in Ethiopia, taking into consideration the local context. This implementation is expected to enhance the ability of logistics couriers to deliver a wide range of physical goods directly to the consumers of their clients. As a result, it will improve one of the nodes of the e-commerce ecosystem.

E-MERCHANTS

Two targeted surveys were conducted to understand the strategies employed by e-merchants. The first survey focused on e-commerce platforms, while the second examined merchants who sell their products through online platforms. This approach enabled the identification of key trends, challenges, and opportunities within the e-commerce sector in Ethiopia. Insights from key informant interviews with various e-merchants further enriched the analysis. This comprehensive assessment provides valuable insights into the evolving landscape of digital commerce in Ethiopia.



E-COMMERCE

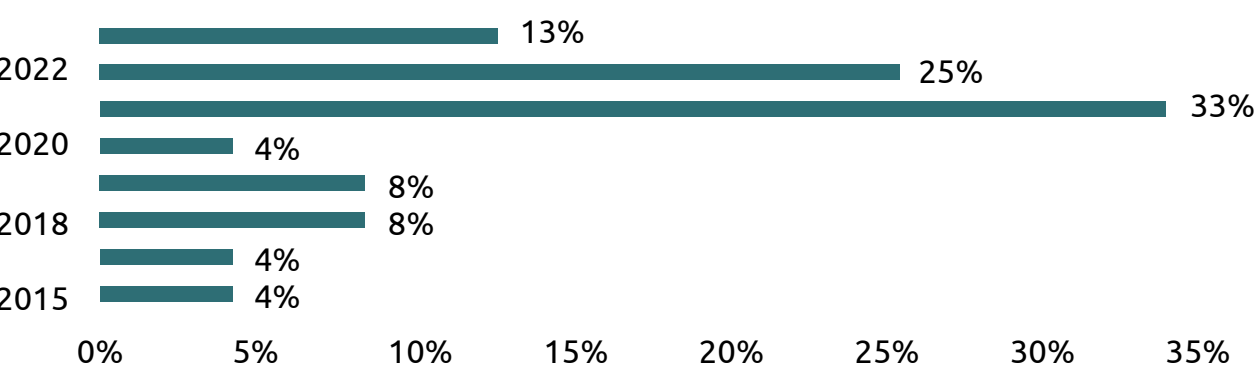
Approximately 80 e-commerce platforms have been identified in Ethiopia that sell products online. Most of these platforms operate as marketplaces, sourcing products from various suppliers. Notably, platforms within the food delivery and healthcare sectors have recently expanded their services to include e-commerce functionalities. Food delivery platforms now facilitate online ordering and delivery from conventional stores to buyers, while healthcare platforms offer pharmaceutical and medical products for online purchase.

All 80 e-commerce platforms were contacted via in-person visits and email communications. Of these, 31 platforms provided data for further analysis. During the data cleaning process, it was discovered that five of the data entries contained defects that precluded their use in analysis, necessitating their exclusion. Consequently, the findings of this report are based on the analysis of data from 26 e-commerce platforms operating in Ethiopia.

GENERAL FINDINGS

Source – Sample Survey

YEAR OF ESTABLISHMENT OF E-COMMERCE PLATFORMS



The survey revealed that 70% of e-commerce platforms commenced operations within the last three years, indicating that the majority of these platforms in Ethiopia are relatively new and still in the early stages of establishing their presence in the industry. Interviews suggest that this surge in e-commerce platforms can be attributed to several key factors: the increasing internet penetration among the general population, the expansion of mobile commerce, enhancements in payment infrastructure, and the availability of diverse digital finance options. These elements collectively foster a conducive environment for the growth of e-commerce in Ethiopia.

Most of the e-commerce platforms have their headquarters in Addis Ababa. There are also platforms that are headquartered outside of Addis Ababa, such as Taywan (based in JigJiga) and Maha (which is headquartered in Debrebirhan). In terms of operation, most of the e-commerce platforms are based in Addis Ababa. The e-commerce platforms that operate in Addis Ababa are mostly e-commerce platforms that are engaged in selling products online (B2C model) rather than marketplace business models. Most online marketplaces work throughout Ethiopia; however, their main transactions are inside Addis Ababa. Platforms that sell digital-only goods, like Tuba and Teraki, have sales across the world, as they only sell digital products online and their services are accessible throughout the world.

HEADQUARTERS OF SURVEYED E-COMMERCE PLATFORMS

Source – Survey

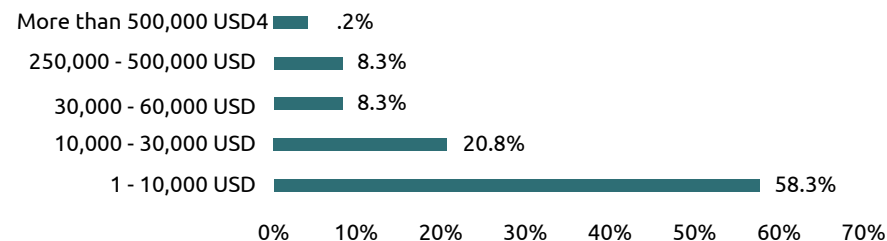


REVENUE & TRANSACTION SIZE

Half of the e-commerce firms surveyed reported transactions and revenue sizes below 10,000 USD. These firms typically have a low user base and are in the early stages of their business, specifically in the discovery and validation phases. Their primary business model focuses solely on product sales. Additionally, these firms have not accessed external capital, whether through debt or equity, which is necessary for expanding their user base and scaling their operations.

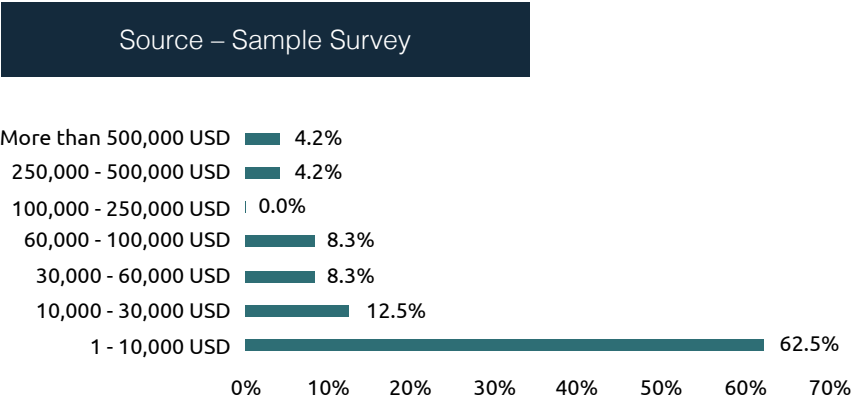
TRANSACTION SIZE OF SURVEYED E-COMMERCE PLATFORMS

Source – Survey



Firms with 10,000 USD or above in transactions and revenue are typically in the growth stage of the business lifecycle. These companies boast a significant number of downloads and active e-commerce users. Many of these businesses supplement their e-commerce operations with traditional brick-and-mortar establishments or other digital services, such as product delivery. Additionally, these firms tend to have a more mature user base in terms of age. Compared to smaller e-commerce platforms with revenues below 10,000 USD, these more substantial businesses also tend to employ a larger workforce, reflecting their expanded operations and broader market engagement.

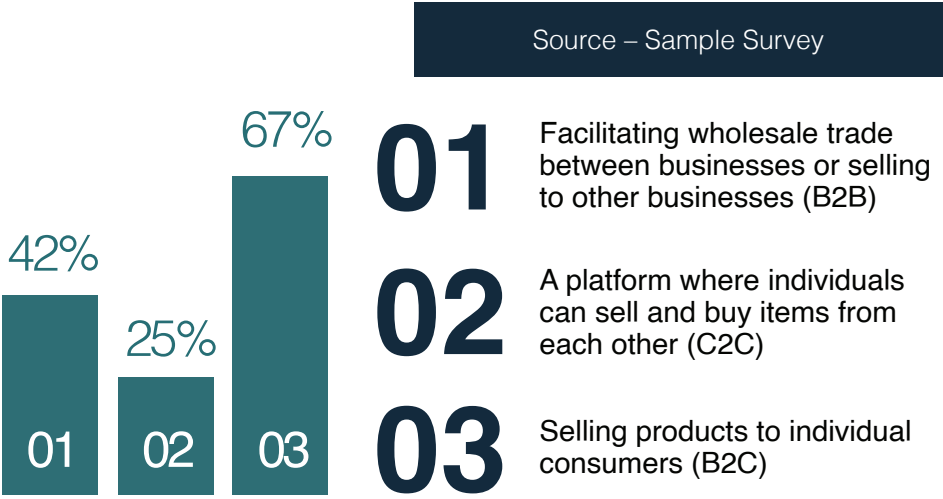
REVENUE SIZE OF SURVEYED E-COMMERCE PLATFORMS



BUSINESS MODEL AND BUSINESS STAGES

When asked about their business models and operational strategies, most e-commerce platforms, approximately two-thirds, indicated that their primary mode of operation involves selling products directly to individual consumers. Additionally, about 40% of the platforms reported that they also engage in business-to-business (B2B) transactions, selling their products directly to other businesses. Furthermore, around 25% of the platforms operate under a marketplace model, facilitating interactions between buyers and sellers on their platform to conduct transactions. Notably, none of the e-commerce platforms surveyed indicated that their primary business model is based on business-to-government (B2G) transactions, where the platform would focus on selling directly to the Ethiopian government.

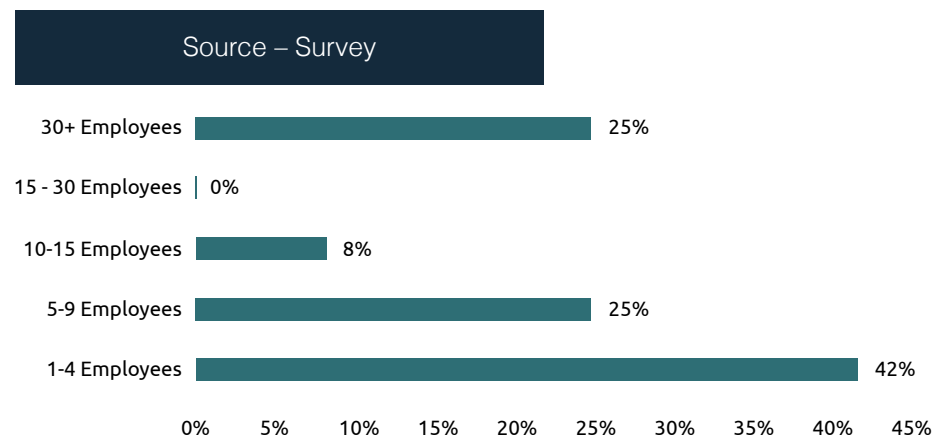
BUSINESS MODEL OF SURVEYED E-COMMERCE



The survey revealed that approximately 40% of the companies have a workforce ranging from 1-4 employees, with another 25% of companies employing 5–9 employees. These companies, typically in the initial stages of their business lifecycle (discovery and validation stage), reported lower levels of revenue and transactions and were mostly established within the past three years. These smaller firms primarily provided e-commerce services to the general market without significant integration or diversification of their e-commerce platforms or applications.

Conversely, about 35% of the firms surveyed employ more than ten people, with many in this group having staffs exceeding 30 employees. These larger firms generally reported higher revenue and transaction volumes and were more likely to be in the growth stage of their business. They tend to offer diversified services alongside their core e-commerce operations and feature more advanced functionalities, such as digital payment options and product delivery services, enhancing their market position and customer offerings.

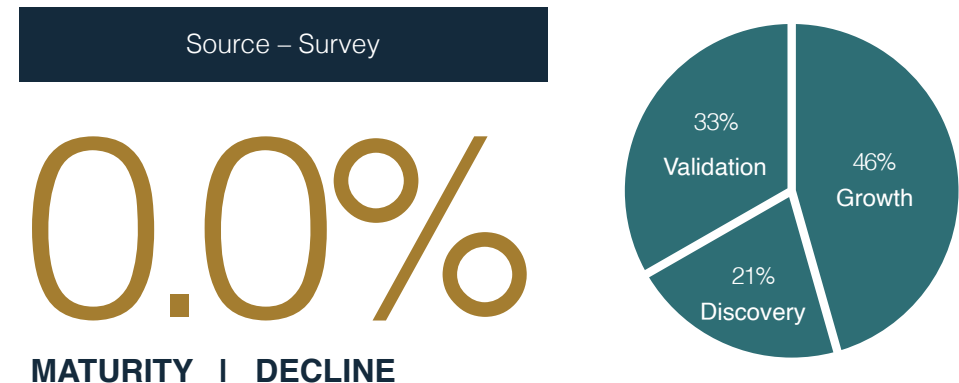
NUMBER OF EMPLOYEES IN E-COMMERCE PLATFORMS



The survey asked e-commerce platforms to evaluate their business stage by considering various factors. Results show that approximately 46% of the businesses classified themselves in the growth phase, indicating expansion in market size, operations, human resources, and geographical reach. Subsequently, 33% of the businesses identified themselves as being in the validation phase, where they are assessing the market fit of their business model and the products they offer.

Additionally, 21% of the respondents are in the discovery phase, exploring potential ideas and strategizing at both business and corporate levels regarding the direction and offerings of their e-commerce products. Notably, no platforms reported being in the maturity or decline stages, reflecting a collective optimism within the industry about significant growth potential and opportunities for expansion in the coming years.

BUSINESS STAGES OF SURVEYED E-COMMERCE PLATFORMS



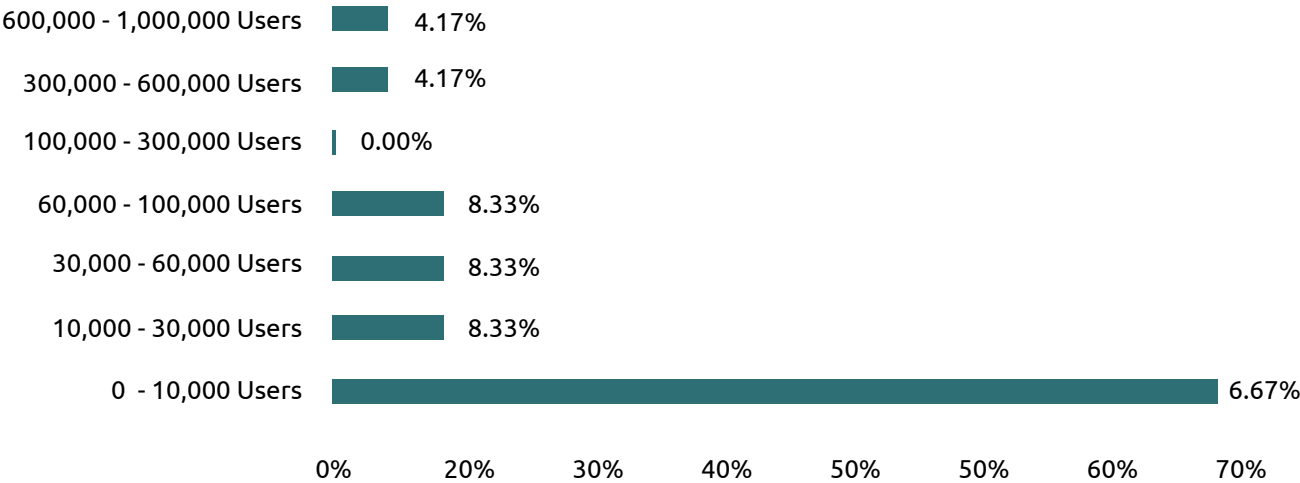
USER ACQUISITION AND PURCHASING BEHAVIOUR

According to the survey, 66% of e-commerce businesses reported having a user base below 10,000. These platforms, typically established within the last three years, tend to have smaller organizational structures and lack diversification in supplementary services such as social media, transportation, health, or vertical and horizontal integration strategies across different markets in Ethiopia beyond Addis Ababa.

Conversely, only 17% of the surveyed e-commerce platforms have a user base exceeding 50,000. These larger platforms generate higher revenue and transaction volumes. They have often expanded their user base by diversifying from their core products into e-commerce, and they are predominantly in the growth stages of their business lifecycle. Additionally, companies that specialize in digital goods, such as audiobooks, music streaming, and podcasts, have successfully built large user bases. This success is driven by a strong demand for Ethiopian audiobooks both locally and from the Diaspora, highlighting a niche market with substantial engagement.

NUMBER OF USERS IN THE SURVEYED E-COMMERCE

Source – Sample Survey

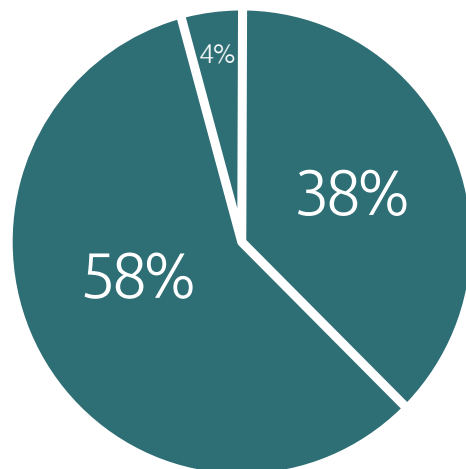


The survey revealed that approximately 58% of e-commerce platforms identified their main purchasing demographic as individuals aged between 31 and 40 years old. This group was followed by users aged between 18 and 30 years old, who comprised 38% of the user base. Notably, platforms with a primary user base of 31 to 40 years old reported higher revenue and transaction sizes compared to those primarily serving the 18 to 30-year-old group.

Furthermore, e-commerce platforms catering to the 31–40-year-old age group utilized a diversified approach to user acquisition, primarily through search engines and referrals from existing users. In contrast, platforms with a predominant user group aged between 18 and 30 years old mainly leveraged social media for user acquisition. This difference highlights varied marketing strategies and user engagement techniques based on the age profiles of the customer base.

BUYER AND AGE-GROUP PROPORTIONS

Source – Survey



58%

31-40

38%

18-30

04%

41-50

for advertising their websites, while 29% rely on search engines. Additionally, 25% reported that referrals and word-of-mouth from existing customers are their main methods of user acquisition.

Platforms that primarily use social media for user acquisition tend to attract younger demographics and are typically newer, having been established within the past three years. These platforms often face challenges in generating high revenue levels, especially if they have not diversified their core offerings into e-commerce.

Conversely, platforms that predominantly use search engines to acquire users generally attract an older user base, specifically those aged 31–40. These platforms tend to report lower revenue and transaction volumes and typically have a smaller user base (fewer than 10,000 users). They also experience a lower volume of product and service orders.

On the other hand, e-commerce platforms that primarily grow through referrals and word of mouth tend to have a user base of older individuals, between 31 and 40 years old. These platforms often report higher revenue and transaction levels, even among those that have not diversified their offerings. They are typically involved in the sale of physical goods and services, reflecting a more established market presence and customer trust.

Source – Survey

USER ACQUISITIONS FOR E-COMMERCE PLATFORMS

13% **25%** **29%** **33%**

Mixed and
Others

Referral & Word
of Mouth

Search
Engines

Social
Media

E-COMMERCE AND SALES CHANNELS

Source – Sample Survey

79%

WEBSITE / APP

13%

OTHERS

08%

SOCIAL MEDIA

The survey inquired about how e-commerce platforms predominantly conduct their product sales online. Approximately 80% of the platforms indicated that they primarily sell their products through their own websites or applications. Conversely, 8% reported that they conduct the majority of their product sales through social media channels. This data underscores the significance of proprietary online platforms in the e-commerce industry while also highlighting the role of social media as a sales channel for a smaller segment of the market.

ACCESS TO FINANCE

E-commerce platforms were surveyed regarding their primary sources of capital for starting operations, with the option to indicate multiple funding sources. A significant majority, 71%, reported using bootstrapping, utilizing their own funds to initiate their businesses. Additionally, 25% of the platforms accessed their initial capital through development grants, highlighting the diverse approaches e-commerce businesses take to secure funding.

Approximately 21% of the companies had access to either debt or equity to initiate their e-commerce operations. Among these firms, about 60% obtained their capital through angel investors, while around 40% secured their initial funding through debt. Companies that acquired their startup capital via debt or equity typically exhibit several characteristics: they employ a larger workforce, predominantly operate under partnership business structures, and report higher revenue and transaction levels. Additionally, most of these firms have expanded their operational areas beyond Addis Ababa.

INITIAL CAPITAL FOR E-COMMERCE PLATFORMS

Source – Sample Survey

13%

Angel Investor

08%

Laon

25%

Grants

13%

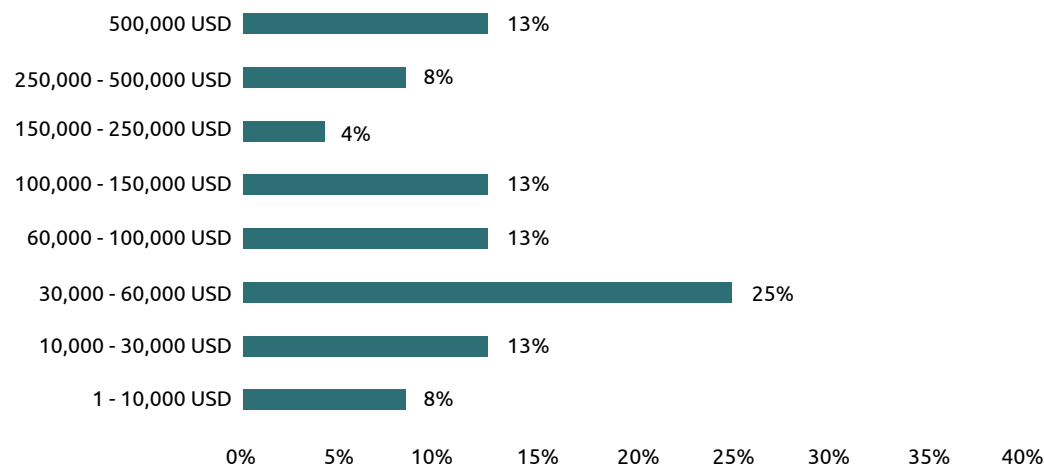
Family and Friends

71%

Boot strapping

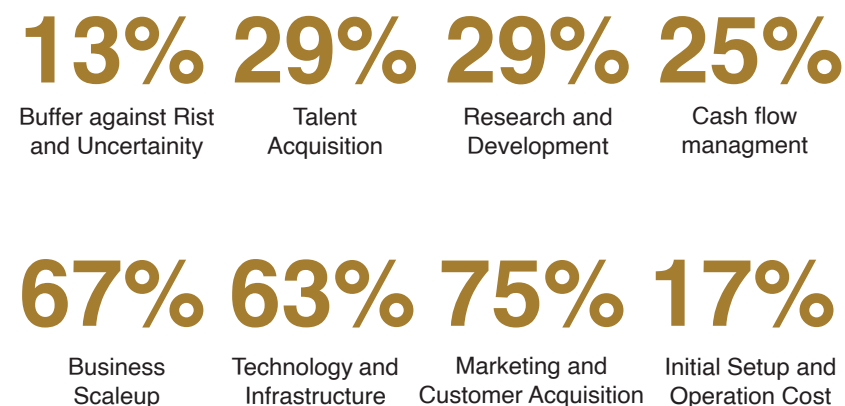
EXTERNAL FINANCE REQUIREMENTS BY E-COMMERCE PLATFORMS

Source – Survey



EXTERNAL FINANCE REQUIREMENTS BY E-COMMERCE PLATFORMS

Source – Survey



Approximately 60% of firms reported needing less than \$100,000 for various operational purposes, while 40% required more than \$100,000. Typically, firms needing under \$100,000 were in their discovery phase, employed 1-4 people, and reported low annual revenues with platform transactions ranging from \$1,000 to \$10,000. These firms generally did not have access to debt or equity financing.

Conversely, firms that required over \$100,000 were usually in their validation or discovery phases, employed more than five people, and demonstrated higher levels of revenue and transaction volumes compared to those with lower financial requirements. Most of these firms had diversified into e-commerce and expanded their operations beyond Addis Ababa.

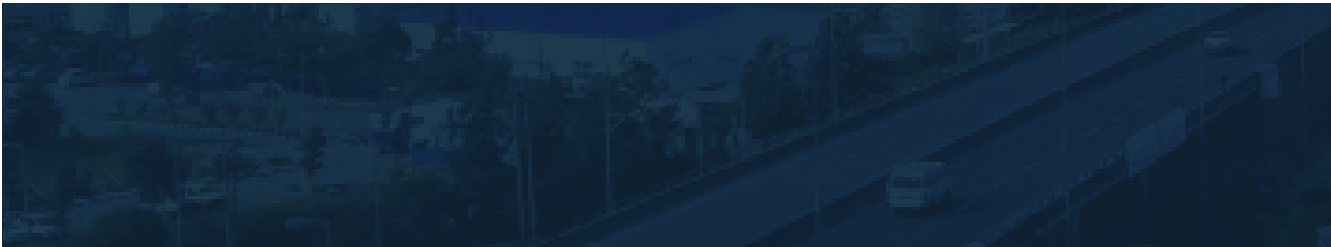
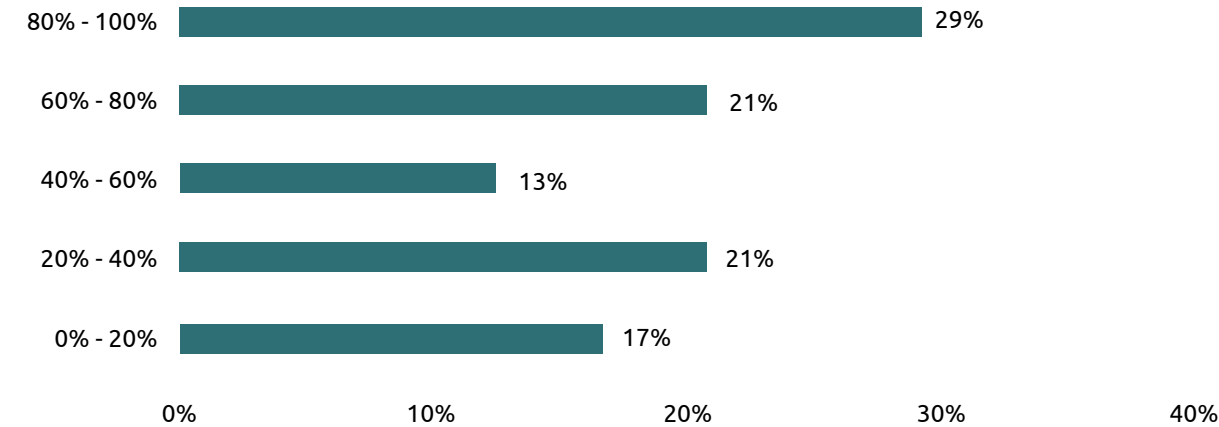
DIGITAL PAYMENT

66% of e-commerce platforms expressed a preference for receiving payments digitally. These platforms commonly integrate popular payment methods such as Telebirr and the Commercial Bank of Ethiopia (CBE) directly or utilize payment gateway platforms like Chapa to process their transactions. Additionally, about 30% of the platforms are comfortable accepting both cash and digital payments. Notably, firms that have diversified into e-commerce have demonstrated a significant preference for exclusively digital payment methods, underscoring a trend towards more streamlined electronic transaction processes in the sector.

Approximately 62.5% of e-commerce platforms reported that over 50% of their transactions are conducted digitally. Typically, platforms with a higher proportion of digital transactions have broader operating areas compared to those with lower volumes of digital payments. Firms that have recorded a higher level of cash transactions tend to be businesses that have diversified into e-commerce, indicating a varied approach to transaction methods within the sector.

50%+

DIGITAL TRANSACTIONS



PRODUCT DELIVERY

The e-commerce platforms surveyed were asked about their methods of delivering products to customers who purchase online. Among the respondents, 37% reported using a combination of their own delivery channels and third-party delivery platforms. However, platforms using this hybrid delivery model generally reported relatively low levels of users, transactions, and revenue. Conversely, 29% of the platforms use their own delivery channels exclusively, and these platforms typically experience higher levels of users, transactions, and revenue.

Additionally, 21% of the e-commerce platforms stated that they rely on other platforms to deliver their products to customers. Meanwhile, 13% of the respondents indicated that they do not provide final product delivery at all, requiring customers to visit their stores to pick up the products directly.

E-COMMERCE PRODUCT DELIVERY OPTIONS

Source – Survey

37%
COMBINED

29%
OWN

21%
OTHERS

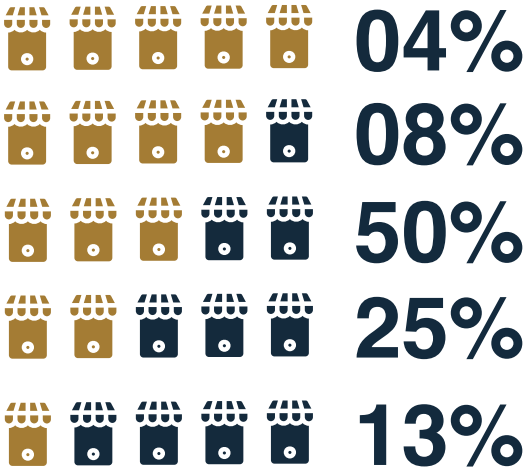
13%
NO DELIVERY

CAPACITY DEVELOPMENT

The survey asked e-commerce platforms whether they had ever participated in capacity development programs offered by both public and private institutions in Ethiopia. Of the e-commerce platforms surveyed, 58% reported that they have received training on a variety of topics from incubators, capacity development providers, and government offices. On the other hand, 42% of the e-commerce platforms surveyed reported that they had not received any training on different issues.

HOW COMFORTABLE IS THE CURRENT BUSINESS ENVIRONMENT FOR OPERATIONS?

Source – Survey



Source - Survey

The survey explored areas where businesses require capacity development. Results indicated that the most common needs for capacity building are finance (71%), marketing (63%), and business development (58%). Conversely, enhancing digital literacy for owners and employees to streamline organizational workflows was the least prioritized need. This suggests that e-commerce platforms are already obtaining the necessary digital literacy for daily operations from various sources.

71%

Finance

63%

Marketing

58%

Business Development

46%

Strategy

42%

Technical Skills

38%

Human Resource

33%

Leadership

25%

Digital Literacy

OPERATING ENVIRONMENT

The survey included a question asking e-commerce platforms to rate the business environment in which they operate. The average rating was 2.66 out of five, indicating that the platforms consider the business ecosystem to be moderately satisfactory for operating their e-commerce activities. However, most ratings leaned towards the lower end of the scale, describing the environment as very bad or bad. Various challenges were cited as impacting their business operations across different transactional and enabling nodes of the conceptual framework.

The e-commerce platforms were asked to evaluate the current policy and regulatory environment set by the government, which affects their daily operations. On average, the platforms were assigned a score of 2.45 out of 5, indicating a moderately unfavourable view. Only about 20% of the platforms rated the regulatory environment as favourable for their operations. Highlighted challenges include inadequate implementation of the Startup Act—critical for the majority of e-commerce platforms that are young and in their market validation phase—a lack of a comprehensive e-commerce framework addressing issues like customer protection, and problems with business registration due to the requirement for physical office spaces. Additionally, there are specific concerns regarding product delivery, particularly those involving motorcycles.

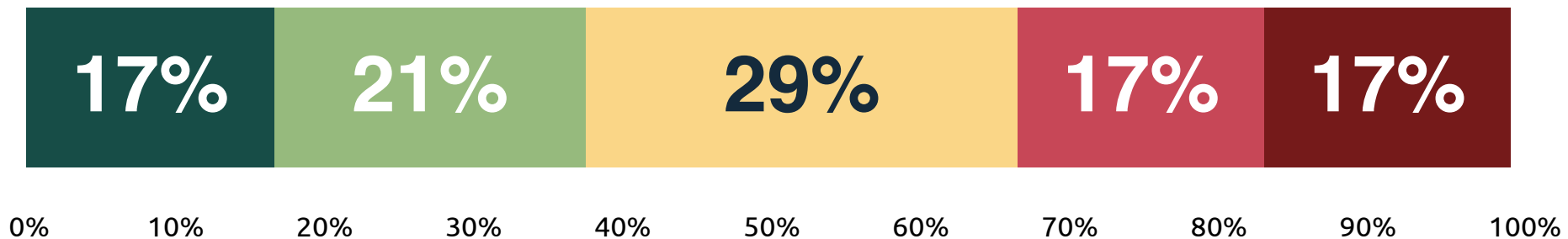
RATING THE CURRENT POLICY AND REGULATORY ENVIRONMENT FOR E-COMMERCE PLATFORMS

Source – Sample Survey



USER READINESS

E-commerce platforms were surveyed to assess the readiness of users to utilize these platforms for day-to-day transactions. The average rating was 2.95 out of 5, indicating that platforms perceive user readiness for daily use of e-commerce channels as average. Approximately 29% of the firms received a rating of 3/5, making it the most common response, followed by about 21% of firms that were rated 2/5. Notably, platforms that rated their user readiness more highly typically reported having a robust user base and significant transaction sizes on their platforms.



KEY TAKEAWAYS

EARLY STAGE OF E-COMMERCE

Most e-commerce platforms in Ethiopia are still in their infancy. The survey and mapping indicate that the majority of these platforms were established within the last three years. They typically report low transaction volumes, revenue sizes, and user bases. Additionally, their operations are primarily concentrated in Addis Ababa, with only those selling digital goods venturing beyond Ethiopian borders. Thus, it is evident that the e-commerce sector is at a nascent stage, and substantial development is needed.

HORIZONTAL DIVERSIFICATION TO E-COMMERCE IS SUCCESSFUL

Analysis indicates that firms with larger transaction sizes and broader operations have successfully diversified into e-commerce as part of their core activities. This shift, coupled with the rising prominence of social and mobile commerce, which dominates transactions in Ethiopia, underscores the potential for non-e-commerce businesses with substantial user and revenue bases to incorporate e-commerce into their primary offerings.



ADDIS-ABABA FOCUSED E-COMMERCE SECTOR

E-commerce platforms are predominantly headquartered in Addis Ababa, with a significant concentration of product sales within the city. The nature of e-commerce, which thrives on high population density coupled with better access to essential enablers such as the internet, payment infrastructure, and logistics—more readily available in Addis Ababa than elsewhere in the country—supports this localization.

ACCESS TO INITIAL CAPITAL IS CRUCIAL FOR GROWTH

The survey revealed that firms with access to initial capital from formal sources, such as debt and equity financing, found it easier to expand operations, reported higher revenue and transaction sizes, and accumulated greater wealth. This underscores the importance of sufficient access to capital for e-commerce platforms to expand their operations and grow their product offerings.

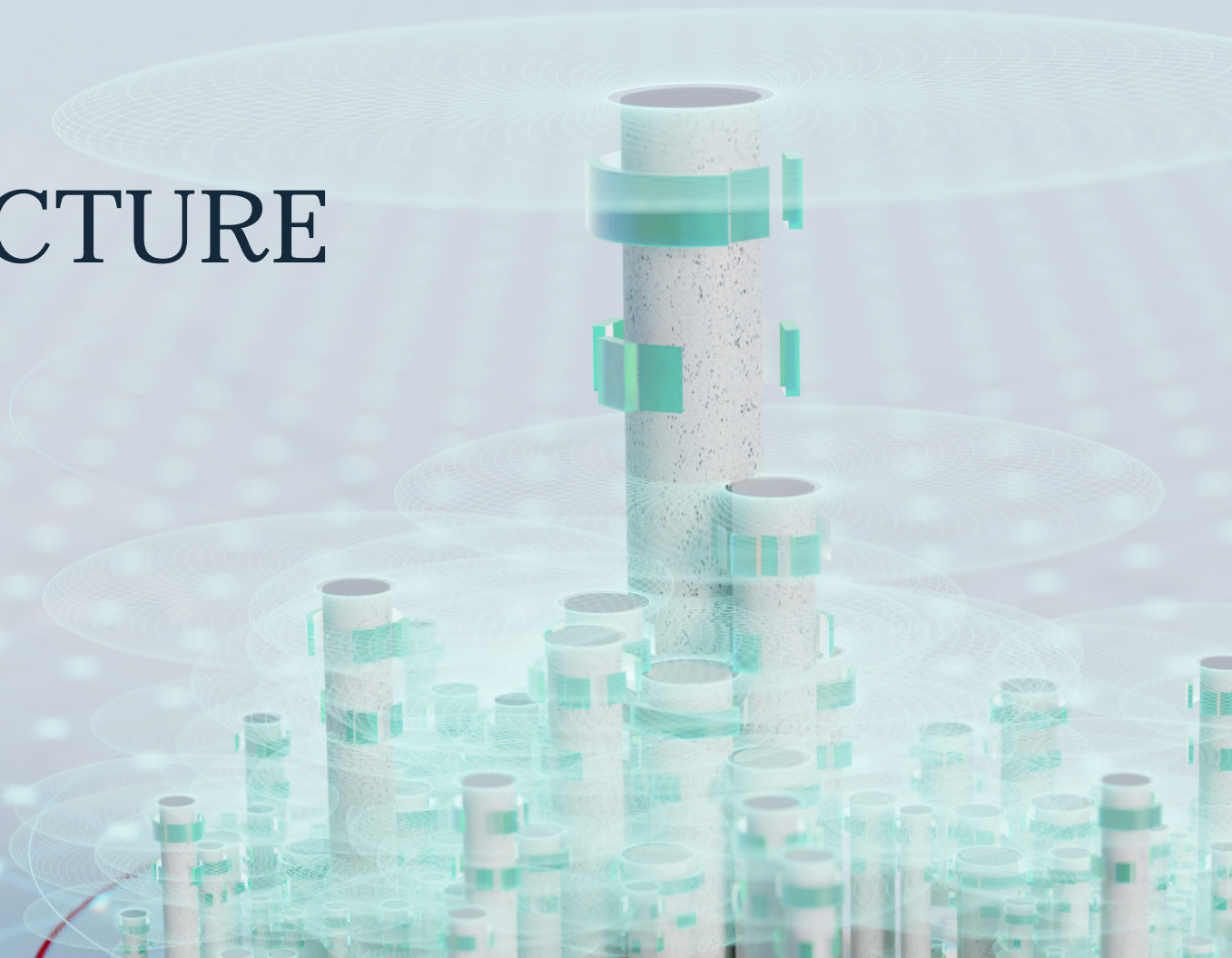
ACCESS TO FINANCE IS A MAJOR CHALLENGE

Firms consistently cited a lack of finance as a significant barrier, impacting both short-term operations and long-term scalability. This challenge underscores the need for adequate capital access, which is crucial for developing and expanding their businesses. The difficulty in obtaining necessary funding hinders efforts to innovate and grow, posing a substantial obstacle to the evolution of their e-commerce ventures.

USER ACQUISITION/MARKETING EFFORTS ARE A HIGH NEED

The survey revealed that most firms have user levels ranging from 0 to 10,000, and many e-commerce platforms face challenges with user acquisition. Firms with larger user bases reported that referrals or word-of-mouth were their primary acquisition channels, highlighting the critical role of user trust in growing e-commerce platforms. These platforms identified user acquisition as their most pressing financial need and the second largest capacity development requirement after finance, emphasizing the need for effective marketing strategies and campaigns that foster trust among potential customers.

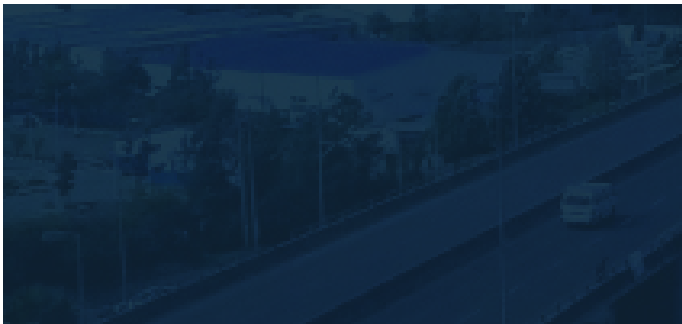
INFRASTRUCTURE



DIGITAL PAYMENTS

Digital payments are a critical component of the e-commerce business model, enabling transactions for goods and services without the physical presence of the buyer and seller. This system is particularly essential for facilitating smooth operations within e-commerce. As noted previously, cash-on-delivery (COD) posed significant challenges in the sector's early years, primarily due to a high incidence of false orders and increased operational expenses, as e-merchants frequently had to physically collect payments from buyers.

Digital payments are defined as the transfer of money through digital channels. In Ethiopia, the primary instruments for digital transactions include mobile money, direct debit, and various payment gateways. These tools are integral to supporting e-commerce transactions, providing a secure and efficient method for handling payments across the country.



DIGITAL PAYMENTS IN ETHIOPIA

The initial steps towards establishing digital payments in Ethiopia were taken in 2011, when the National Bank of Ethiopia introduced the National Payment Systems Proclamation, Proclamation No. 718/2011. This proclamation launched the Ethiopian Automated Transfer System, designed to facilitate large volumes of money transfers among banks and to interface with the retail payment system. Subsequently, in 2012, regulations were introduced to allow financial institutions to provide mobile and agent banking services. This regulatory framework enabled the expansion of digital financial services across Ethiopia, laying the groundwork for more inclusive financial practices and enhancing the infrastructure necessary for the growth of e-commerce.

The initial model for mobile banking in Ethiopia, led by banks or microfinance institutions, included platforms such as Hello Cash, Amole, and M-Birr. However, this bank-led model encountered several limitations, primarily due to capacity issues within the financial institutions and a general unfamiliarity with the digital finance business model in a low-digitization environment.

In response, the Ethiopian government transitioned to a hybrid model for digital finance to better meet its financial inclusion and digital payments goals. In 2020, the government facilitated this shift by issuing three critical directives: the Payment Instrument Issuers Directive, the Payment System Operators Directive, and the Use of Agents Directive. These directives opened the digital finance market to non-financial institutions and foreign players, aiming to diversify and strengthen the sector.

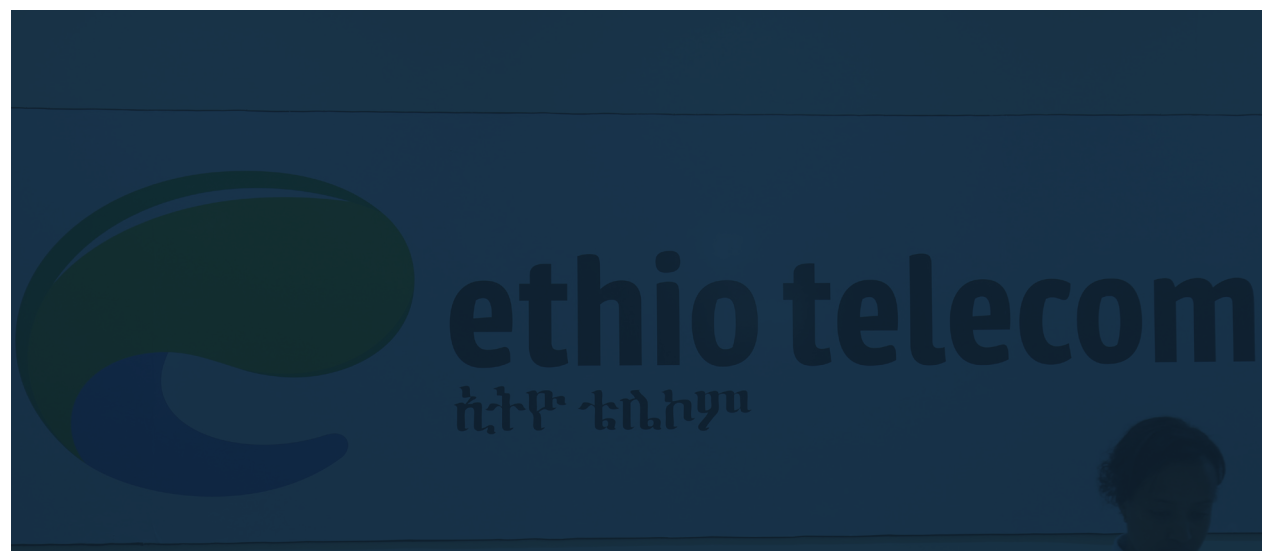
Additionally, the Ethiopian government developed a digital national payment strategy for 2021, designed to foster a secure, efficient, innovative, and responsible payment ecosystem. This strategy supports the vision of a cash-lite and financially inclusive society, with the goal of ensuring that 49% of all payments in the Ethiopian economy are conducted through digital formats by 2025. This comprehensive approach reflects a significant commitment to enhancing digital financial services and expanding economic inclusivity.

Tele-Birr, a mobile money platform owned by Ethio Telecom, was launched in the Ethiopian market in 2021. By December 2023, it had approximately 41 million subscribers and a total transaction value of about 1.7 trillion ETB. In contrast, M-Pesa, owned by Safaricom and introduced in 2023, had garnered around 1.2 million subscribers with a total transaction value of approximately 16.28 billion ETB by November 2023. Additionally, several financial technology firms, including Chapa and Arif Pay, have secured licenses as payment gateways and payment system operators from the National Bank of Ethiopia.

These developments have contributed to a significant surge in digital payments and financial services in recent years. Factors driving this increase include enhanced internet access and urbanization, improved interoperability between platforms, regulatory reforms, and growing investor interest in the sector. These elements together have propelled the expansion and sophistication of digital financial services in Ethiopia.

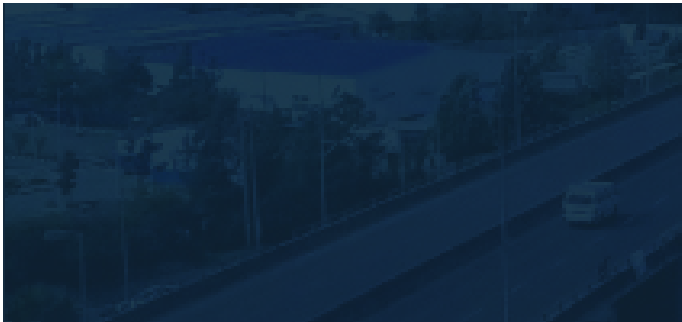
1.7 TRILLION

TOTAL TRANSACTION VALUE AS OF DECEMBER 2023 (IN ETHIOPIAN BIRR / ETB)



E-MERCHANTS UTILIZING DIGITAL PAYMENTS IN ETHIOPIA

E-merchants in Ethiopia who sell their products online, either through their own e-commerce platforms or by leveraging various internet channels, are utilizing methods such as debit transfers, mobile money, or payment gateways. These digital payment solutions facilitate both local and cross-border transactions, enabling these merchants to efficiently conduct business and receive payments.



DEBIT TRANSFER

Debit transfer involves the direct transfer of funds from a buyer's bank account via internet or mobile banking to the seller's account. This method has become a predominant way for merchants who use digital channels to sell their products to handle payments digitally. Typically, screenshots of the transfer receipts are requested as proof of payment, facilitating the clearance and finalization of goods sales to clients.

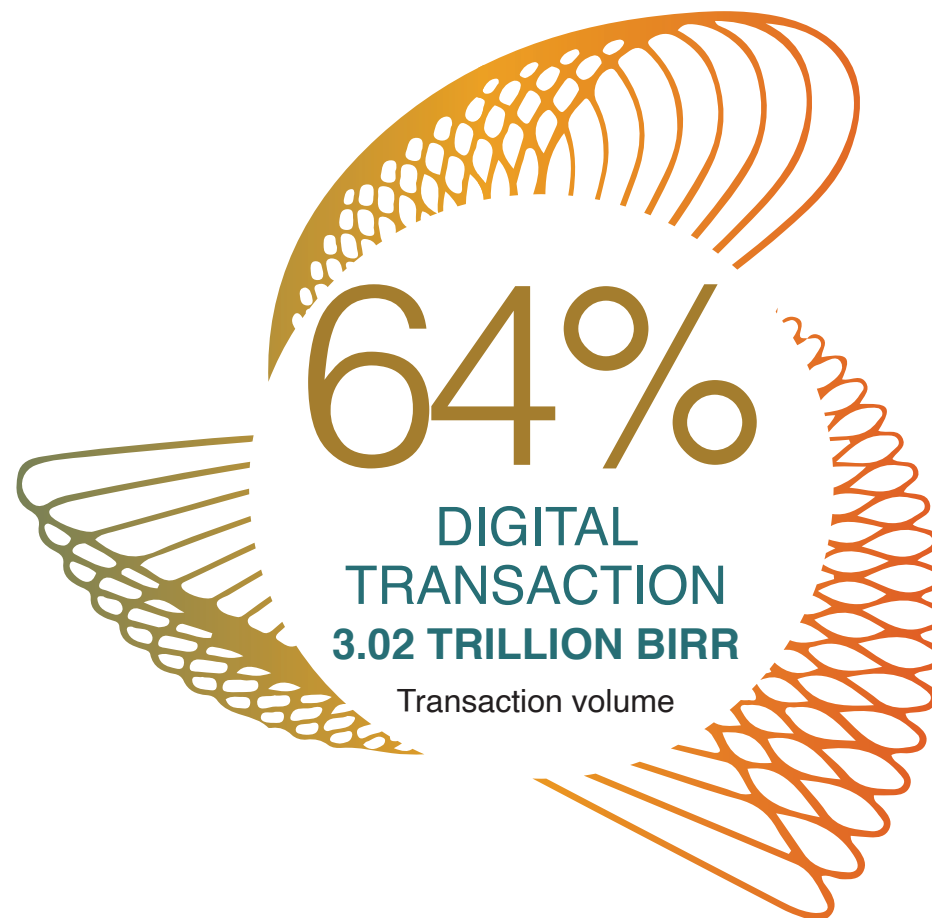
The Commercial Bank of Ethiopia is the most popular channel for direct fund transfers via mobile banking. Interviews with traditional merchants who sell through online channels revealed that they typically provide their account numbers to buyers, who then transfer the money directly to the sellers' accounts. Upon receiving payment, merchants dispatch their products either personally or through various courier services, often including a delivery fee. This method has become so prevalent that many commercial bank users in Ethiopia readily know their bank account numbers and regularly use them as a means of digital payment.

CASE STUDY

Source – The Reporter Ethiopia

In July 2023, the Commercial Bank of Ethiopia announced that digital transactions had exceeded those conducted through its tellers. Digital channels accounted for 64% of all transactions, totalling 3.02 trillion birr across approximately 750 million transactions. Of these digital transactions, 2.4 trillion birr were conducted via mobile banking, 308 billion birr through ATMs, 260 billion birr via internet banking, 19 billion birr through CBE Birr, and nearly 17 billion birr from POS transactions.

To accommodate the high volume of digital transactions, the Commercial Bank of Ethiopia has raised its transfer limits. Users can now transfer up to 300,000 birr per transaction, with a daily ceiling of 600,000 birr. Specific limits for CBE Birr transactions include 30,000 birr per transaction to one's own CBE Birr account and 10,000 birr per transaction to other CBE Birr accounts. Transfers to other banks are capped at 25,000 birr per transaction, with a daily limit of 100,000 birr.



Two significant issues have arisen with debit transfers through mobile banking. First, there is a growing prevalence of fake receipts issued by buyers. Advances in image manipulation techniques have made it easier to generate these fraudulent receipts, leading to an increase in their occurrence. Consequently, this trend has led some online merchants to stop accepting transfers from the Commercial Bank of Ethiopia (CBE) as a payment method. Second, there are instances where buyers make instalment payments—paying half the product's price upfront and the remainder upon receipt—but are ghosted after the initial payment, never receiving the product. These challenges undermine trust in digital payment systems and complicate transactions for both buyers and sellers.

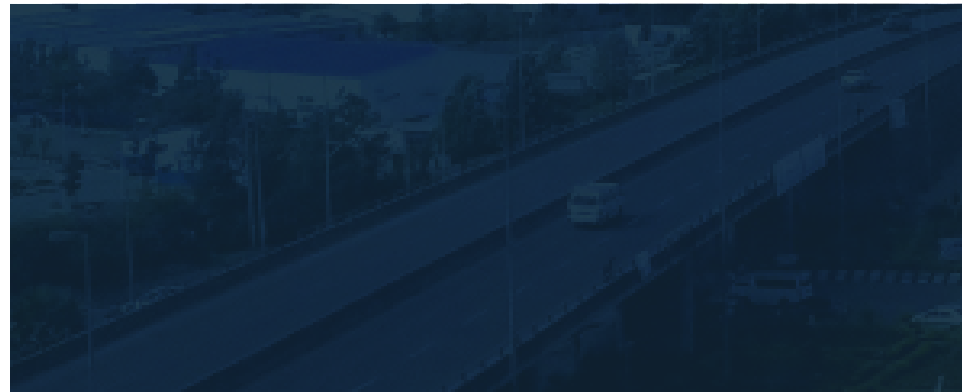
To address these issues, the Commercial Bank of Ethiopia (CBE) has introduced a product update that enables e-commerce platforms registered with them to track payments made through CBE. After purchasing a product, users are provided with a code linked to the product ID online. Once the payment is made through CBE, the product is automatically cleared for the buyer.

Additionally, as part of the recent update, CBE has begun issuing e-receipts for every transfer between buyers and sellers and generating unique QR codes for transactions. This enhancement is designed to simplify the verification process for sellers, allowing them to enter or scan the transaction code from any receipt to confirm if the payment has been legitimately processed. This initiative is expected to significantly reduce instances of fraud and improve transaction security.

MOBILE MONEY PLATFORMS

Both e-commerce and traditional merchants selling through various online channels have begun utilizing mobile wallet platforms such as Tele-Birr and M-Pesa to facilitate sales. E-commerce owners have integrated Tele-Birr into their websites, enabling easy receipt of payments due to the platform's capability for fast transaction settlements after fund transfers. Similarly, various businesses that utilize online channels for sales are also adopting Tele-Birr or M-Pesa as their preferred methods for receiving payments for their products, enhancing transaction efficiency and convenience.

As mentioned in earlier sections, Tele-Birr and M-Pesa have both introduced merchant IDs for different merchants so they can receive payments. This merchant ID is a unique identification number attached to a business that tells the payment processing systems involved in a transaction where to send which funds. To this end, different traditional businesses can create a merchant ID online and receive payments using Tele-Birr, thereby enabling digital payment for businesses online.



PAYMENT GATEWAYS

Payment gateways are software applications that facilitate e-merchants in accepting payments from buyers. These gateways simplify the process for e-merchants by consolidating the integration of various financial institutions and mobile wallet service providers into a single payment option. This unified approach allows e-merchants to efficiently offer their products to users, streamlining the transaction process.

Interviews revealed that integrating various financial institutions and mobile money wallets directly into e-commerce platforms involves substantial effort. This challenge is compounded by the growing number of banks and mobile money service providers in the Ethiopian economy. Furthermore, the high costs associated with the individual integrations of each payment service provider, largely due to compliance requirements, add to the complexity. Consequently, many e-commerce websites in Ethiopia have opted to integrate payment processing through online payment service aggregators such as Chapa and Arif Pay, which streamline the process by providing a consolidated gateway for multiple payment options.

However, the low transaction size of different e-commerce platforms and the lack of formal business registration for MSMEs that are selling their products online (which usually rely on P2P transfers based on the two above options to evade tax detection by authorities) mean that most of the transactions processed by payment gateways aren't from e-commerce.

DIGITAL INFRASTRUCTURE

A robust digital infrastructure is needed to support and sustain the e-commerce ecosystem, as the transaction of products and services is done through the internet. The digital infrastructure for e-commerce doesn't only involve buyers and sellers but also enables infrastructural nodes between buyers and sellers like payment and logistics. Thus, three components in digital infrastructure are included: telecom infrastructure in Ethiopia needed for internet provision, cloud and data infrastructure, and the availability and accessibility of smart handsets.

INTERNET SERVICE PROVIDERS (ISP)

Over the past decade and a half, the Ethiopian government has engaged in massive investment to improve the expansion and reach of quality internet across Ethiopia. To this end, Ethiopia has managed to provide 3G internet access to around 98%, nearing basic internet access in every area of Ethiopia. The Ethiopian government has also engaged in the expansion of 4G internet, as 33% of the country currently has access to 4G internet. Ethio Telecom, the state-led telecommunication service provider, also recently started 5G internet across Addis Ababa.

The Ethiopian Government also established the Ethiopian Communications Authority (ECA) through Proclamation No. 1148/2019 to regulate and promote high-quality, efficient, reliable, and affordable communications services in the country, including telecommunications, postal, and courier services. To this end, the ECA granted Safaricom Ethiopia, a joint venture of four different telecom service providers, a license to enter the Ethiopian market in May 2021. Safaricom won its license with an 850 million USD license fee and the commitment to invest 8.5 billion USD for different telecommunication purposes in the Ethiopian ecosystem. This means that currently there are two telecommunication service providers in Ethiopia, which are Ethio Telecom and Safaricom Ethiopia.

**AND INVEST 8.5 BILLION USD FOR
DIFFERENT TELECOMMUNICATION
PURPOSES IN THE ETHIOPIAN ECOSYSTEM**

license fee

850 MILLION USD

**CLOUD AND DATA
INFRASTRUCTURE**

Cloud computing and data infrastructure are crucial pieces of infrastructure for e-commerce platforms found in Ethiopia, as cloud computing allows the delivery of computing services to provide faster innovation, flexible resource utilization, and economies of scale. To this end, the Ethiopian government has set it as a key building block for Ethiopian digital efforts in its Digital Ethiopia 2025 plan.

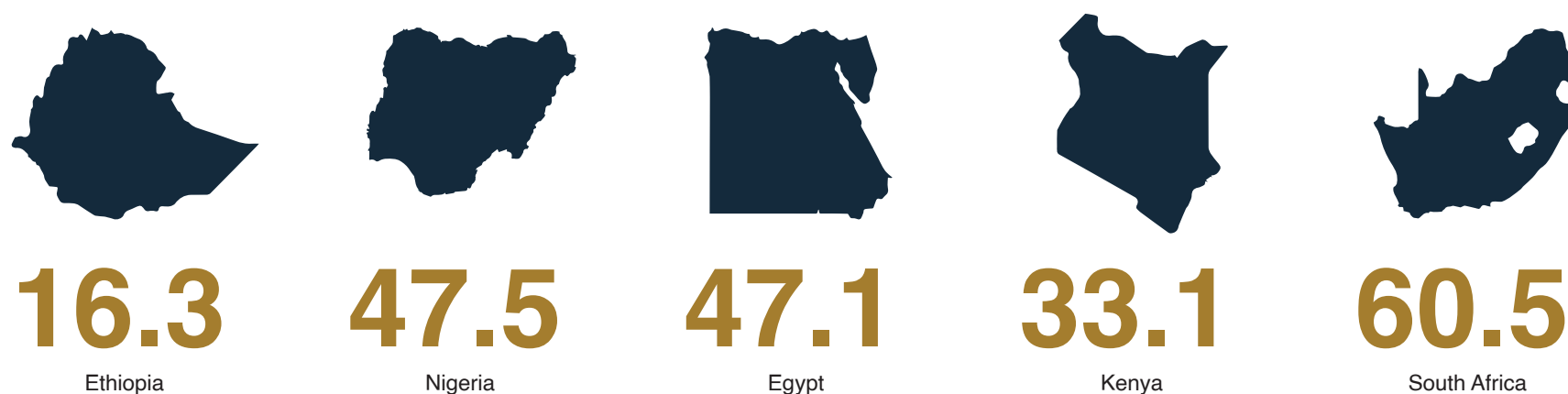
Currently, e-commerce platforms in Ethiopia have three primary avenues for accessing cloud infrastructure: the first is using international cloud service providers such as Amazon Web Services or Microsoft Azure, provided they have access to foreign exchange resources necessary for transactions with these global entities; the second is local service retailers and integrators such as YegaraHost and IE Network Solutions; and the third is new and upcoming local cloud infrastructure companies like Raxio, Red Fox Group, and Wingu Africa.

AVAILABILITY AND ACCESSIBILITY OF SMART HANDSETS (SMARTPHONES)

In 2021, Ethiopia had only 8.5 million registered smartphone devices, indicative of low smartphone penetration in its economy. The factors contributing to this include limited affordability due to low-income levels among users, high inflation rates, foreign exchange constraints affecting the importation of products, and high import duties on technology devices, which can amount to 35% of the product's cost.

The global average selling price for smartphones in 2021 was 317 USD. Based on Ethiopia's per capita income, purchasing a smartphone would cost an individual approximately three and a half months of earnings, making it highly unaffordable for most of the population who earn below the average per capita income.

Moreover, Ethiopia's affordability index for entry-level smartphone handsets scored 16.83 out of 100, calculated as a percentage of GNI per capita, ranking it 18th out of 26 African countries. In contrast, countries like Kenya, South Africa, and Egypt scored higher, reflecting the greater affordability of smartphones, which in turn facilitates broader access to services such as e-commerce.



LOGISTICS & COURIERS

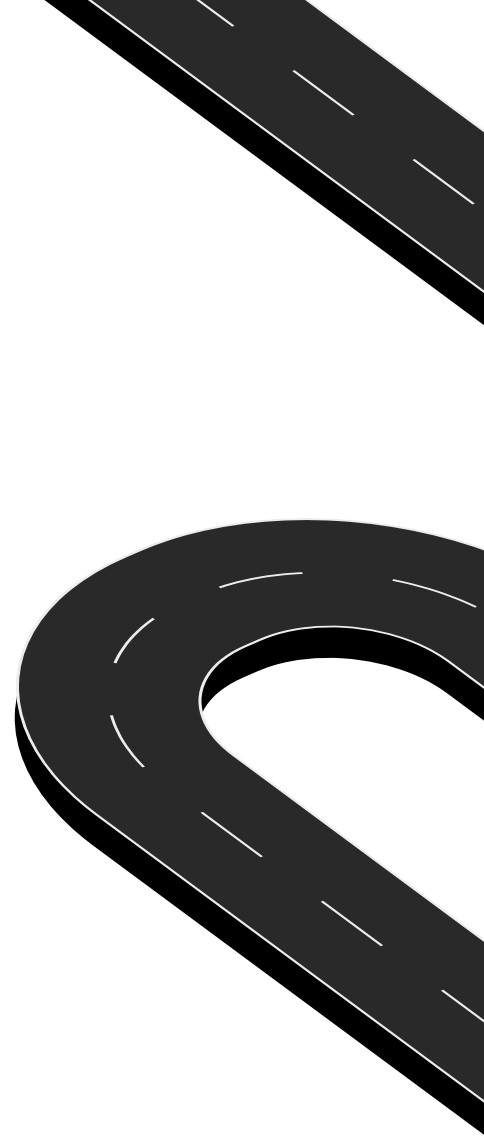
One of the fundamental components for facilitating a functional e-commerce ecosystem in the Ethiopian market is the presence of robust logistics and delivery firms. These firms are crucial in ensuring the smooth transaction of goods between buyers and sellers. Logistics encompasses the process of planning, implementing, and controlling the efficient and effective flow of goods from the point of origin to the point of purchase.

There are three stages in the delivery of products: the first-mile, middle-mile, and last-mile journeys. The first-mile journey refers to the distribution of goods from manufacturers to the warehouse, while the second-mile journey is mainly about the journey from the warehouse to the retailers, while the last-mile journey refers to the delivery of goods from the retailers to final consumers. The first two stages are mainly concerned with B2B, while the final stage is focused on B2C platforms.

SITUATIONAL ANALYSIS OF LOGISTICS AND DELIVERY IN ETHIOPIA

The Ethiopian logistics sector faces multiple challenges that hinder its development and impact the growth of the logistics industry. General issues include inefficient logistics management systems, underdeveloped virtual addressing systems, inadequate logistics infrastructure such as road networks, a shortage of freight vehicles, and frequent damage and quality deterioration of goods during transportation. Furthermore, rising fuel prices in Ethiopia exacerbate these challenges. Compounding these issues is the lack of foreign exchange, which significantly increases the costs associated with maintenance and spare parts, creating additional hurdles for delivery companies.

In 2020, the World Bank ranked Ethiopia's logistics system 114th out of 139 countries, indicating a poorly suited logistics framework for the efficient movement of goods across the nation. In response, the Ethiopian government has committed to enhancing the logistics infrastructure, aiming to rank within the top 40 on the international logistics performance index by 2030. Recognizing the critical role of efficient logistics, e-commerce companies in Ethiopia are increasingly looking to develop in-house capabilities or form partnerships with third-party logistics providers. Such strategies are essential not only for improving domestic goods movement but also for facilitating the smooth flow of cross-border commerce in the future.





FIRST & MIDDLE-MILE JOURNEY IN ETHIOPIA

In Ethiopia, first- and middle-mile logistics, the journey of products from manufacturers to retailers, face specific challenges beyond the general logistical issues affecting the sector. A primary challenge in this segment of the value chain is the dominance of informal value chains, particularly in the agricultural sector. Typically, farmers sell their produce informally at local markets to brokers, who then distribute these products to urban markets. This informal trading system poses significant obstacles to standardizing and streamlining logistics processes, impacting the efficiency and traceability of goods as they move from rural producers to urban consumers.

In the case of perishable and agricultural products, there is a lack of cold-chain infrastructure for the handling of products after production and during transportation to the local market, which is making post-harvest losses of around 20–35% and resulting in a smaller number of products served to the market.

For the same type of product, challenges related to warehouse infrastructure in Ethiopia have become increasingly significant. Over the past few years, the rental prices of warehouses have surged. Moreover, the available warehouse facilities often lack adequate storage capabilities, sufficient loading and unloading equipment, and are hindered by poor design and management systems. These deficiencies in the warehousing infrastructure adversely affect the standard operating procedures that e-commerce companies rely on to sell to retailers and distribute products efficiently to end customers.

LAST MILE JOURNEY IN ETHIOPIA

The “last mile” delivery, representing the final stage of a product’s journey from retailers to consumers in Ethiopia, encounters several distinct challenges beyond typical logistical issues. Frequent and unexpected regulatory changes can hinder efficient delivery operations. Moreover, sporadic bans on the movement of motorcycles, a crucial mode of delivery in urban areas like Addis Ababa, disrupt the delivery process.

Last-mile delivery faces challenges caused by an incomplete location system, in addition to delivery personnel being unable to locate customers. This has led to delayed and failed deliveries and increased costs for e-commerce platforms. Furthermore, there is a lack of cold chains and other resources needed for the smooth delivery of certain product categories, especially healthcare products.

To navigate these challenges, four primary delivery routes are utilized in Ethiopia. The first involves Ethio-Post, a public-owned company that provides end-user products to users. The second is delivery and express companies are increasingly operating in Ethiopia. The third involves e-commerce businesses having their own delivery personnel. Finally, the fourth is businesses hiring motorcycle owners, locally referred to as “motoregna,” to deliver the product to end-users.



ETHIO POST

Ethio Post, one of Ethiopia's oldest public institutions, has been providing postal services since 1894. In 2023, Ethio Post expanded its services by launching Post Shop, an e-commerce platform integrated into its website. Additionally, Ethio Post is actively seeking partnerships with both traditional brick-and-mortar businesses and e-commerce platforms to enhance its product delivery capabilities across Ethiopia. Leveraging its extensive network of 1200 branch offices nationwide, Ethio Post aims to become a key player in the distribution and logistics sector, facilitating efficient delivery services throughout the country.

Ethio Post has taken a strategic step forward by signing a Memorandum of Understanding (MOU) with Ethiopian Airlines to position Ethiopia as a central gateway for e-commerce in Africa. This collaboration primarily focuses on establishing Addis Ababa Bole International Airport as the premier e-commerce hub on the continent. Additionally, Ethio Post facilitates international product shipments to 77 countries worldwide, presenting substantial opportunities for local merchants and e-commerce platforms in Ethiopia to expand their global market reach.

PRIVATE PRODUCT COURIERS & LOGISTICS FIRMS IN ETHIOPIA

E-commerce businesses and online sellers in Ethiopia have the option to collaborate with local delivery and express companies, a sector that has seen significant growth in recent years. Research indicates that the delivery and express market in Addis Ababa is maturing, with startups successfully cementing their presence in the market.

These delivery and express firms typically establish partnerships with e-commerce businesses to handle product deliveries. Moreover, some delivery platforms, such as BeU and Z-Mall, have expanded their services by partnering with various traditional businesses. These collaborations enable them to sell products online and manage digital transactions, thereby enhancing the reach and efficiency of both e-commerce platforms and traditional retailers in the Ethiopian market.

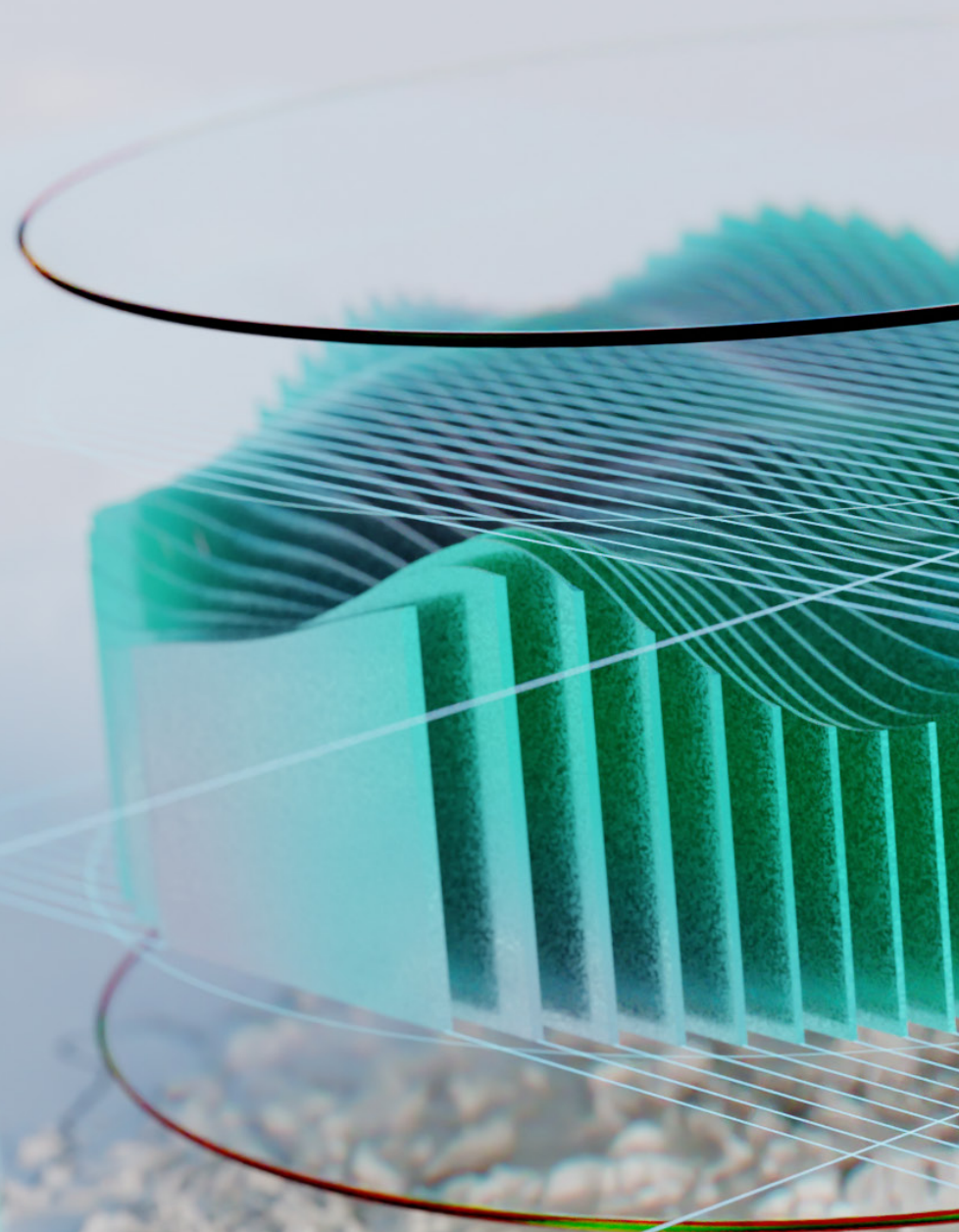
OWN DELIVERY PERSONNEL

One common method e-commerce merchants use to deliver products to consumers involves employing their own delivery personnel. In this model, e-commerce platforms invest in their own motorcycles and hire staff to manage the deliveries. This approach is typically adopted by e-commerce platforms that have diversified their business models to include e-commerce or are primarily product-selling platforms. On such platforms, the e-commerce site manages and sells a range of products, which may include both perishable and non-perishable items. Additionally, some traditional merchants who sell through online channels also opt to manage their own delivery personnel, ensuring they have direct control over the delivery process to enhance service reliability and customer satisfaction.



ENABLING ENVIRONMENT

The e-commerce industry requires a conducive environment for seamless transactions of goods and services through the Internet, just like any other business. This environment is necessary to address challenges from the demand, transaction, and supply sides and ensure the smooth flow of goods and services in the Ethiopian e-commerce ecosystem.

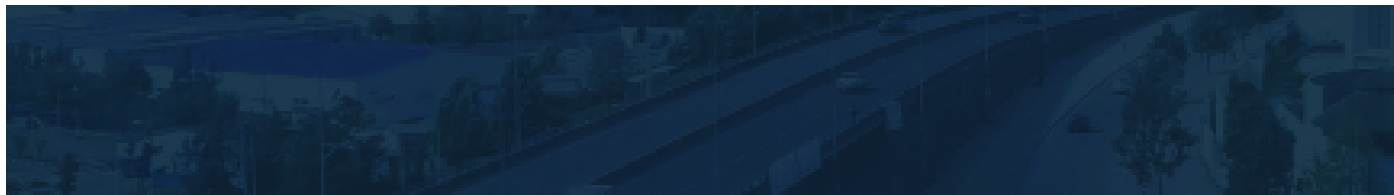


POLICY, REGULATORY, & GOVERNANCE ENVIRONMENT

The Ethiopian government has recognized e-commerce as one of the five critical sectoral nodes essential for the digital transformation of Ethiopian society. In pursuit of this objective, various ministerial bodies are actively engaged in efforts to promote and expand e-commerce within the country. Over the past few years, significant strides have been made, and the government is currently planning new initiatives to further develop this sector. These upcoming initiatives, currently being prepared by the Ethiopian government, aim to address several key areas to enhance the e-commerce landscape and support the broader digital economy strategy.

REGULATORY SANDBOX FOR ETHIOPIAN E-COMMERCE

A regulatory sandbox is a framework established by regulators that permits private firms to conduct small-scale, live testing of innovations in a controlled environment under the supervision of the regulator. The Ministry of Innovation and Technology (MINT) in Ethiopia is actively developing such a sandbox specifically tailored for e-commerce companies. This initiative will enable these companies to test their products and business models without being fully subject to existing regulatory frameworks. This approach acknowledges the necessity of providing a regulatory sandbox to foster growth and innovation within the e-commerce sector, allowing for adjustments and improvements before broader laws are applied.



COMPETENCY CERTIFICATION FOR E-COMMERCE PLATFORMS

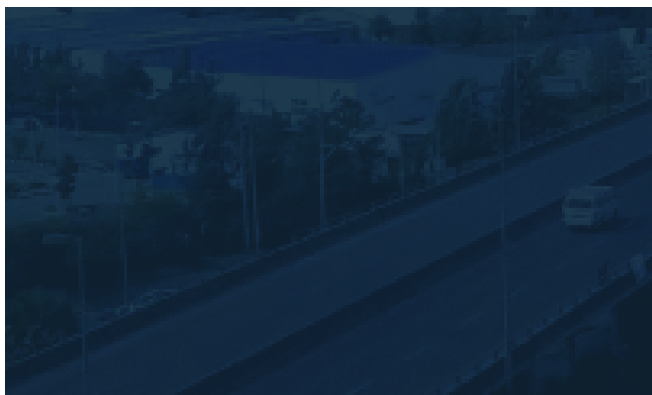
MINT is currently working on providing competency certificates for different e-commerce platforms in Ethiopia. The competency certificates allow e-commerce companies to understand their current skill strengths and weaknesses, both in terms of employees and the organization as a whole and provide the necessary skill background needed to achieve e-commerce products that are suitable for the local population.

E-RECEIPT

As mentioned above, one of the major challenges that is currently impacting the e-commerce sector is the lack of e-receipts, which is putting a challenge on e-commerce sellers' ability to sell products online and receive payments after the product sells in the Ethiopian market. Thus, the Ministry of Revenue is finalizing plans to issue electronic receipts in Ethiopia. The platform enables the tax authority and other relevant authorities, like trade and investment offices, to interface and access transaction reports in real-time.

E-COMMERCE HUB

The Ministry of Innovation and Technology (MINT) is collaborating with Ethiopian Airlines to establish an e-commerce hub and fulfilment centre in Ethiopia, this initiative aims to support local e-commerce companies by enabling them to sell their products beyond Ethiopia and into various African markets. The establishment of this hub will provide crucial infrastructure and logistical support, facilitating smoother transactions and broader market access for Ethiopian e-commerce businesses as they expand across the continent.



DRAFT E-COMMERCE STRATEGY

The Ethiopian government is in the process of developing an e-commerce strategy to guide the sector towards sustainable growth in the long term. E-commerce has been identified as one of the nodes required for the digital economy. However, due to the lack of a strategy document, the challenges have not been addressed, and there is no clear path for achieving strategic integration across the different aspects of the e-commerce sector. As a result, the sector is still in its nascent stage and has not yet reached its full potential.

Creating a strategy document is essential for developing an action plan to implement the strategy. As a result, it is necessary to establish monitoring and evaluation frameworks to assess the progress of the action plan designed to achieve the strategy. The strategy must be developed in a way that is inclusive of all participants in the e-commerce ecosystem. It also enables the Ethiopian E-Commerce Ecosystem to define the meaning of E-Commerce based on the local context and determine what constitutes E-Commerce in the Ethiopian market.

COMPANY HIGHLIGHTS

Although many e-commerce platforms in Ethiopia are still in the early stages of their business development, there has been a noticeable increase in both the number of e-commerce platforms and the diversity of product offerings. In response, a thorough mapping of various e-commerce platforms across Ethiopia has been conducted. Based on this mapping, detailed company profiles have been created for some of the key players currently active in the online e-commerce market.



DISCLAIMER

While the report deliberately focused on product firms, it is essential to acknowledge that the information presented in the next section offers only a limited glimpse into the broader landscape. To gain a comprehensive understanding, it is crucial to explore additional factors and perspectives beyond the scope of this report.

Jiji ETHIOPIA



Year – 2020

Downloads – **More than One Million**

Type of Products – **Vehicles, Property, Electronics, Furniture, Health & Beauty, Fashion, Sports, Kids, Food Products, Commercial Equipment's**

Jiji Ethiopia is the subsidiary of Jiji, which is an African online marketplace platform established in 2014 in Lagos and operational across different African countries, with Jiji entering Ethiopia at the end of 2020. Jiji currently sells around 16 different categories of goods and services, with the platform's overall listing of product ads being around 200,000 as of February 2024. Jiji Ethiopia also has one of the largest downloads from the Google Play Store, which is around one million downloads and garners one of the largest monthly traffics in Ethiopia.

AFROTIE



Year – 2018

Downloads – **More than One Hundred Thousand**

Type of Products – **Vehicles, Property, Electronics, Diversified Services**

Afrotie is an Ethiopian marketplace established in 2018 by Tie Technologies. Afrotie currently allows users to either buy or sell different products and services across 14 cities in Ethiopia. The platform has a location filter option, which allows different buyers and sellers in their cities to connect with each other.

MEKINA NET



Year – **2012**

Downloads – **More than Fifty Thousand Downloads**

Type of Products – **Vehicles, Property, Electronics, Diversified Services**

Mekina Net is an online marketplace that primarily operates in the automobile industry. The platform is accessible through mobile applications and websites. Users can buy cars from private sellers, brokers, or various car dealerships in Ethiopia. Additionally, the website allows users to connect with different car suppliers worldwide to import their products. Mekina Net is also expanding its portfolio to include spare parts. It also provides different options for the types of cars sold on the website and identifies the top dealerships and car models sold in the Ethiopian market.

BEU DELIVERY



Year – **2021**

Downloads – **More than One Hundred Thousand**

Type of Products – **Food, Drinks and related**

Beu Delivery is a platform initially focused on providing door-to-door delivery services for food from various restaurants. Recently, Beu has broadened its scope by venturing into the e-commerce sector. This expansion allows supermarkets and specialized product sellers, such as cosmetics vendors, to sell their products directly to end-users. Beu calculates its delivery fees based on the distance between the buyer and the seller, aligning its pricing model with the logistics involved in each transaction.

CHIPCHIP SOCIAL ENGOTCHA



Year – **2023**

Downloads – **More than Five Thousand**

Type of Products – **Agricultural Products**

ChipChip Social is an e-commerce platform that is mainly engaged in allowing users in Ethiopia to have affordable group purchases in the Ethiopian agricultural market. The platform connects customers directly to farmers, bypassing traditional supply chains and allowing for group purchases of different agricultural products. The platform offers dual pricing, in which individuals can also purchase alone at the market price and get discounts while purchasing in groups. The platform also offers different delivery options, which include last-mile delivery and convenient drop-off locations based on the group or collected from the group leader.



Year – **2021**

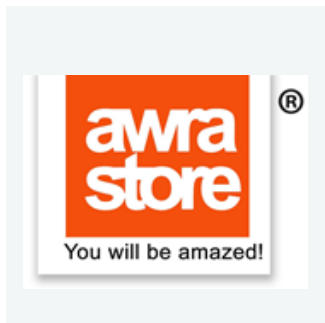
Downloads – **More than One Hundred Thousand Downloads**

Type of Products – **Electronics, Vehicles, Fashion, Real Estate, Furniture, Agricultural Products, Construction Materials, Leisure Products**

Engotcha is an Ethiopian online marketplace that offers a variety of products and services. It allows buyers and sellers to list their products and services with no charges. Additionally, Engotcha provides two paid services for sellers. The first is a business account, which enables users to post unlimited products daily. The second is Diamond Boost, an advertising service that provides up to ten times more views on a product than other posts. Customers who subscribe to Diamond Boost can advertise their products on various Engotcha social media channels.

Engotcha, apart from its marketplace, offers a range of services on its platform. These include a business directory, in collaboration with AddisBiz, a job platform for individuals and companies to post their jobs online, and an exchange rate converter that provides users with daily updates on exchange rates between Ethiopian Birr and various currencies.

AWRA STORE



Year – **2023**

Downloads – **More than Five Thousand**

Type of Products –
Electronics and gadgets

Awra store was established as a result of the difficulty in locating high-quality electronic devices. After recognizing the issue, we decided to take action and have since worked with 5 vendors to offer high-quality products at reasonable prices.

KAMRACH



Year – **2021**

Downloads – **More than One Hundred Thousand Downloads**

Type of Products – **FMCG**

Kamrach.com is a B2B/B2C marketplace e-commerce platform for multi- sellers in Ethiopia. We providing the best shopping experience to people and businesses across the country with low price. Most of our marketplace product price direct from manufacturer's Agent OR sole distributors and Farmers.

AMRACH



Year – **2023**

Downloads – **More than Five Thousand**

Type of Products – **Textile, apparel and accessories**

amrach.net is an online market linkage tool that will create convenience for manufacturers to buy, sell, promote, and interact locally and the rest of the world.

ARADA MART



Year – **2021**

Downloads – **More than One Hundred Thousand Downloads**

Type of Products – **Groceries and Fresh produce**

Aradamart.net is a membership-based retail and e-commerce platform offering a wide range of high-quality products at competitive prices. Catering to both individual consumers and business clients, Aradamart.net provides a unique shopping experience similar to that of leading warehouse clubs like Costco. Members enjoy exclusive access to bulk purchasing, significant savings, and tailored services. For individual members, Aradamart.net offers a convenient shopping experience through its physical stores, user-friendly online platform, and mobile app. Customers benefit from a diverse selection of products, from household essentials to electronics, all available at discounted rates. On the B2B side, Aradamart.net serves restaurants, hotels, schools with feeding programs, and cafes, providing them with bulk quantities of high-demand items.

ZMALL



Year – **2023**

Downloads – **More than Five Thousand**

Type of Products – **Groceries, Fresh produce and related**

Zmall Delivery offers a convenient supermarket delivery service, bringing groceries right to customers doorstep. It allows shopping from a wide selection of fresh produce, pantry staples, and household essentials, and have them delivered at a time that suits customers. It lets customers enjoy the convenience of hassle-free grocery shopping from the comfort of their home with Zmall Delivery.

HELLO MARKET



Year – **2021**

Downloads – **More than One Hundred Thousand Downloads**

Type of Products – **leather products, coffee, apparel and related**

Is an online shopping platform with a selection of leather products, coffee, apparel and accessories, shoes, jewelry, tools and hardware, housewares, furniture, sporting goods, beauty and personal care and more.

CHALLENGES AND OUTLOOK OF THE MARKET

To fully understand the obstacles facing e-commerce in Ethiopia, each challenge experienced by stakeholders involved in the e-commerce framework was analysed. The investigation focused on key nodes, which are important elements in the e-commerce system, to gain a nuanced understanding of the complex challenges encountered by those participating in the Ethiopian e-commerce landscape. By taking a systematic approach, intricate issues that contribute to shaping the overall dynamics of the e-commerce sector in the country are identified and evaluated.



SUPPLY SIDE CHALLENGES

Based on comprehensive surveys and literature reviews conducted, several challenges have been identified that are currently impacting the e-commerce market in Ethiopia from the perspective of e-merchants. These challenges include:



FINANCE

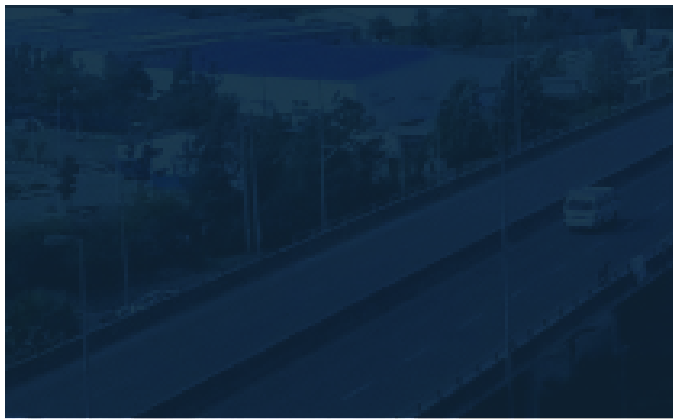
The identified challenges faced by e-merchants in Ethiopia highlight finance as a significant barrier affecting their business operations. Survey findings indicate a widespread lack of access to debt and equity financing among e-commerce platforms, severely restricting their ability to invest in non-current assets and other critical enablers necessary for platform growth. This financial constraint impacts key operational areas, including inventory management and the execution of vital marketing campaigns designed to attract users. This issue is particularly critical given that the majority of e-commerce platforms are currently in their discovery and validation stages, where sufficient funding is crucial for testing and refining their business models.

Furthermore, e-merchants in Ethiopia face a critical hurdle as they lack access to short-term working capital through formal financial channels. Given the inherently cash-intensive nature of e-commerce, the challenges related to cash flow significantly impede the seamless procurement of goods intended for sale on e-commerce platforms.

Compounding the financial challenges faced by e-merchants in Ethiopia is the lack of partnerships with commercial banks or microfinance institutions (MFIs) regarding the receivable sales of their products. This deficiency significantly hinders their product sales in the market, as potential consumers who could otherwise afford to make purchases through installment plans are deterred from buying products featured on these platforms. The absence of such financial arrangements restricts consumer access to more flexible payment options, thereby limiting market expansion for e-merchants and reducing overall sales potential.

MACRO ECONOMIC CHALLENGES

Ethiopia is currently experiencing a high level of inflation, which reached 28.3% as of December 2023. This inflation is creating significant challenges for e-merchants, as most of the products sold through e-commerce platforms are discretionary, and their prices have increased due to inflation. This makes it difficult for e-commerce platforms to source and hold the products, as consumers' purchasing power has been impacted, resulting in a shift in consumer behavior towards purchasing staple commodities. As a result, e-commerce platforms are facing reduced sales and the tie-up of working capital in inventory rather than cash.



MARKETING AND USER ATTRACTION

E-commerce platforms, particularly those in the growth and validation stages, have identified a significant challenge: attracting essential users to their platforms. This issue is especially pronounced for organic e-commerce sites that have focused exclusively on their core offerings without diversifying their service portfolios. A key factor contributing to the difficulty in attracting many users is the limited capacity within their marketing departments. These platforms often lack the necessary marketing skills and resources to effectively promote their services and engage potential customers, hindering their ability to expand their user base and scale their operations.

Many e-commerce platforms, especially those experiencing low transaction volumes and revenue, find themselves trapped in a cycle where they lack the necessary surplus capital required to develop and implement effective marketing and user attraction strategies. Faced with financial constraints, a significant number of these platforms either engage in other fields of work, such as web development, or rely on the site owners themselves to handle marketing efforts. Unfortunately, the latter approach often proves ineffective due to a lack of understanding about market dynamics, hindering the platforms from reaching their full potential in terms of user engagement and growth.

PAYMENT

In Ethiopia, e-merchants face significant challenges with digital payments that hinder their ability to effectively sell products online. Issues such as delayed payment settlements and the circulation of fake receipts undermine the reliability of transactions. Debit transfer, one of the most popular digital payment channels in the country, is particularly affected by these problems, with frequent occurrences of fraudulent receipts and buyers disappearing after initial installment payments. Moreover, e-commerce platforms that offer their products digitally encounter transaction failures after integrating various digital payment options. These disruptions not only hinder sales but also negatively impact the customer experience, potentially deterring future online purchases and limiting the growth of the e-commerce sector in Ethiopia



BUSINESS MODEL CLARITY

A significant challenge facing e-commerce marketplace platforms in Ethiopia is the lack of clarity regarding their business models and revenue generation strategies. Many platforms struggle to clearly define and articulate their business models, which impedes their ability to establish sustainable revenue streams from their e-commerce marketplace sites. This ambiguity hinders strategic planning and effective market positioning, ultimately affecting the platforms' long-term viability and success in a competitive digital marketplace. The absence of a well-defined business model often stems from a lack of strategic vision, hindering e-commerce platforms from articulating a coherent and comprehensive strategy for value creation. This strategic gap impacts their ability to navigate the complex dynamics of the marketplace and leverage opportunities for revenue generation. Without a robust framework in place, these platforms may struggle to identify and capitalize on potential revenue streams, leading to uncertainty about their financial sustainability.

CAPACITY DEVELOPMENT ISSUES

In Ethiopia's e-commerce landscape, a significant and pervasive challenge for e-merchants revolves around a pronounced capacity gap in key areas such as finance, marketing, and business development. This shortfall hinders the overall operational efficiency and growth potential of e-merchants across the country.

In the finance domain, e-merchants encounter several capacity challenges, particularly in capital budgeting, where they face difficulties in effectively allocating financial resources across various business needs. Additionally, capital sourcing presents a formidable challenge; e-merchants frequently struggle to secure necessary funding from formal financial channels, which hampers their ability to invest, expand, and enhance their operations. Furthermore, managing short-term working capital is another critical issue, impacting the day-to-day financial liquidity essential for smooth business operations.

The challenges extend into the realms of marketing and business development, where e-merchants encounter difficulties in defining a proper business model. This lack of clarity around the business model hinders their ability to articulate a clear value proposition, target their audience effectively, and establish sustainable revenue streams. Moreover, there is a notable deficiency in capacity related to business development, limiting the ability of e-merchants to identify growth opportunities, forge strategic partnerships, and navigate the complexities of scaling their operations.



DEMAND SIDE CHALLENGES

Several user-related challenges impact the adoption of online purchasing habits. These challenges include:



LACK OF TRUST

During discussions with various users, it was revealed that a lack of trust is a major deterrent to purchasing products online in Ethiopia. Many customers have concerns about product quality, preferring to physically inspect items before committing to a purchase. This concern spans both perishable and non-perishable goods, impacting overall demand for products sold online.

Additionally, there have been reports of customers making installment payments for products advertised on social media channels, only to not receive the products after making initial payments. Such experiences have significantly eroded trust in online shopping.

Data privacy and security also pose significant trust issues. Many consumers feel that there is not an adequate framework in place to protect their personal information on e-commerce platforms. This lack of security measures makes users wary of engaging with online services, further contributing to the overall mistrust in the e-commerce market. Addressing these trust issues is crucial for the growth and sustainability of the online shopping sector in Ethiopia.

LACK OF UNDERSTANDING OF E-COMMERCE PROCESS

E-commerce platforms in Ethiopia face significant challenges related to user comprehension and adaptation to the e-commerce environment. Key issues include: The functionality and user-friendliness of many e-commerce platforms are not adequately tailored to local needs, which can alienate users unfamiliar with such systems. There is a general lack of awareness among consumers about the logistics of e-commerce, including delivery times, shipping costs, and return policies. This lack of understanding can lead to unrealistic expectations and dissatisfaction with the online shopping experience. Limited digital literacy, particularly prevalent among various segments of the Ethiopian population distinguished by differences in knowledge and income levels, severely impacts users' ability to effectively navigate e-commerce platforms. This includes difficulties in making online transactions and understanding the security measures in place to protect their personal and financial information.

CULTURAL ISSUES

Most internet users in Ethiopia engage with the online world primarily for entertainment and to follow political updates, indicating that internet usage is largely oriented towards information consumption rather than for conducting transactions of goods and services. This trend suggests that the majority of the population has not yet fully embraced the internet as a tool for e-commerce, which may limit the potential growth of the online marketplace. For e-commerce platforms to expand their reach and influence, there may need to be targeted efforts to educate and incentivize users to consider the internet as a viable medium for purchasing goods and services.

CHALLENGES FROM THE TRANSACTION ENABLERS

Transactional enablers are critical components of the e-commerce ecosystem, comprising payment systems, delivery services, and digital infrastructure providers. These elements collectively facilitate the efficient execution of online transactions, supporting the seamless exchange of goods and services between buyers and sellers.

LACK OF E-RECEIPT

Despite plans by the Ethiopian government to introduce e-receipts in 2024 the current absence of electronic receipting systems in Ethiopia poses significant challenges for payment processors. The lack of e-receipts hampers the ability of these processors to effectively manage transactions, particularly because most online transactions in Ethiopia are conducted through informal channels. Without an official system to document and verify these transactions, payment processors struggle to facilitate and authenticate payments efficiently.

FOREIGN EXCHANGE ISSUES

The scarcity of foreign exchange in the Ethiopian economy presents a significant challenge for the e-commerce industry, particularly in terms of accessing necessary cloud infrastructure. E-commerce platforms that aim to utilize major cloud service providers such as Amazon Web Services (AWS) or Microsoft Azure often find themselves unable to make direct payments due to foreign exchange restrictions. This limitation forces many businesses to turn to local vendors for their cloud service needs.

Unfortunately, the prices charged by local vendors are typically higher compared to the rates offered by international providers. This price disparity can significantly increase operational costs for e-commerce platforms, impacting their overall competitiveness and profitability. The foreign exchange issue thus not only restricts the direct procurement of global cloud services but also inflates costs for e-commerce businesses, hindering their ability to scale effectively and efficiently within and beyond the Ethiopian market.

PAYMENT REFUND POLICY

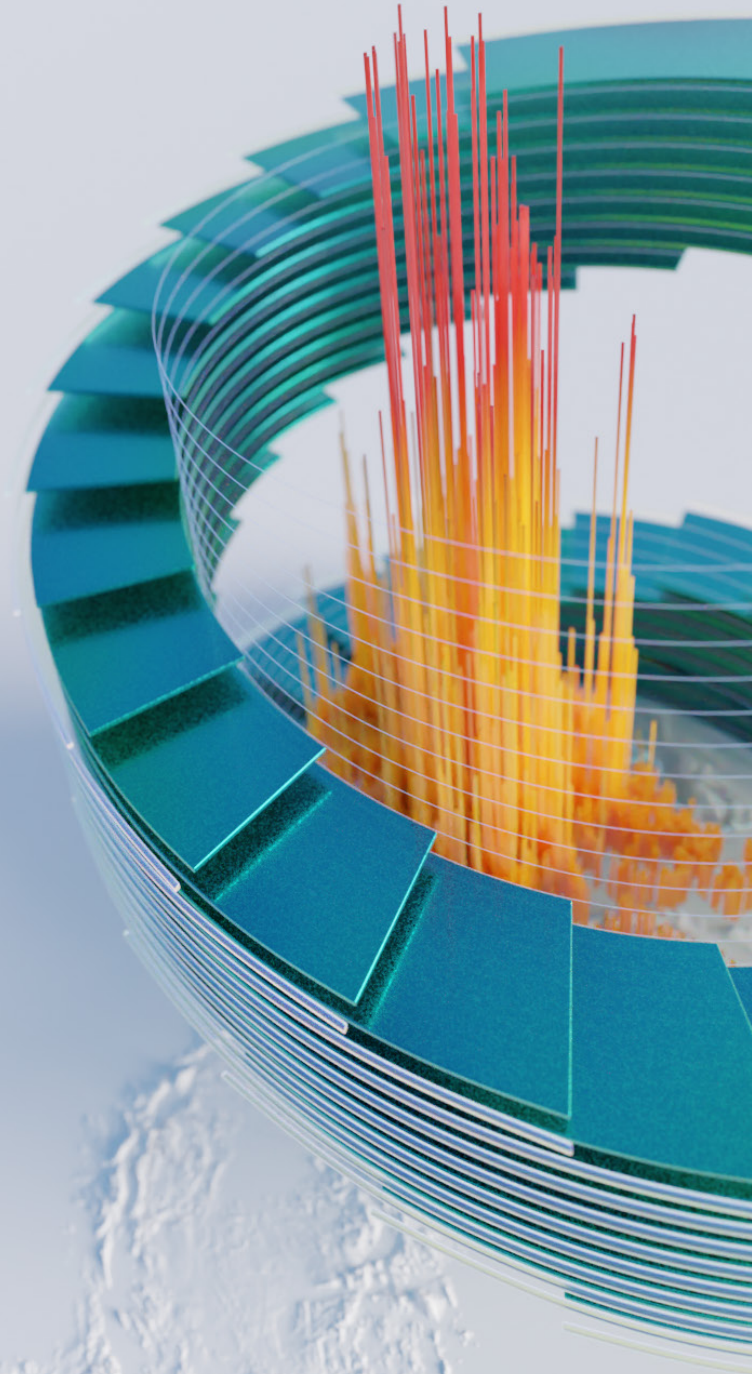
There is a notable gap in refund policies regarding product purchases, which complicates situations where users find products unsuitable for their needs. This issue significantly impacts payment gateways that typically place funds in escrow accounts, which are only released upon successful delivery of products. Currently, there is an absence of standardized operating procedures among e-merchants, purchasers, and payment processing platforms for managing refunds.

SMARTPHONES

Smartphones, crucial for digital access in Ethiopia, remain largely inaccessible to the majority of the population, primarily due to affordability issues. The few smartphones that are affordable for many Ethiopians often come with limited internal memory and processing power, which restricts their functionality and the range of applications they can effectively run. This hardware limitation is compounded by a cultural trend where the internet is predominantly used for informational purposes rather than for transactions, resulting in low adoption rates of e-commerce applications among users. Additionally, the emergence of 5G technology introduces further challenges. The cost of smartphones capable of supporting 5G networks is prohibitively high for most Ethiopian consumers, limiting their access to the latest internet connectivity advancements.

WHAT DOES IT TAKE TO MAKE ECOMMERCE SUCCESSFUL IN ETHIOPIA?

Although the e-commerce ecosystem in Ethiopia is still in its nascent stages, considerable progress has been made by various stakeholders to enhance the operating environment and facilitate the transition to online purchases for both discretionary and staple commodities. Recognizing the challenges that impede the growth of the sector, a strategic approach involving consultation with diverse stakeholders has enabled the identification and prioritization of key issues. Based on these consultations, strategic recommendations have been developed aimed at achieving short-term wins. These targeted actions are designed to propel the sector from its initial stages into more mature phases of activation and integration, thereby supporting the broader development and sustainability of e-commerce in Ethiopia.



RECOMMEN- DATION #1

BUSINESS DEVELOPMENT AND USER ACQUISITION EFFORTS FOR ETHIOPIAN E-COMMERCE

E-commerce platforms in Ethiopia currently face significant challenges due to a lack of strategic business development, adversely affecting their revenue generation and transaction volumes. To address these challenges, it is essential for these platforms to deepen their understanding of business development fundamentals. This includes clearly defining their business models and potential customer bases, establishing robust financial strategies that delineate sources and structures of capital, crafting targeted marketing strategies to effectively engage with the e-commerce ecosystem, and forging strategic partnerships with key stakeholders within Ethiopia. Moreover, there is a critical need to amplify user acquisition efforts. Given that trust is a pivotal factor influencing consumer engagement with e-commerce in Ethiopia, marketing initiatives should be strategically designed to build and reinforce trust in the platforms.

RECOMMEN- DATION #2

IMPLEMENT THE DRAFT NATIONAL E-COMMERCE STRATEGY

The Digital Ethiopia 2025 plan has identified e-commerce as one of the five crucial areas for driving Ethiopia's digital transformation. As part of this plan, the Ministry of Trade and Regional Integration is currently working on a national e-commerce strategy. The strategy aims to enhance Ethiopia's e-commerce capabilities and promote the development of an inclusive and sustainable e-commerce market in the country.

The draft e-commerce strategy is centered around four key goals. The strategy also advocates for a regulatory sandbox approach, which simplifies the business process for e-commerce platforms. Additionally, it includes a rural e-commerce initiative that aims to provide rural farmers with market access and build their capabilities through e-commerce. Implementing the draft e-commerce strategy will help define the framework for e-commerce growth and pave the way for the necessary actions and initiatives to achieve the sector's goals.

RECOMMEN- DATION #3

MAKE SURE FINTECH SOLUTION PROVIDERS HAVE API ON TELEGRAM FOR E-MERCHANTS TO RECEIVE PAYMENTS.

Given that Telegram serves as the predominant e-commerce platform in Ethiopia, with many Ethiopians using it as a primary channel for e-commerce activities, it is recommended that payment instrument issuers and operators leverage the capabilities of Telegram Mini Apps through JavaScript integration. This approach facilitates the creation of highly adaptable interfaces that can incorporate various payment options seamlessly.

Such integration enhances the user experience by providing a familiar and convenient platform for users to authorize transactions and make payments effortlessly. By equipping Telegram e-merchants with unique merchant IDs and the tools needed to integrate payment options directly into their channels, the e-commerce ecosystem in Ethiopia can significantly expand its reach and accessibility, attracting a broader demographic.

This integration not only offers convenience but also has the potential to transform the e-commerce landscape in Ethiopia significantly. With Telegram widely recognized as the preferred instant messaging platform, it is ideally positioned as a gateway for broadening e-commerce inclusion, reaching users across both urban and remote areas. Furthermore, the integration of payment solutions like Telebirr with other payment instruments enhances the security and trustworthiness of digital transactions, thereby boosting user confidence and encouraging wider adoption of digital payments for e-commerce transactions.

RECOMMEN- DATION #4

FASTEN THE VIRTUAL ADDRESS SYSTEM AND EQUIP DELIVERY SERVICE PROVIDERS WITH THE NECESSARY SKILLS.

Efforts to implement a Virtual Address System (VAS) have been initiated by the Ethiopian Space Science and Geospatial Institute (SSGI), with the digital map for Bishoftu launched in 2023 and the development of a digital map for Addis Ababa underway. It is imperative that the SSGI accelerate the development of the VAS and make its API publicly available. This will enable e-commerce platforms to seamlessly integrate the digital maps into their services, enhancing the efficiency of their delivery operations.

Furthermore, it is crucial to equip delivery service providers with the necessary skills to accurately interpret and utilize these digital maps. Training delivery personnel in geographic information systems (GIS) and navigation techniques will empower them to efficiently reach specified locations, thereby improving the reliability and speed of product deliveries.

RECOMMEN- DATION #5

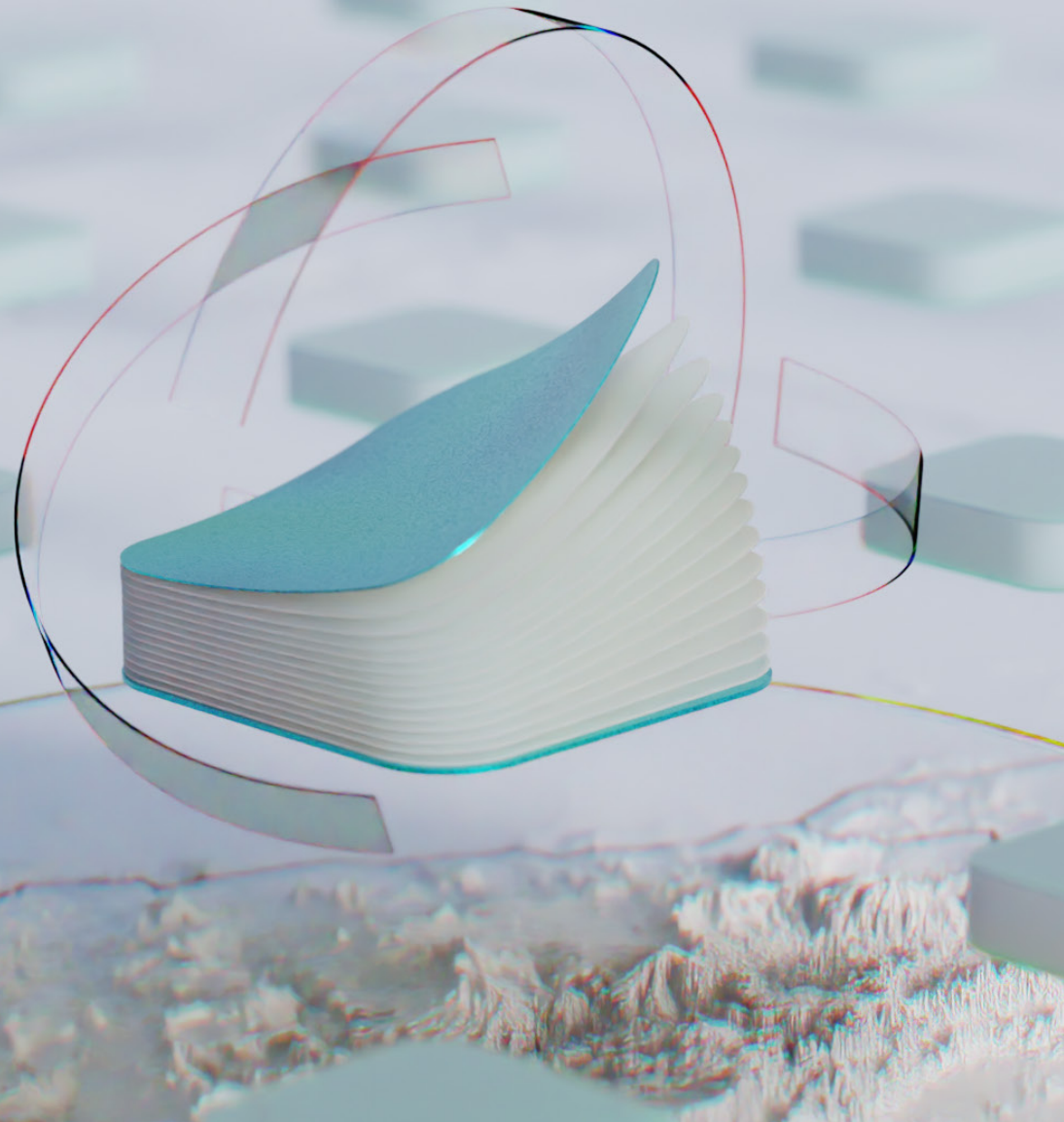
PROVIDE FINANCE FOR E-COMMERCE PLATFORMS THROUGH FORMAL FINANCING CHANNELS

Access to finance plays a critical role in the development of e-commerce platforms, particularly during their early stages. Adequate financing enables these businesses to meet both their working capital and operational needs. Moreover, one of the primary reasons e-commerce firms seek funding is to fuel their marketing campaigns, which are essential for user acquisition and overall growth.

Given the importance of financial support, it is recommended that private debt and equity providers recognize e-commerce as a young and burgeoning sector. By offering tailored financial solutions, these financial institutions can significantly contribute to the sector's success. Providing dedicated financial support will help e-commerce platforms scale their operations, enhance their service offerings, and achieve sustainable growth in the competitive digital marketplace.



ABOUT THIS REPORT



OUR APPROACH AND FRAMEWORK

APPROACH

To enhance understanding of the Ethiopian e-commerce ecosystem, an extensive literature review on e-commerce ecosystems was conducted, incorporating insights from research both locally and internationally. Subsequently, a conceptual framework was adopted to evaluate the current state of e-commerce in Ethiopia and provide strategic recommendations aimed at enhancing the ecosystem and promoting its advancement.

Following the literature review, which included local, continental, and global sources, the key players in the Ethiopian e-commerce landscape were mapped. Approximately 80 e-commerce companies operating within the country were identified, along with traditional businesses that utilize e-commerce platforms for sales and various ecosystem facilitators, including payment enablers and internet service providers. Additionally, several private and public sector enablers who support both buyers and sellers in the e-commerce industry were pinpointed. This mapping is instrumental in providing a comprehensive overview of the ecosystem and identifying targeted interventions to foster growth.



After completing the market mapping, a questionnaire was designed based on the research objectives and framework to assess the e-merchants. This questionnaire targeted e-commerce platforms to gain insights from the seller's perspective. For the buyer's perspective, focus group discussions were conducted across various age groups, socio-economic backgrounds, and genders. These discussions aimed to understand buyers' tendencies toward using e-commerce for purchasing both staples and discretionary goods, identify challenges encountered when using e-commerce in Ethiopia, and gather recommendations for enhancing e-commerce utilization and usage.

Following data collection via questionnaires, both univariate and bivariate analysis techniques were employed to analyze the survey data. This analysis helped identify current trends in the Ethiopian e-commerce ecosystem and pinpoint factors strongly influencing buyer behavior. Additionally, key informant interviews were conducted with players in the e-commerce ecosystem, focusing on enablers and other significant participants. These interviews were carried out concurrently with the data analysis to ensure comprehensive coverage of the ecosystem and address any gaps in understanding.

Data was analysed, and key informant interviews were conducted to gather comprehensive insights. These findings were then integrated with the results of the literature review to assess the current stage of e-commerce in Ethiopia and identify challenges within the e-commerce ecosystem. This holistic approach allowed for a detailed understanding of the prevailing conditions and obstacles that influence the sector's development.

CONCEPTUAL FRAMEWORK

To evaluate and define the e-commerce ecosystem in Ethiopia, the framework developed by Ducass (2015) was utilized. According to this framework, e-merchants are categorized as e-commerce platforms that either operate as internet marketplaces or serve as online product sellers, including traditional businesses and Telegram channel sellers within Ethiopia. For these e-commerce platforms to operate efficiently, several critical components are necessary: internet service providers that facilitate virtual connectivity between buyers and sellers, logistics and distributors responsible for transporting goods, and financial intermediaries that manage digital financial transactions.

To foster the growth of e-commerce in Ethiopia, various key stakeholders are working to create a supportive and efficient environment. These include public authorities tasked with ensuring a conducive regulatory environment, financial sector entities providing essential working and growth capital, and the skills industry, which is pivotal in equipping merchants and consumers with necessary digital literacy and capabilities. This approach builds trust and enhances the functionality of e-commerce platforms. The study has been specifically adapted to reflect the unique context of Ethiopia, guided by the outlined framework.

SAMPLING STRATEGY

To examine the two types of e-merchants, a mixed sampling approach was utilized. For e-commerce platforms, purposive sampling was employed to identify active platforms operating within Ethiopia. These platforms were asked to complete a survey distributed via Microsoft Forms, with some companies also providing responses in person. For traditional businesses, a simple random sampling method was used, selecting 25 different enterprises for participation. The data gathered from these businesses was analyzed, though the findings were mostly inconclusive.

The research process began with the identification of key players operating within the transaction and business environment-enabling sectors. Subsequently, 15 stakeholders were prioritized based on the richness of information they could potentially provide. In-depth key informant interviews were conducted with each of these stakeholders to gain insights into the challenges and opportunities within the e-commerce sector. This enabled a comprehensive understanding of how these stakeholders could collaborate with e-merchants to facilitate sector growth.



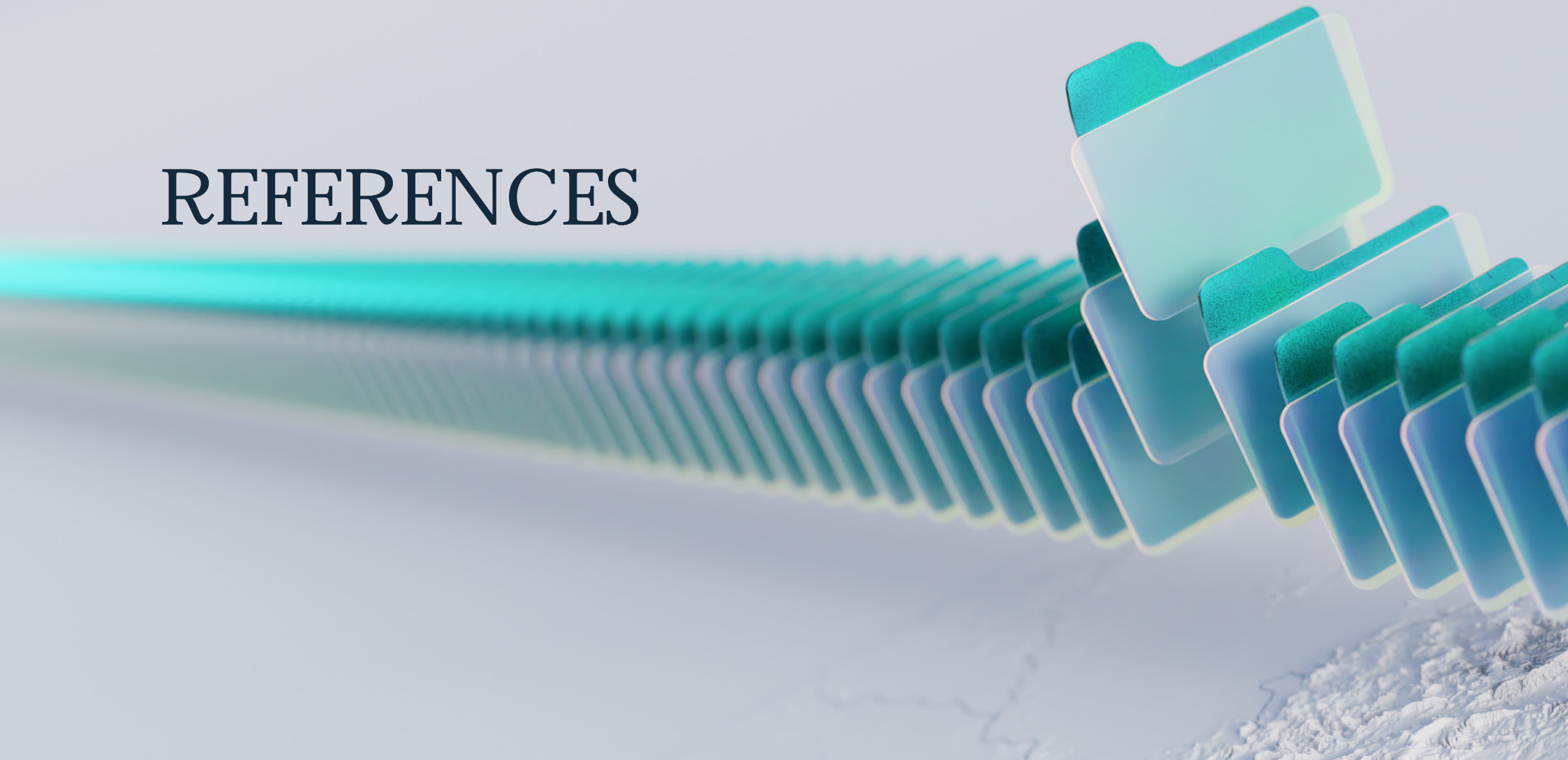
SCOPE AND LIMITATIONS

One limitation of this research concerns the definition of E-commerce. The study focused mainly on the product segment of E-commerce and did not include service E-commerce platforms. This decision was made due to time constraints and based on the IFC (2021) framework, which recommends defining product and service E-commerce separately for better sector diagnosis and implementable recommendations. As a result, the study excluded the service segment of E-commerce, and most of the report focused on product E-commerce.

One significant limitation encountered was the inability to conduct a user-focused survey, which would have provided detailed insights into the specific challenges faced by users in utilizing e-commerce in Ethiopia. To address this gap, focus group discussions were held among diverse population groups selected through random sampling. These discussions facilitated an understanding of some of the issues faced by users in the e-commerce context. However, it is acknowledged that this approach might not have captured all the challenges from the demand side of the e-commerce ecosystem, potentially omitting certain user-specific difficulties.

The third limitation of this research is that most of the product e-commerce platforms and activities are based in Addis Ababa. Additionally, most of the platforms and businesses surveyed are in Addis Ababa. As a result, this might limit the scope of the research, as the challenges and recommendations from the side of e-merchants are primarily based on observations from urban centres in Ethiopia.

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