Overview of Ethiopian Investment Opportunities and Policies

APRIL 2014
Introduction – Africa’s Story is changing

10 Years Ago

Today
Ethiopia has great potential for investments for several reasons

1. **Rapid economic growth**
   - Among the top performing economies with an average GDP growth of 11% per annum since 2004\(^1\)
   - Rapid growth expected to continue

2. **Favorable political environment**
   - Stable political environment
   - Government actively promoting private sector investment with attractive incentive packages

3. **Low cost and abundant labor**
   - Large population of ~85 million, among which 40% is under age 15\(^2\)
   - One of the lowest minimum wages in Africa
   - Good standards of spoken and written English

4. **Large domestic and international markets**
   - Large domestic market as the second most populous country in Sub-Saharan Africa
   - Located in the crossroads between Africa, the Middle East and Asia
   - Preferred access to many international markets

5. **Massive investments in infrastructure**
   - Projected national investments of $73 billion to upgrade hard and soft infrastructure\(^3\)
   - Access to low cost electricity due to investments in hydroelectric power, etc.

Source:
1 Ministry of Finance and Economic Development
2 World Bank
3 Growth and Transformation Plan 2010/11-2014/15
Ethiopia is one of the fastest growing economies in the world and its rapid growth is expected to continue.

GDP Growth Rates by country, 2005-2010¹
( Constant 2000 USD)

<table>
<thead>
<tr>
<th>Country</th>
<th>CAGR</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>3%</td>
</tr>
<tr>
<td>Russia</td>
<td>4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>4%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>7%</td>
</tr>
<tr>
<td>India</td>
<td>8%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>11%</td>
</tr>
<tr>
<td>China</td>
<td>11%</td>
</tr>
</tbody>
</table>

¹ All data based on the World Bank except Ethiopia growth figures which is based on the Ministry of Finance and Economic Development

Source: The World Bank; The Economist; The Ministry of Finance and Economic Development

The Economist has ranked Ethiopia as the 3rd fastest growing economy in the world for the next four years.
Ethiopia is setting the pace for Africa

Average annual growth in percent

- China: 11% (2006-10), 8% (2011-15)
- India: 8% (2006-10), 6% (2011-15)
- Ethiopia: 11% (2006-10), 6% (2011-15)
- Nigeria: 6% (2006-10), 5% (2011-15)
- Kenya: 4% (2006-10), 4% (2011-15)
- South Africa: 3% (2006-10), 3% (2011-15)

Source: Doing business in Ethiopia – Precise consult international (2013).
Ethiopia’s trade is global

### Imports

- China: 8.4%
- Germany: 7.8%
- Somalia: 6.6%
- Netherlands: 5.5%
- Saudi Arabia: 4.7%
- Sudan: 4.5%
- Switzerland: 4.0%
- USA: 3.0%
- Italy: 2.7%
- UAE: 2.9%
- Others: 50.0%

### Exports

- China: 15.9%
- Saudi Arabia: 8.0%
- India: 5.6%
- USA: 4.0%
- UAE: 3.6%
- Japan: 3.6%
- Italy: 3.3%
- Germany: 1.6%
- Malaysia: 2.0%
- Turkey: 2.4%
- Others: 50.0%

Source: Doing business in Ethiopia – Precise consult international (2013).
Ethiopia is politically stable and the government is actively encouraging private sector investment

- **Stable political environment** fostering a peaceful and secure working environment

- **Strong political and security integration with countries in the region** that fosters mutual economic ties and benefits; host of the African Union

- Robust **policy framework** in the “Growth and Transformation Plan” which also focuses on **private sector investment** promoting growth including...
  - Attractive tax holidays and duty free packages for investors
  - Investments in infrastructure
  - Strong commitment to agriculture and rural development through allocation of more than 10% of total government budget

- **Committed to promoting good governance** and **tackling corruption**; party to multiple international agreements
Ethiopia’s population is large and young with relatively low wages

Ethiopian population breakdown by age group, 2011

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Million</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 65+</td>
<td>84.7</td>
<td>3%</td>
</tr>
<tr>
<td>Age 15-64</td>
<td>56%</td>
<td></td>
</tr>
<tr>
<td>Age 0-14</td>
<td>41%</td>
<td></td>
</tr>
</tbody>
</table>

Monthly minimum wage in select African countries

- **Daily laborer**: less than $3/day
- **Salaries of fresh university graduates**: $110 - $200/month

1 Latest year available
2 Ethiopia’s minimum wage only applies to public sector jobs

4 Ethiopia also benefits from access to large domestic, regional, and international markets

Great potential for domestic market

- Ethiopia’s population of 90 mn is the second largest in Sub-Saharan Africa
- ~40% of the population is under age 15 and
- ~70% is under 30 suggesting great potential for continued growth of the domestic purchasing potential in addition to labor force

Preferred access to international markets

- Ethiopia is geographically well-positioned to serve several export markets
- Membership in Common Market for Eastern and Southern Africa (COMESA) enhances access to 19 member countries and their population of more than 450 million
- Ethiopia also enjoys Duty Free and Quota Free (DFQF) privilege extended by international markets of USA, European Union, China and India

Investment is also taking place from many countries

Sources of foreign investment

- Europe: 24%
- Middle East: 21%
- North America: 19%
- Asia: 22%
- Africa: 11%
- Others: 3%

Source: Doing business in Ethiopia – Precise consult international (2013).
Ethiopia Trade: #1 coffee exporter in Africa, Live stock (10), Hydro Power, wheat, Airlines, 2^nd Flower Exporter

Investment is taking place in many sectors:

Breakdown of total approved investment projects by sector – 2011/12

Source: Doing business in Ethiopia – Precise consult international (2013).
Massive investments in infrastructure

The Growth and Transformation Plan represents an ambitious set of national investments that will significantly upgrade both hard and soft infrastructure.

Key highlights of Growth and Transformation Plan

- Building **71,000 km of new roads**, including all-weather roads to virtually all kebele administrations and an expressway linking Addis Ababa to Adama (a key route to facilitate export and import trade)
- Constructing **2,395 km of new railways** linking Addis Ababa with Djibouti, linking selected domestic cities, and within Addis Ababa itself
- Laying **132,000 km of new electricity distribution lines** and expanding electricity coverage to 75% of the country
- Expanding the **water supply infrastructure to cover 99% of the population** and the drilling of some 3,000 water wells per year, Power, telecom, etc

Growth and Transformation Plan – Projected Spending

<table>
<thead>
<tr>
<th>USD Billions</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>11</td>
<td>15</td>
<td>16</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>

*Total of $73 billion planned over 5 years*

Source: Growth and Transformation Plan 2010/11-2014/15

Ethiopian Investment Agency 12
3. Overview of Ethiopia’s Investment Policies and Incentives

The policy for Ethiopian investment has been modified in the last 20 years for more than 4 times.

The Investment Policy - Admission

- Foreign investors can invest alone or in partnership with domestic investors in areas open for FDI
- No restrictions on equity ownership in joint venture (JV) investment
- Required to have investment permit from EIA
- Required to allocate minimum capital
  - USD 200,000 for a single investment project
  - USD 150,000 for joint with a domestic investor
Ethiopia’s investment laws are favorable (continued)

Incentives - Regulatory

- Guarantee against expropriation or nationalization (Constitution & Investment Law, MIGA & BITs)
- Full repatriation of profits, dividends, principal and interest payments on external loans out of Ethiopia in convertible currency
- The right to employ expatriate experts and management staff
- Bilateral Investment Promotion & Protection Treaties with 27 countries
- Double taxation avoidance treaties with 18 countries
Ethiopia’s investment laws are favorable (continued)

Fiscal

- Customs duty exemption on imported capital goods, construction materials, and spare parts worth up to 15% of the value of imported capital goods
- Income tax exemption (2 to 9 years)
- Loss carry forward (for half of income tax exemption period)
- The incentive policy does not discriminate between domestic & foreign investors,
The Ethiopian Investment Agency (EIA) Provides one-stop shop for investors

<table>
<thead>
<tr>
<th>Services</th>
<th>Delivery Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuance of new investment permit</td>
<td>1 - 3 days</td>
</tr>
<tr>
<td>Issuance of permit expansion or upgrading of existing investments</td>
<td>7 working days</td>
</tr>
<tr>
<td>Renewal of investment permit</td>
<td>2 hours</td>
</tr>
<tr>
<td>Registration of capital brought in to the country by foreign investors</td>
<td>2 hours</td>
</tr>
<tr>
<td>Permitting duty free exemptions</td>
<td>3 hours</td>
</tr>
<tr>
<td>Issuance of G-1 construction contracting permit</td>
<td>2 working days</td>
</tr>
</tbody>
</table>
The Ethiopian Investment Agency (EIA) is a one-stop shop for investors (continued)

<table>
<thead>
<tr>
<th>Services</th>
<th>Delivery Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notarization of memorandum and articles of associations and amendments</td>
<td>5 hours &amp; 3 hours</td>
</tr>
<tr>
<td>Effecting commercial registration, renewal, amendment, replacement and cancellation of same</td>
<td>3 hours, 2 hours, 3 hours, 1 hour, &amp; 5 working days</td>
</tr>
<tr>
<td>Effecting registration of trade or firm name, amendment, replacement, or cancellation of same</td>
<td>4 hours, 4 hours, 1 hour, &amp; 2 hours</td>
</tr>
<tr>
<td>Issuance of work permits to expatriate employees, renewal, replacement, suspension or cancellation of same</td>
<td>2 hours, 1 hour, 1 hour, &amp; 2 hours</td>
</tr>
<tr>
<td>Issuance of business license</td>
<td>10 working days</td>
</tr>
<tr>
<td>Issuance of tax identification number</td>
<td>2 hours</td>
</tr>
</tbody>
</table>
The Ethiopian Investment Agency (EIA) is a one-stop shop for investors (continued)

**Other services provided on behalf of investors**

- Execution of investors’ requests for land required for their investment projects
- Execution of investors’ requests for residence permits
- Execution of investors’ requests for approval of environmental impact assessment studies conducted on their investment projects
- Execution of investors’ requests to acquire water, electrical power and telecom services
- Provision of other pre- and post-approval services
**Focus Areas For attracting investment**

Manufacturing investment opportunities with a backward linkage to agriculture

<table>
<thead>
<tr>
<th>Textiles &amp; Garments/Apparel</th>
<th>Leather &amp; Leather Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="" /></td>
<td><img src="image2" alt="" /></td>
</tr>
<tr>
<td>➢ Production of textile fabrics</td>
<td></td>
</tr>
<tr>
<td>➢ Production of garments</td>
<td></td>
</tr>
<tr>
<td>➢ Production of other textile products (carpets, curtains, etc.)</td>
<td></td>
</tr>
<tr>
<td>➢ Tanning of hides &amp; skins up to finished level</td>
<td></td>
</tr>
<tr>
<td>➢ Leather goods &amp; articles (shoes, garments, etc.)</td>
<td></td>
</tr>
</tbody>
</table>
Agricultural investment opportunities

Agricultural Opportunities

- Horticulture, Vegetables, Herbs, Fruits
- Vineyard,
- Fiber Crops: Cotton, jutes, etc.
- Rubber Tree Plantation
- Sugarcane Plantation
- Cattle raising & Dairy Development
Agricultural investment opportunities

Agro-processing

- Processing of horticulture
- Edible oil,
- Winery
- Sugar processing incl. ethanol
- Animal feed Processing,
- Barley for brewing & grape for wine
- Slaughtering etc.
Other investment opportunities

Mining

- Underdeveloped sector with huge potential particularly in gold, iron ore, potash, and tantalum, potash, gemstone, gypsum, marble, granite, etc.
- Significant potential in oil & gas
- 261 licenses have been issued by Ministry of Mines, of which 207 are exploration licenses and 54 mining licenses
- 137 companies are operating in the sector (66 foreign firms, 36 joint venture partnerships and 35 local companies)
- The total number of direct employees in these companies is estimated to be around 6,000.
- Artisanal miners numbers exceed 500,000 according to a recent UN study

Source: Doing business in Ethiopia – Precise consult international (2013).
Other opportunities related to infrastructure

**Power**

- **Potential Capacity:**
  - Hydro: More than 45,000 MW
  - Wind: More than 10,000 MW
  - Geothermal: More than 5,000 MW
  - Supply chain opportunities

- **Number of electrified towns has more than doubled since 2006**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Electrified Towns</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11</td>
<td>5866</td>
</tr>
<tr>
<td>2009/10</td>
<td>5163</td>
</tr>
<tr>
<td>2008/09</td>
<td>3367</td>
</tr>
<tr>
<td>2007/08</td>
<td>3367</td>
</tr>
<tr>
<td>2006/07</td>
<td>1620</td>
</tr>
</tbody>
</table>

Source: Doing business in Ethiopia – Precise consult international (2013).
Investment opportunities related to infrastructure

Road

- Supply chain opportunities
- Federal and regional road lengths has constantly been increasing

Source: Doing business in Ethiopia – Precise consult international (2013).
Investment opportunities related to infrastructure

Railway construction

Railway Construction

- Mojo-Konso-Weyto
- Addis Ababa-Ejaji-Jima-Bedele
- Woldiya- Semera-Galafi
- Awash-Woldiya-Mekele
- Addis Ababa-Diredawa-Dewele

- Five major railway construction projects underway
- Supply chain opportunities (engineering materials, consultancy service etc.)

Source: Doing business in Ethiopia – Precise consult international (2013).
Other investment opportunities

Tourism

- Ethiopia has historical, natural and cultural key assets to drive tourism (source of Nile river, origin of human kind, birthplace of coffee etc.)
- Addis Ababa is Africa’s political capital, the base for many international organizations and NGOs
- Improved connectivity through extensive network of Ethiopian Airlines
- Ethiopia is politically stable and its popular tourist destinations are safe and secure
- Large value chain and investment opportunities (hotels, tour operators, food suppliers, retail services etc.)
- Supportive regulatory environment (tax holidays, licensing etc.)

Source: Doing business in Ethiopia – Precise consult international (2013).
Other investment opportunities

Health sector

- Out of 90+ million people approx. 42% use private health care facilities
- USD $8.6bn budgeted for next five years (health expenditure)
- Increased household income
- Increased educated population = higher demand for healthcare
- Urbanization, which concentrates people in areas with access to medical facilities
- Expected increase in government health expenditure
- Supportive regulatory framework (loans, biomedical instruments, zero tariff on raw materials etc.)
- Diverse investment opportunities (medical center, pharmaceutical manufacturing etc.)

Source: Doing business in Ethiopia – Precise consult international (2013).
Agriculture is an important sector for the Ethiopian economy contributing nearly 50% to GDP and 85% to employment.

**Contribution to GDP by sector, 2011**

- Agriculture: 46%
- Service: 39%
- Industry: 14%

**Employment by sector, 2011**

- Agriculture: 85%
- Service: 10%
- Industry: 5%

Source: Ministry of Agriculture
Ethiopia has many favorable conditions for the horticulture industry

**Favorable natural environment**
- Favorable climate with average temperature around 15-20°C throughout the year that allows for active farming and exports during the European winter season
- Diverse agro-ecologies suitable for a wide range of crops
  - 18 major and 49 sub-agro ecologies with fertile land
- Wide range of average annual rainfall across the country ranging from 200mm to 2,500mm allows for production of a diverse variety of horticulture crops
- Rich water resources for irrigation

**Proximity to market**
- Proximity to international markets due to strategic location in the Horn of Africa
- Currently ~100 export market destinations for horticulture throughout the world
- Government actively investing in building infrastructure to enhance road and storage infrastructure

**Useful government initiatives**
- Soil mapping initiative in progress in 150 woredas (districts) to provide detailed soil information and fertilizer needs for investors, policy makers and farmers
- Shallow groundwater mapping in progress in 35 woredas to be scaled up to national level to provide information for irrigation
1 Ethiopia is a leading producer of many agricultural products

Production level of select agriculture products for the top five producers in Africa

<table>
<thead>
<tr>
<th></th>
<th>Sesame seed production, 2011</th>
<th>Maize production, 2011</th>
<th>Livestock (Cattle), 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million quintals</td>
<td>Million quintals</td>
<td>Millions</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>3.3</td>
<td></td>
<td>53.4</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.3</td>
<td></td>
<td>21.3</td>
</tr>
<tr>
<td>Uganda</td>
<td>1.7</td>
<td></td>
<td>68.8</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1.1</td>
<td></td>
<td>13.0</td>
</tr>
<tr>
<td>Niger</td>
<td>0.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 South Africa and Egypt are 1st and 2nd but they produce genetically modified maize

Source: Food and Agriculture Organization

AGRO-PROCESSING

Ethiopian Investment Agency 30
Ethiopian horticulture has been growing rapidly over the past five years...

A business is as good as the vision and the commitment to that vision by the owner

**Land Development Trend**

<table>
<thead>
<tr>
<th>Year</th>
<th>Thousand hectares</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>2.0</td>
</tr>
<tr>
<td>2008/09</td>
<td>2.9</td>
</tr>
<tr>
<td>2009/10</td>
<td>3.2</td>
</tr>
<tr>
<td>2010/11</td>
<td>6.5</td>
</tr>
<tr>
<td>2011/12</td>
<td>12.6</td>
</tr>
</tbody>
</table>

CAGR 57%

**Export value**

<table>
<thead>
<tr>
<th>Year</th>
<th>Million USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/08</td>
<td>130</td>
</tr>
<tr>
<td>2008/09</td>
<td>148</td>
</tr>
<tr>
<td>2009/10</td>
<td>202</td>
</tr>
<tr>
<td>2010/11</td>
<td>224</td>
</tr>
<tr>
<td>2011/12</td>
<td>266</td>
</tr>
</tbody>
</table>

CAGR 20%

Most of the fruit and vegetable produced today is being consumed locally; however, there are investments being made to expand F&V exports.

1 See page 26
Source: Ethiopian Horticulture Development Agency
Thank You!