Assessment of Investment Potential of the Afar Regional State, Ethiopia

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Abstract: *The investment potential of Ethiopia's Afar regional state, a historically neglected lowland region with vast untapped resources, is assessed in this study. To assess investment potential in the region, the study employed a Qualitative research approach and necessary data collected through field observation, focus group discussions, and interviews. Purposive sampling was applied to choose district and community leaders from 49 Woredas who could offer perspective into investment potential, local economic prospects, and conditions of the region. The study findings show that Zones 1 and 3 have promising chances for commercial farming, whereas Zones 1,3,4, and 5 show substantial potential for livestock. Despite having abundant salt and mineral deposits, including gold and potash, Zone 2, especially Baracle, Afdera, and Dallol.This sector is still underdeveloped because of logistical and environmental limitations. Furthermore, the area's vast solar and geothermal energy potential is still mostly unexploited. Recommendations include modernizing agricultural and livestock practices, enhancing infrastructure, promoting sustainable mining, and developing ecotourism. Aligning investments with community priorities and improving governance mechanisms are crucial for fostering sustainable economic growth in Afar.*

Keywords: Investment potential, Afar Regional state, pastoralist, lowland region, marginalized,

INTRODUCTION

Investment is a Key factor for fostering economic development and ensuring long-term prosperity for any nation(Gelan, 2022). An emerging economic country like Ethiopia should leverage its untapped resources from each corner of the nation.

Ethiopia's highland and lowland regions have always had completely distinct economic development, especially regarding investment patterns and economic contributions (Bekele et al., 2021). The highlands, which include sections of the Southern Nations, Amhara, Oromia, and Tigray, are Ethiopia's main GDP contributor. These regions attract substantial FDI and private investments because of their conducive climate, rich agricultural land, and existing infrastructure. Therefore, through commercial farming, Agro-processing, industry, and a flourishing service sector, they make a significant contribution to the national GDP. Additionally, historically, the highlands have benefited from more policy attention, which has allowed them to establish robust labor markets, transportation networks, and banking institutions.

In contrast, Ethiopia's lowland areas, such as Afar, Somalia, Gambella, and Benishangul-Gumuz, have historically been marginalized from the country's mainstream economic and political involvement. Due to structural limitations (Robi et al., 2025), including harsh weather conditions, water shortages, inadequate infrastructure, and Lack of access to financial services, these areas continue to be underdeveloped despite their abundant land resources and strategic location.

The demographic analysis shows that the Afar region has the most unique population structure among all regional states and faces rapid natural population growth (Menelek Asfaw, 2022). Furthermore, afar has struggled for a long time due to geographical factors like weather conditions, stereotypes of highlanders, and lack of federal government attention(Lavers et al., 2020).

Recognizing the Afar region's economic potential requires assessing its investment opportunities. The Afar community has historically been excluded from political and economic involvement (Lavers et al., 2020). A famous saying ascribed to an Ethiopian emperor compares the Afar people to a "sleeping lion" that should not be awakened, suggesting their alleged passiveness and the intentional measures taken to hinder their political and economic empowerment. The Afar community has consequently been divided along three international borders, making attempts to bring them together and utilize their economic potential even more difficult (Feyissa, 2011).

A major problem for the Afar region and other lowland regions is the increasing susceptibility of traditional pastoralist lifestyles. Due to the increased competition for

natural resources, decreased pasture access, and frequent droughts brought on by climate change, many pastoralists have moved to cities and switched to small-scale farming. In these lowland areas, the Ethiopian government has started large-scale infrastructure and agricultural projects, but issues like unclear land ownership laws, poor community engagement, and a lack of incentives for consistent investment make it doubtful whether these projects will be viable in the long run.(Robi et al., 2025)

This research aims to assess the investment potential of the Afar regional state, though there is a variety of potential sources of economic growth that stem from the demographic structure of the Afar region. To date, no research has been done regarding the investment potential of the region. It could inform policy choices that potentially determine the main sources of economic growth. The main objectives of this research is : to study the main potential area of investment and its resources, which can shape its private investment growth.

Literature Review

Demographic dynamics and investment

Demographically speaking, the Afar Regional State is one of the unique areas in Ethiopia. Most people in the region belong to the pastoralist Afar ethnic group, who roam the land in search of water and grazing area for animals (Goshu et al., 2021). Due to the harsh environmental conditions of the region, population density is low compared to other regions with a more dispersed settlement pattern (Ezekiel & Prince Oshoke, 2020) The population density, one of the lowest in Ethiopia, is due to the incapacity of the land to carry humans, resulting from the arid and semi-arid climate (Oakley et al., 2024)

In terms of demographic characteristics, the Afar region has a youthful population, with a large proportion of the population under the age of 35 (Caravaggio et al., 2021)

The issue of which factors influence the location of foreign direct investment (FDI) and local large-scale investment is important, given that the benefits of such investments go beyond their owners and shareholders. The benefits can help to sustain rapid growth and poverty reduction. Governments that host the investment also benefit through tax revenues and employment generation. However, the immediate costs and risks that large investors incur within the host country include the risk of doing business, the cost of capital, the workforce's productivity, the availability of basic infrastructure and services, and the presence of other similar industries (Genet, 2020). Studies differ on whether economic or global factors matter more than local factors in shaping investment location decisions. Some geographical units may attract all types of investment, others only local investment, and others only foreign or capital-intensive investment. High birth rates and fertility in the Afar region mean three things in their effect on population density. First, the effect of high fertility on local population congestion could explain the low levels of local urban investment. Second, the arrival of such an economically young cohort in the labor market may pressure local education quality. Schooling may be overcrowded, which may lead to low levels of attainment. Third, high birth rates may be needed to attract investment in the area currently hosting because employers need significant wage and employment resources to sustain investing firms. In this regard, the Afar is similar to several decades ago when both birth rates and household sizes were high in the then small number of large investment zones worldwide.

The Afar region's socioeconomic condition

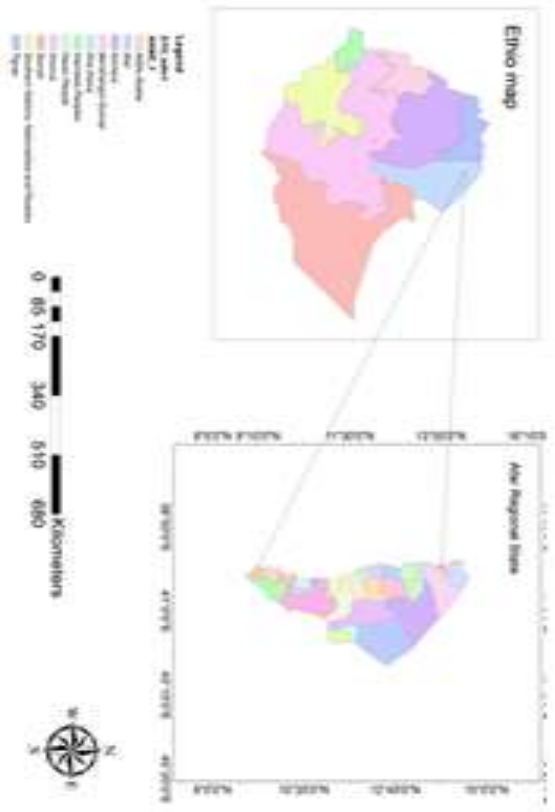
Compared to the highland parts of Ethiopia, the socioeconomic factors in the Afar region are quite different due to its harsh climate, historical marginalization, and lack of access to infrastructure. Pastoralism has been the dominant form of economic activity and source of economic value in Afar historically, via livestock (Teka et al., 2019). Yet this source of income is scarcely sustainable due to recurrent extended periods of lack of rain, desertification, and shrinking grazing land and has also contributed to increased levels of poverty and food insecurity in the region (Woldekiros, 2019)

Despite the region's rich natural resources, such as salt deposits, potash, and geothermal energy potential, there are low levels of investment in the industrial and extractive sectors (Asfaw et al., 2023). Limited road networks, poor financial services, and weak market linkages also hinder economic diversification and private-sector involvement.

Research Methodology

Description of the study area

The region of Afar is located in the north-eastern part of Ethiopia, enveloped by the states of Tigray, Amhara, Oromia, and Dire Dawa; it also shares an international boundary with Eritrea and Djibouti. The region has a maritime border with Djibouti and is at a strategic location in the Horn of Africa, between the Red Sea and the Gulf of Aden, and historically served as a critical trade route. The majority of people live a nomadic lifestyle following pastoralism. Sedentary farming, salt mining, and fishing are also practiced. There is a sizable trade in chat, gold, and livestock.



Research design

We employed a descriptive research design for this study to address the research objective. Based on the nature of the study, we used a qualitative research Approach. Qualitative approaches are essential for assessing the region's investment potential because they provide insight into the local context, culture, and community needs that quantitative data cannot capture.

Source of Data

The researchers used only primary data, which they collected through interviews, focus group discussions, and field observation.

Target population

District and community leaders (makaabon) are the study's target population. District-level leaders are chosen based on their awareness and expertise of the investment possibilities in their local areas. Similarly, in the region's long history of traditional self-administration, community leaders are also included. These leaders have a deeper awareness of their society and natural resources since they have long preserved them.

Sample and sampling technique

The woredas in the study area were chosen using a census sample technique. This sampling technique was used to guarantee a thorough representation of all 49 districts in the area. Following district identification, respondents were chosen from each district using a purposive sample technique. In particular, two Woreda leaders and two community leaders were specifically selected from each Woreda, for a total of four respondents per Woreda.

Table 1. Sample size and respondent characteristics

Variable	Description	value
Sampling framework		
Number of Woredas	Total administrative units sampled	49
Respondents per woredas	Number of individuals sampled per Unit	4
Total sample size	The overall number of individuals sampled	**196**
Community leaders/Makaabon	Representative for local communities	96
District Leaders	Representatives from the administrative Unites	96

Source: own computation of the researcher

Table.2 Demographic Characteristics of Respondents

Characteristic	Category	Frequency (n)	Percentage (%)
Gender	Male	176	89.8%
	Female	20	10.2%
Age	Above 28 years	196	100.0%
Educational Status	Degree and Above	39	20.0%
	Diploma	59	30.1%
	Primary School	39	19.9%
	Unable to Read and Write	59	30.1%
Marital Status	Married	147	75.0%
	Widowed	20	10.2%
	Divorced	29	14.8%

Source survey result,2025

The total number of respondents in the study was 196, including both district leaders and community leaders (i.e., Makaabon). The above table indicates that there was a strong male majority (89.8%), while only 10.2% were female. This indicates that a patriarchal society in which men hold primary power and predetermine roles in leadership.

Besides the gender of the respondents, the study also observed the educational background of the respondents. The study found that 20% of respondents had attained a degree or above, while 30.1% held a diploma qualification, 19.9% had only completed primary school education, and 30.1% were unable to read and write, indicating that the majority of the respondents had no higher education with limited or no formal education.

Regarding marital status, the majority of respondents were married (75%), while 10.2% were widowed, and 14.8% were divorced.

Results and Discussion

Economic Sectors with Investment Potential

Livestock and Arable Land

According to field observations and interviews, the Afar region's Zones 1, 3, 4, and 5 have the greatest potential for developing cattle and arable land. With sizable herds of cattle, sheep, and camels, the region has immense potential for livestock investment in all parts of the region. With sizable herds of cattle, sheep, and camels, district leaders from these zones highlighted the area's potential for extensive animal cultivation. The vast pastureland in the area, along with water availability from the Awash River and other subterranean water supplies, offers a special chance for the livestock industry to expand. Leaders indicated an interest in upgrading livestock production alongside pastoralism, particularly by introducing modern techniques for breeding and veterinary care.

Zone 3 exhibits significant potential for both animal husbandry and arable agriculture while being somewhat smaller than Zones 4 and 5. The region's rich soils, especially in Zone 3's southern regions, are ideal for crops, including legumes, sorghum, and maize. According to community leaders, improved irrigation systems and the introduction of crop diversity could improve many of the traditional farming practices used in the area, boosting the total yield of arable land. Leaders from these zones highlighted the area's potential for extensive animal cultivation. The vast pastureland in the area, along with water availability from the Awash River and other subterranean water supplies, offers a special chance for the livestock industry to expand. Leaders indicated an interest in upgrading livestock production alongside pastoralism, particularly by introducing modern techniques for breeding and veterinary care.

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Farming Opportunity

Warar and Awsa have a long history of cotton production and irrigation (Alemu et al., 2025). and it is a crucial economic activity in the region. By the focus group discussions, cotton has been grown in this area for several decades and helped along with a favorable climate that is suitable for these sectors. Like suitable and fertile soil, community leaders have indicated the adverse problems that cotton producers are facing. Such as poor infrastructure, poor the sector's profitability and growth potential.

Salt and Mineral Deposits in Afdera and Dallol

(Woldekiros, 2019) The Afar Regional State has a long history of producing salt, particularly in the northern districts of Afdera, Barahle, and Dallol. This sector is an administrative center for regional and federal spectators and has major economic and political significance in the region. Politicians at the federal and regional levels have shown a great deal of interest in it due to its high profitability and potential for substantial returns. Concerns regarding fair resource management and the necessity of sustainable procedures to guarantee long-term benefits for local populations have been brought up by the significant political focus on this industry.

Additionally, some of Ethiopia's richest deposits of minerals, including uranium, gold, and potash, are found in Dallol. The mineral-rich landscape of Dallol is an unexplored resource that presents opportunities for mining activities, according to focus group participants. However, the growth of the mining industry has been hampered by logistical and environmental issues. The development of infrastructure to enable the extraction of minerals and their transportation to markets, as well as environmentally appropriate mining methods, were suggested as areas for investment by community leaders.

Gold Production Opportunity

The areas of Konnaba and Baracle are known for producing gold. According to field observations, residents have been heavily involved in small-scale gold mining, with artisanal miners taking gold out of the area's hillsides. Although gold extraction has improved the local economy, district leaders in Konnaba and Baracle stressed that it is still primarily unregulated and informal. Large-scale, official gold mining operations have a lot of promise, but they would need infrastructure, mining technology, and environmental management investments. Leaders and community people expressed their opinion that more money invested in the gold industry may significantly improve the region's economic situation. So, this is the main opportunity for the FDI to be engaged in boosting their economy and region as well.

Alignment of Investment Opportunities with Community Interests and Priorities

According to district and community leaders interviewed, there is a significant demand for investments that meet the goals and interests of the community. According to the findings, the community must promptly benefit from investments in industries, including agriculture, livestock, renewable energy, and minerals, especially through the creation of jobs and a change in their quality of life.

Employment Creation

District leaders in the agriculture and livestock businesses emphasized the need for investments that provide jobs for youths, many of whom currently work in traditional jobs. According to focus group discussions, young people often have no access to skill development opportunities and are either unemployed or underemployed. Investments in agricultural and livestock modernization, including training initiatives and mechanization, would open up new job opportunities.

Community Development

Some leaders indicated the value of investing in community development areas in addition to economic activities. Projects to improve educational facilities, infrastructure, and healthcare were viewed as top aims. To support industrial growth and draw in FDI, community leaders emphasized the need to improve the region's infrastructure, especially the roads and power systems.

Sustainable Practices

According to field observations, we have seen that foreign firm workers who are working on road construction projects in the "kori" area were hunting wild goats for meat. In addition to this, Community Leaders and local authorities claim that these workers have been seen hunting wild goats since their arrival. Even while killing wild animals is strongly prohibited by local laws and customs, it is nonetheless illegal under international law. In response to this issue, the local community leader said, "We have made an effort to prevent them, but our efforts have been fruitless." He described his difficult situation and the vital importance of this road project for the region's and the community's livelihood. A district administrator stated, "We need this road more than anything else, and because of that, we kept silent about the illegal activities they are committing." This scenario shows the necessity of a well-rounded strategy to development that addresses community concerns, protects local ecosystems, and guarantees respect to legal structures.

Natural, Human, and Infrastructural Resources for Investment

Several resources essential to facilitating regional investment were identified through interviews and field observations.

Natural Resources

Numerous natural resources, such as salt deposits, numerous animals fertile arable land, and minerals like gold, uranium, potash, sulphur, iron. barium, mica, kaolin, and granite are found in the Afar region (Feyissa, 2011). Arable agriculture and livestock are supported by the irrigation provided by the Awash River, which flows through the area. Local authorities, however, addressed concerns regarding shortages of water in some places, especially during dry seasons. To make the most of these resources, efforts were made to build water management systems, such as irrigation projects and dams.

Infrastructure

Despite having abundant resources, the area lacks the infrastructure necessary to accommodate significant investment. The overall expense of delivering goods is raised by the condition of transportation networks, especially roadways that link marketplaces and remote regions. There is also a severe lack of clean water sources and dependable energy. According to leaders, enhancing infrastructure, especially roads and energy networks, would facilitate an expansion of several industries, including manufacturing, mining, and agriculture sectors.

Tourism opportunity

The Afar region has a geographically unique nature and awe-inspiring natural wonders, cultural heritage, and adventure tourism opportunities (Fensham et al., 2024). Many parts of the region are remote, and landscapes offer an amazing experience for travellers. Danakil Depression is one of the hottest places on earth and is known for its unique topography that is surrounded by surfer springs, salt flats, and active volcanos. like erta'ale. Lake Afdera is a saltwater lake with potential for the eco-tourism sector and salt mining tours. The lake is mostly used for salt mining, but it has extraordinary potential for the tourism sector of the region. Additionally, afar region is home to other attractions including, Abe Lake, Alalo Bad, YangudiRassa National Park, Awash National Park, Afar Salt Desert, afar cultural

heritage, salt caravans, hydrothermal fields, sulfur springs, salt flats, volcanic landscapes, African wild ass, Awash River Gorge, hot springs, camel safaris, trekking, camping, traditional Afar dances, handicrafts, eco-tourism, adventure tourism.

Samara Industrial Park and Samara Dryland Port

Two crucial infrastructures that could greatly increase the region's investment growth are the Samara Industrial Park and the Samara Dryland Port. With an opportunity to create job opportunities for youths and expand the economy of the region and the country. The industrial park is well-suited to attracting investments in the manufacturing and Agro-processing sectors and is the only industrial park nearest to the seaport of the country. Likewise, the Samara Dryland Port is vital to access international markets, especially for exporting raw materials and importing different finished and semi-finished goods. Local officials strongly support both initiatives because they believe they are essential to maximizing the economic potential of the region. From the observation, the industrial park is not yet functional.

Renewable Energy

The Afar regional state is located in the Great African Rift Valley (Oakley et al., 2024). The region has substantial potential for renewable energy investment. Because of this, the region has abundant sunlight, receiving 8-12 hours of sunshine per day. In addition to this, the region is characterized by activity: geothermal springs and fumaroles. So, this makes the region suitable for solar, wind, and geothermal energy investment.

Conclusion

The Afar Regional State in Ethiopia presents substantial investment potential across diverse sectors, including livestock farming, agriculture, mining, and eco-tourism. Zones 1, 3, 4, and 5 show the highest potential for livestock and arable land, while Zone 3, Warar, and Awsa offer significant opportunities for cotton farming. Afdera's salt deposits, Dallol's minerals (uranium, gold, potash), and Konnaba and Baracle's gold production highlight the region's mineral wealth. The Yangudi Rasa National Park offers promising opportunities for ecotourism. However, challenges such as inadequate infrastructure, limited access to modern technology, and environmental concerns hinder the full utilization of these resources.

Recommendations

Several strategies are offered to take full advantage of the Afar region's investment potential:

Modernize Agricultural and Animal Practices: Priority should be given to investments in modern agricultural methods and livestock management.

Promote Cotton and Wheat Agriculture: Better cotton varieties and modern agricultural equipment should be introduced in the areas of Warar and Awsa.

Sustainable Mining Practices: Create systems for the sustainable extraction of minerals, with a particular emphasis on salt and gold, in Afdera, Dallol, and Konaba districts.

Infrastructure Development: To connect important investment zones and draw in investors, upgrade the electricity, water, and transportation infrastructure.

Eco-tourism: To take advantage of Yangudi Rasa National Park's eco-tourism potential, invest in environmentally friendly tourism infrastructure.

Community Involvement: Make sure that investments reflect the interests of the local community and that they participate in decision-making.

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