

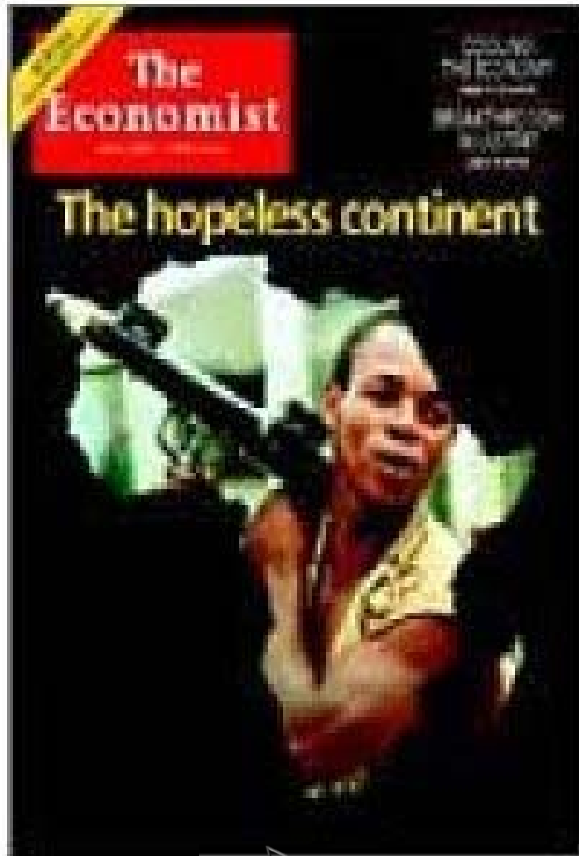


# Overview of Ethiopian Investment Opportunities and Policies

**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<sup>1</sup>
  - 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<sup>2</sup>
  - 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<sup>3</sup>
  - Access to low cost electricity due to investments in hydroelectric power, etc.

Source:

1 Ministry of Finance and Economic Development

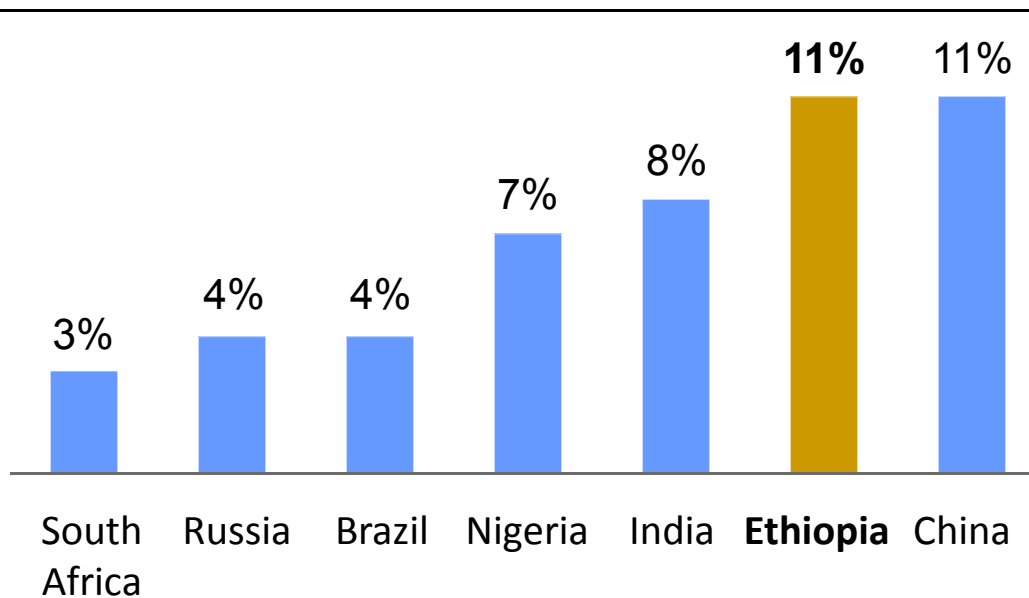
2 World Bank

3 Growth and Transformation Plan 2010/11-2014/15



**1 Ethiopia is one of the fastest growing economies in the world and its rapid growth is expected to continue**

**GDP Growth Rates by country, 2005-2010<sup>1</sup>**  
**(Constant 2000 USD)**  
CAGR

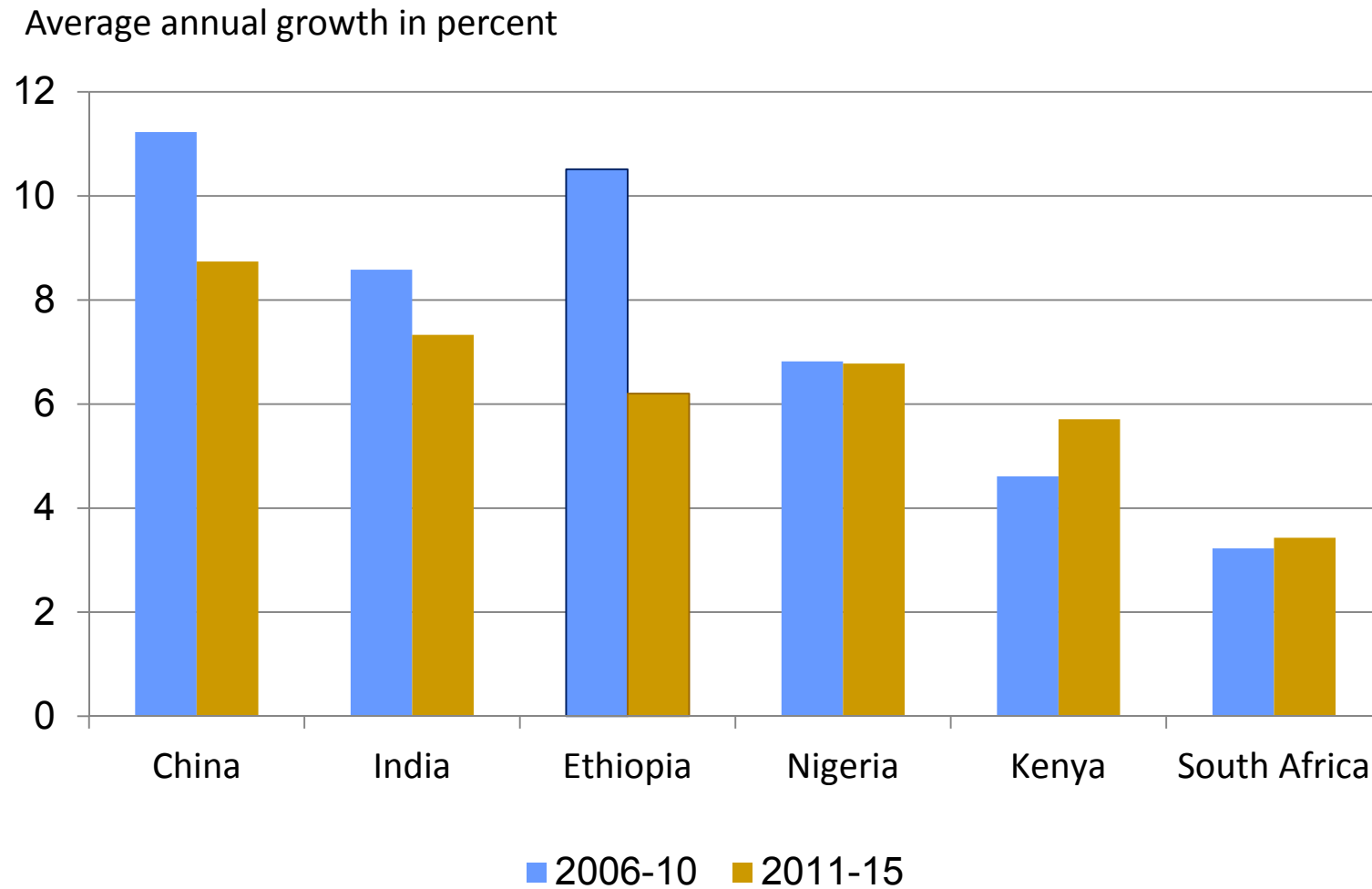


*The Economist* has ranked Ethiopia as the 3<sup>rd</sup> fastest growing economy in the world for the next four years

<sup>1</sup> 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

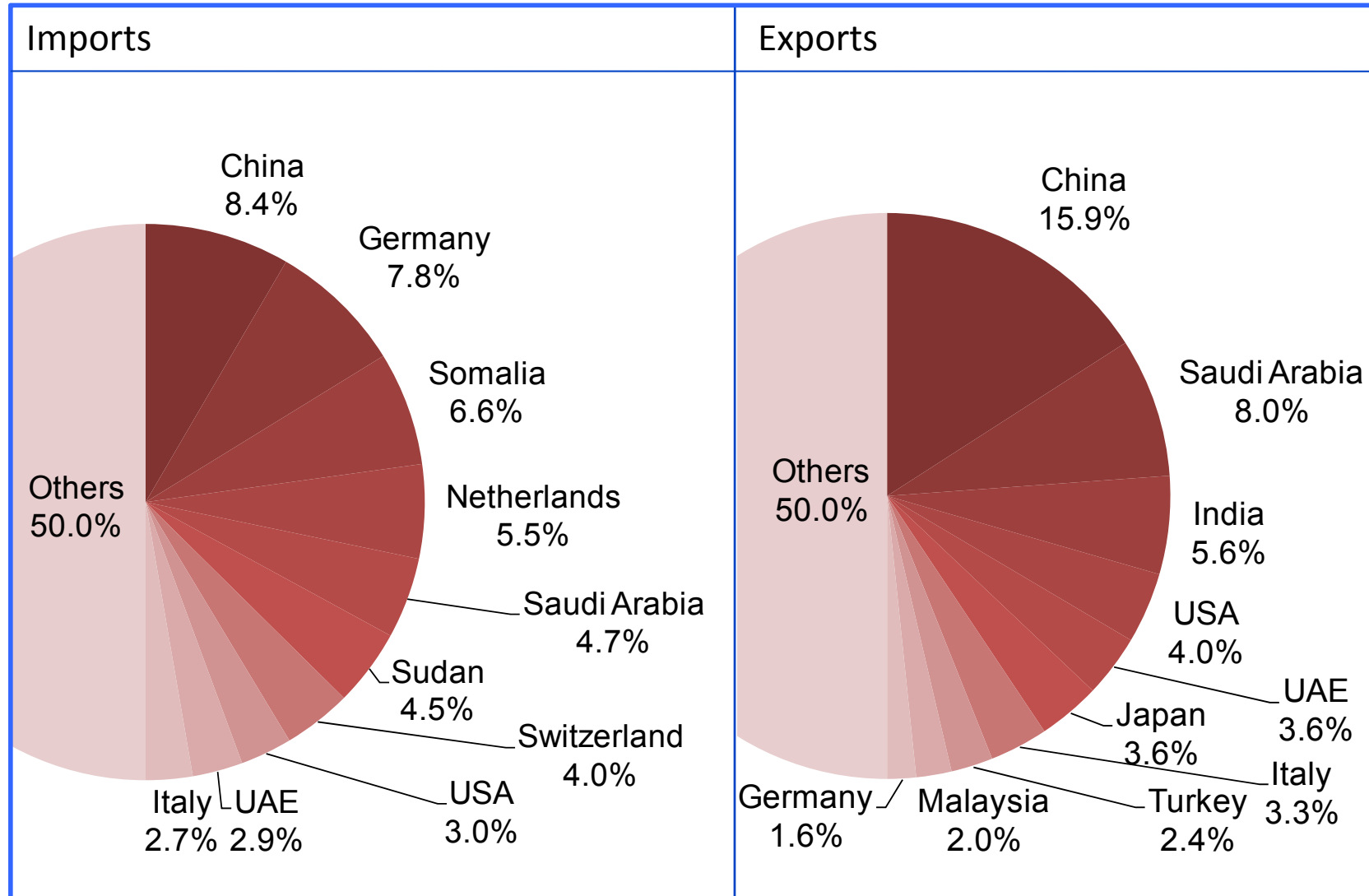


## 1 Ethiopia is setting the pace for Africa





# 1 Ethiopia's trade is global



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



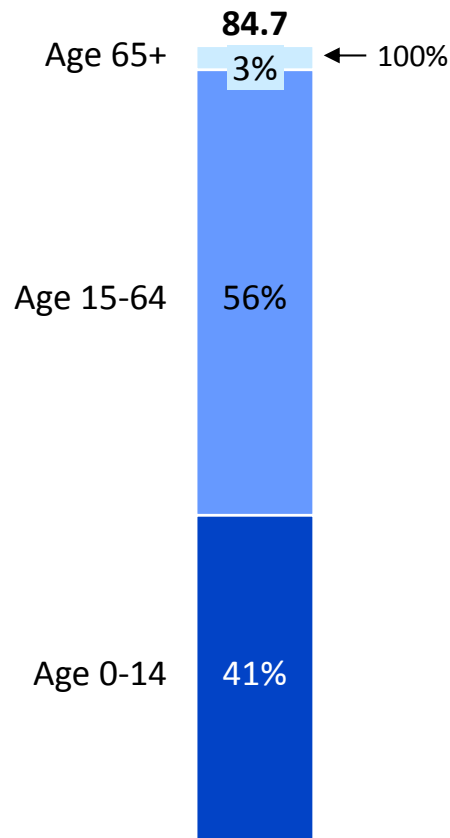
## 2 Ethiopia is politically stable and the government is actively encouraging private sector investment

- **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

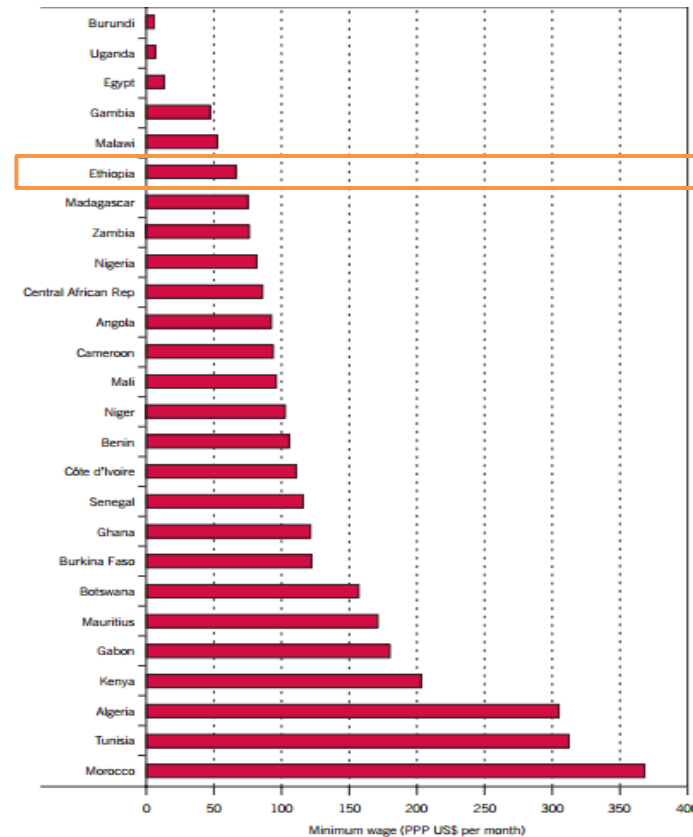


### 3 Ethiopia's population is large and young with relatively low wages

**Ethiopian population breakdown by age group, 2011**  
Million, percent



**Monthly minimum wage in select African countries<sup>1, 2</sup>**  
PPP USD



1 Latest year available

2 Ethiopia's minimum wage only applies to public sector jobs

Source: World Bank, ILO "Global Wage Report 2010/11 Africa Brief"

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





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

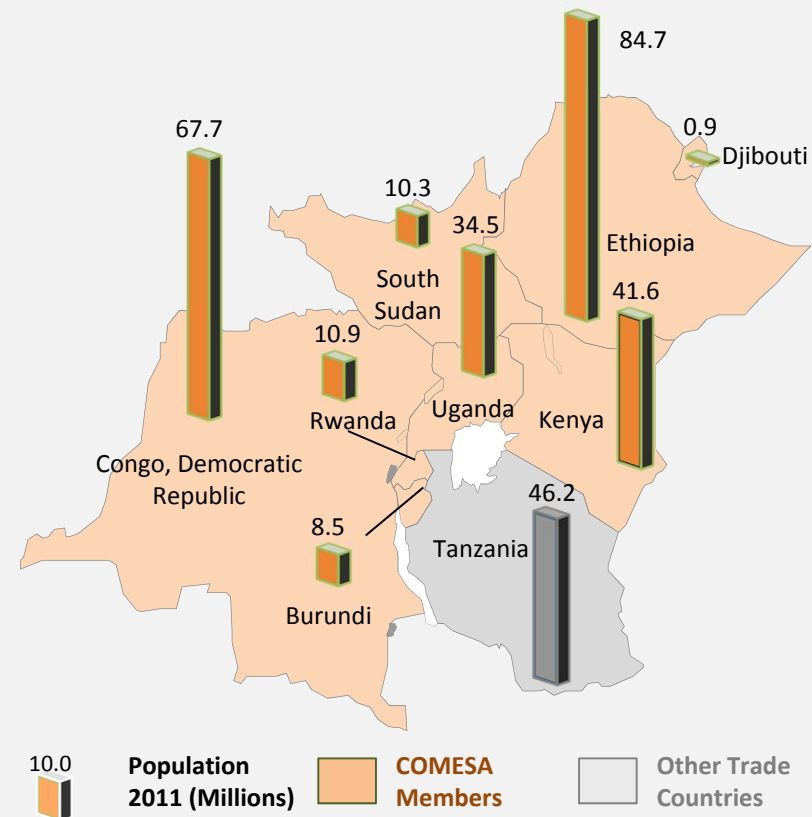
### Great potential for domestic market

- 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

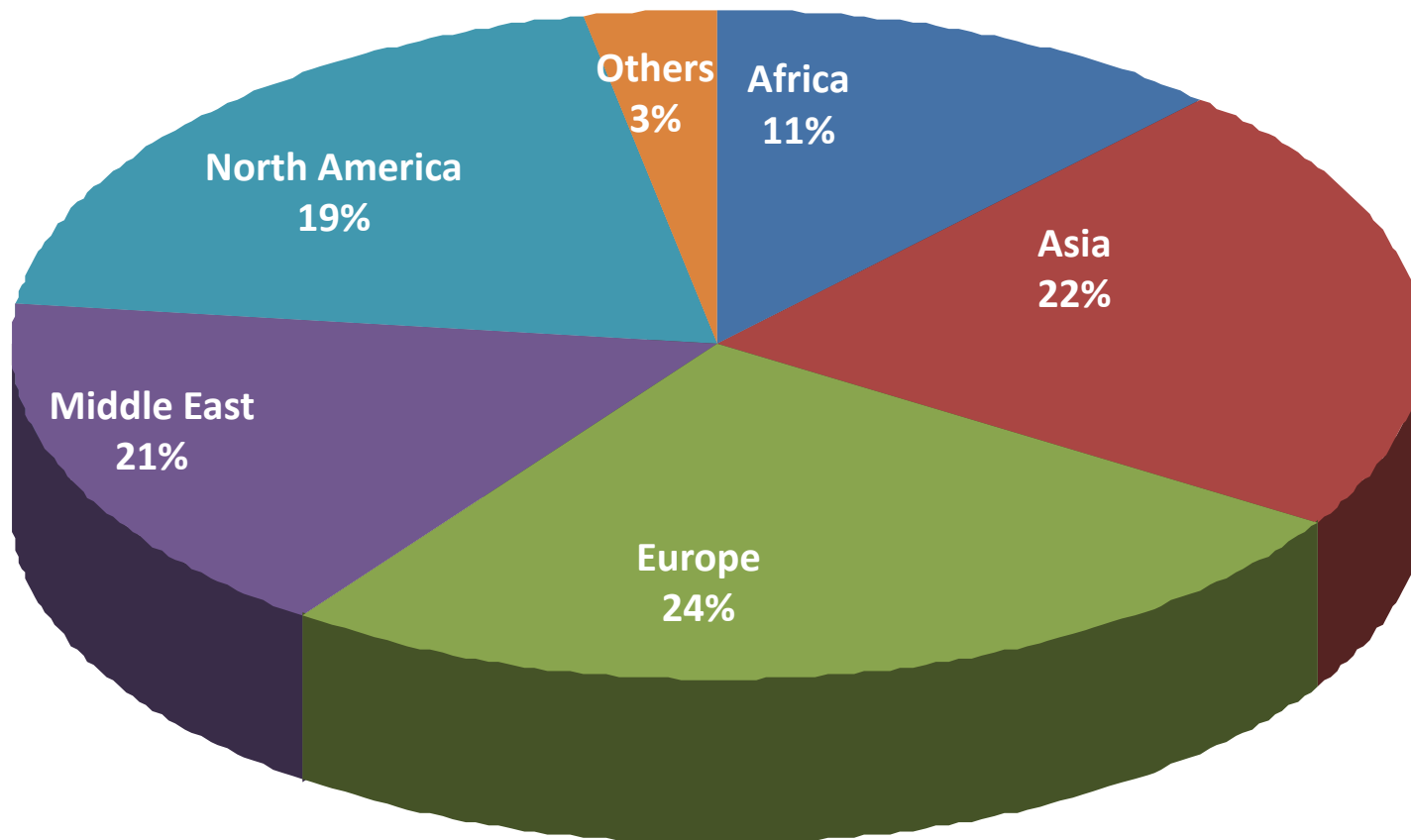
### COMESA Trading Block and Regional Map





#### 4 Investment is also taking place from many countries

Sources of foreign investment



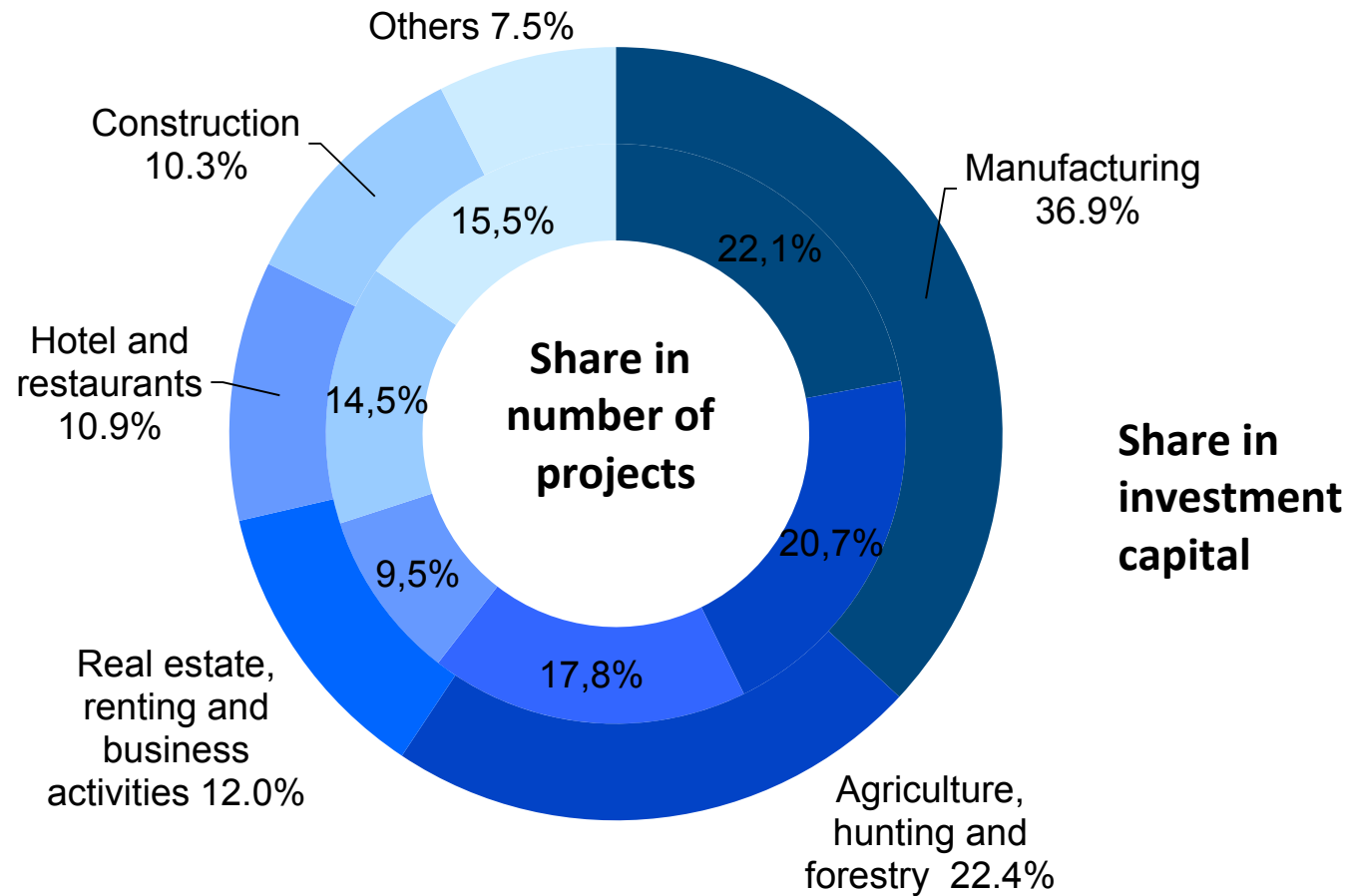


Ethiopia Trade: #1 coffee exporter in Africa, Live stock (10), Hydro Power, wheat,

4 Airlines, 2<sup>nd</sup> Flower Exporter

Investment is taking place in many sectors:

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



**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



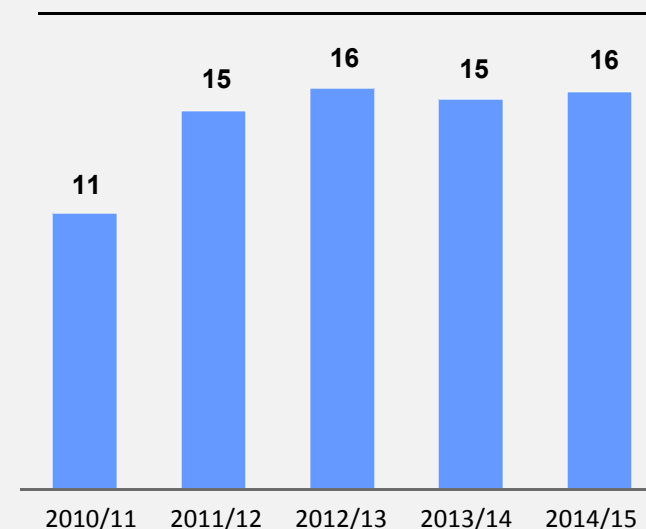
Key highlights of Growth and Transformation Plan

- 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



Massive investments are planned

Growth and Transformation Plan – Projected Spending  
USD Billions



*Total of \$73 billion planned over 5 years*



### **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

### Services

### Delivery Time

- |  |                  |
|--|------------------|
| ▪ Issuance of new investment permit                                      | ▪ 1 - 3 days     |
| ▪ Issuance of permit expansion or upgrading of existing investments      | ▪ 7 working days |
| ▪ Renewal of investment permit   | ▪ 2 hours        |
| ▪ Registration of capital brought in to the country by foreign investors | ▪ 2 hours        |
| ▪ Permitting duty free exemptions  | ▪ 3 hours        |
| ▪ Issuance of G-1 construction contracting permit                        | ▪ 2 working days |



## The Ethiopian Investment Agency (EIA) is a one-stop shop for investors (continued)



Services	Delivery Time
<ul style="list-style-type: none"> <li>▪ Notarization of memorandum and articles of associations and amendments</li> </ul>	<ul style="list-style-type: none"> <li>▪ 5 hours &amp; 3 hours</li> </ul>
<ul style="list-style-type: none"> <li>▪ Effecting commercial registration, renewal, amendment, replacement and cancellation of same</li> </ul>	<ul style="list-style-type: none"> <li>▪ 3 hours, 2 hours, 3 hours, 1 hour, &amp; 5 working days</li> </ul>
<ul style="list-style-type: none"> <li>▪ Effecting registration of trade or firm name, amendment, replacement, or cancellation of same</li> </ul>	<ul style="list-style-type: none"> <li>▪ 4 hours, 4 hours, 1 hour, &amp; 2 hours</li> </ul>
<ul style="list-style-type: none"> <li>▪ Issuance of work permits to expatriate employees, renewal, replacement, suspension or cancellation of same</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2 hours, 1 hour, 1 hour, &amp; 2 hours</li> </ul>
<ul style="list-style-type: none"> <li>▪ Issuance of business license</li> </ul>	<ul style="list-style-type: none"> <li>▪ 10 working days</li> </ul>
<ul style="list-style-type: none"> <li>▪ Issuance of tax identification number</li> </ul>	<ul style="list-style-type: none"> <li>▪ 2 hours</li> </ul>



**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

## Textiles & Garments/Apparel



- Production of textile fabrics
- Production of garments
- Production of other textile products (carpets, curtains, etc.)

## Leather & Leather Products



- Tanning of hides & skins up to finished level
- Leather goods & articles (shoes, garments, etc.)



# 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



## Other opportunities related to infrastructure

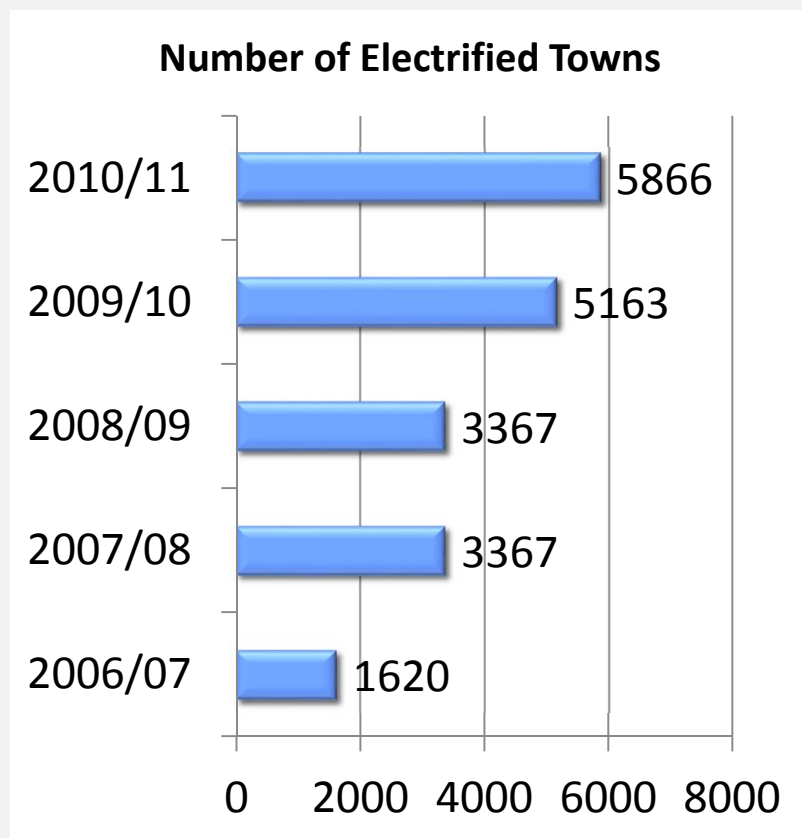
### Power



#### 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

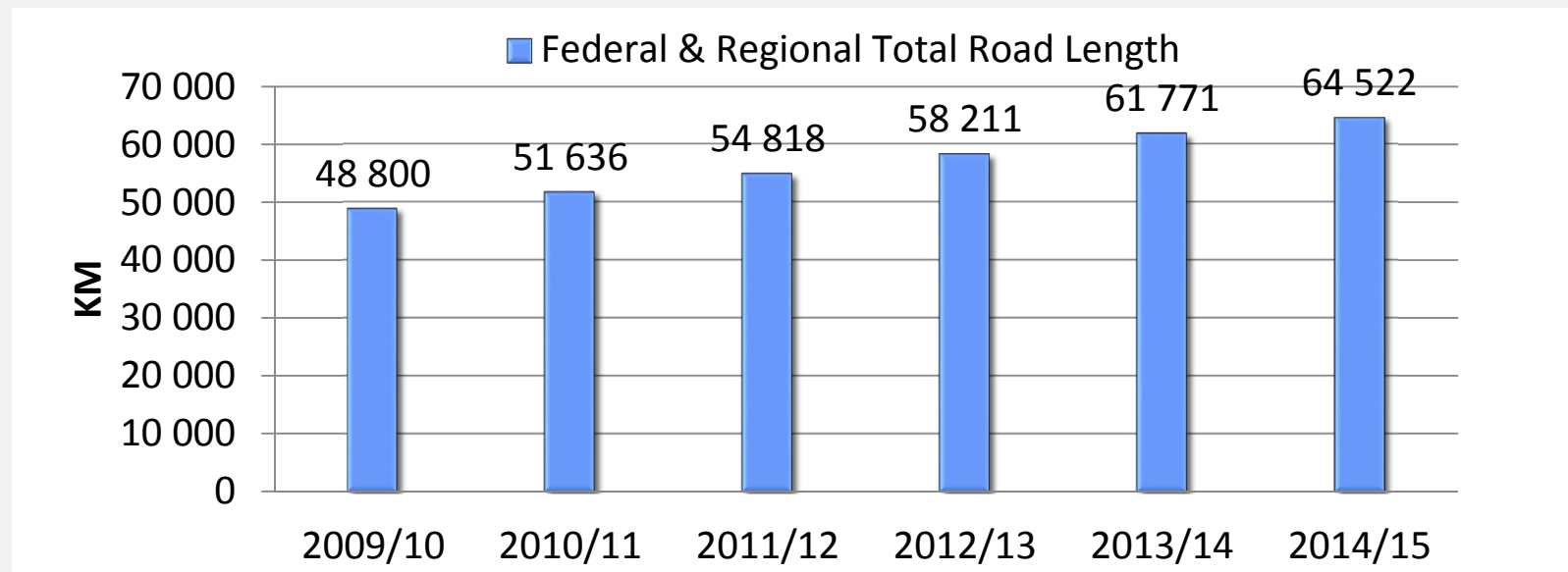




## Investment opportunities related to infrastructure

### Road

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





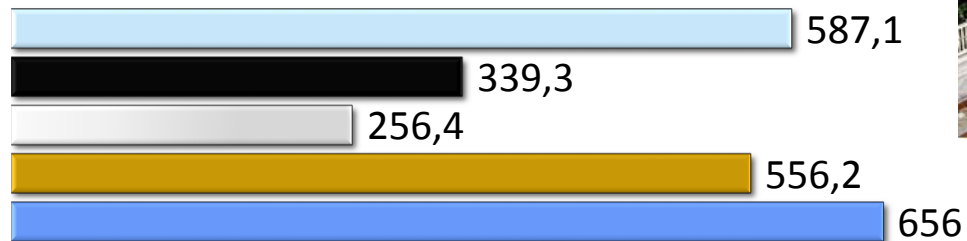


## Investment opportunities related to infrastructure

### 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.)



## Other investment opportunities

### Tourism

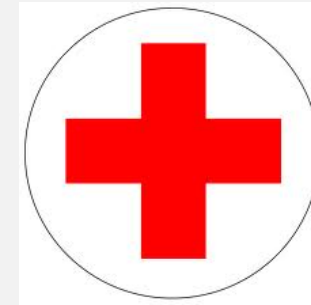


- Ethiopia has historical, natural and cultural key assets to drive tourism (source of Nile river, origin of human kind, birthplace of coffee etc.)
- Addis Ababa is Africa's political capital, the base for many international organizations and NGOs
- Improved connectivity through extensive network of 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.)



## Other investment opportunities

### Health sector

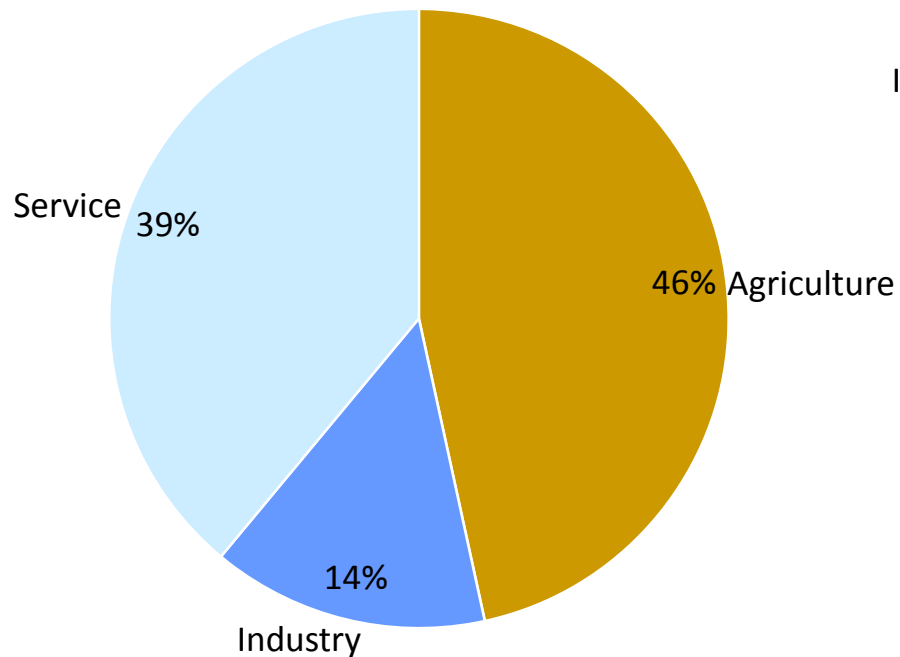


- Out of 90+ million people approx. 42% use private health care facilities
- USD \$8.6bn budgeted for next five years (health expenditure)
- Increased household income
- Increased educated population = higher demand for healthcare
- Urbanization, which concentrates people in areas with access to medical 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.)

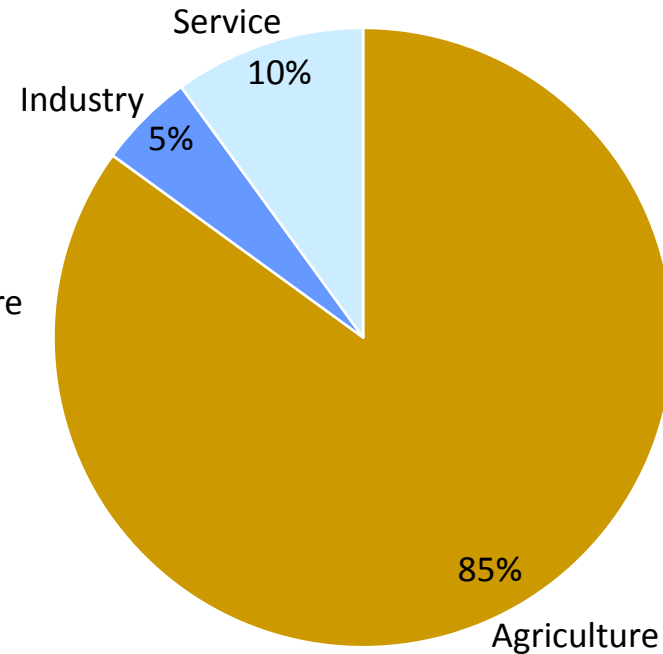


**Agriculture is an important sector for the Ethiopian economy contributing nearly 50% to GDP and 85% to employment**

**Contribution to GDP by sector, 2011**  
Percent



**Employment by sector, 2011**  
Percent





## 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

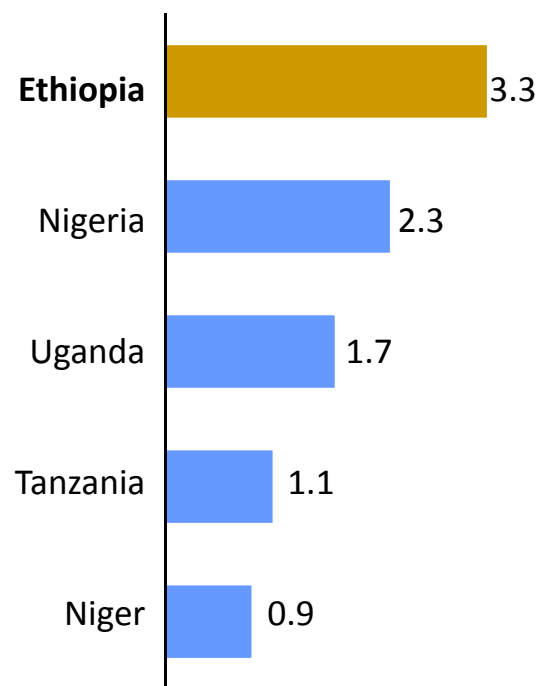
- Soil mapping initiative in progress in 150 *woredas* (districts) to provide detailed soil information and fertilizer needs for investors, policy makers and farmers
- Shallow groundwater mapping in progress in 35 *woredas* to be scaled up to national level to provide information for irrigation



# 1 Ethiopia is a leading producer of many agricultural products

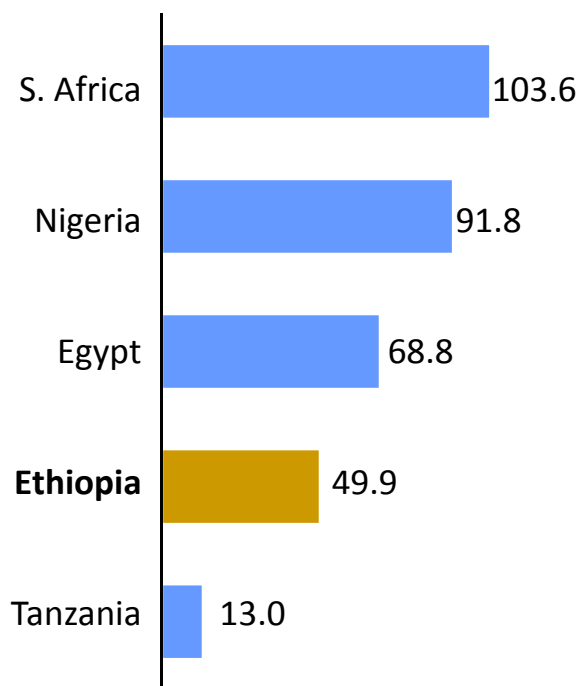
Production level of select agriculture products for the top five producers in Africa

**Sesame seed production, 2011**  
Million quintals



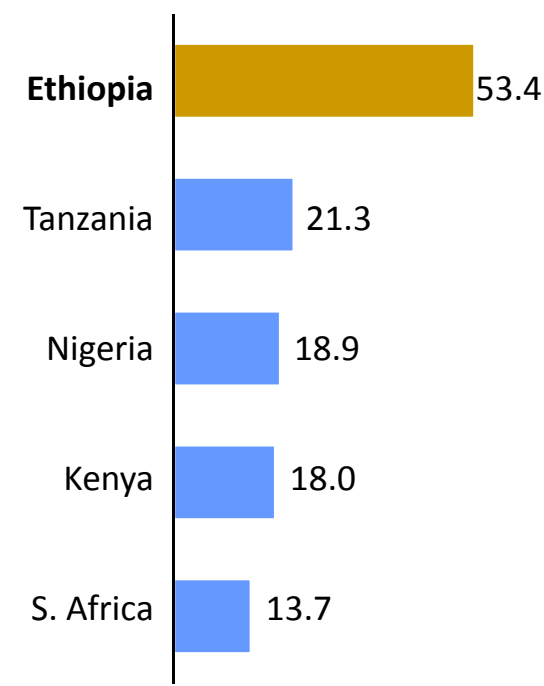
1<sup>st</sup> in Africa

**Maize production, 2011**  
Million quintals



2<sup>nd</sup> in Africa<sup>1</sup>

**Livestock (Cattle), 2011**  
Millions



1<sup>st</sup> in Africa

1 South Africa and Egypt are 1<sup>st</sup> and 2<sup>nd</sup> but they produce genetically modified maize  
Source: Food and Agriculture Organization



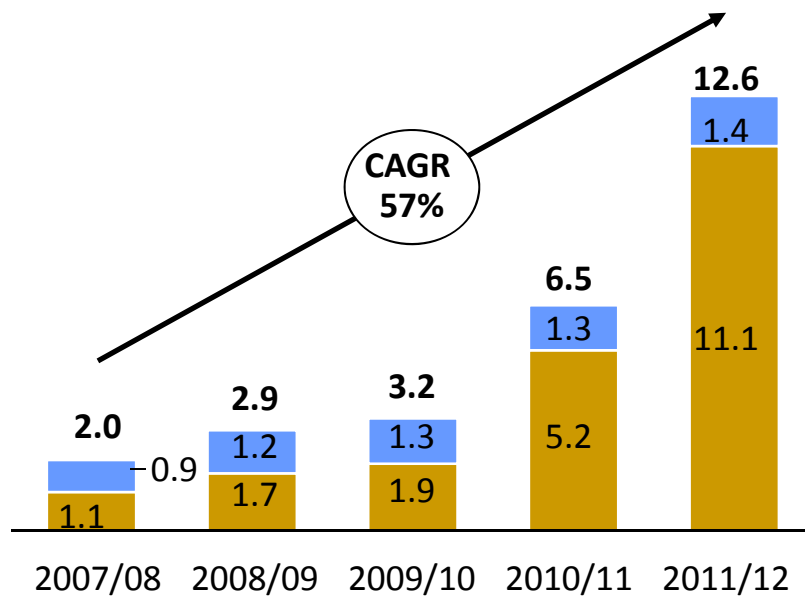
Ethiopian horticulture has been growing rapidly over the past five years...

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

Flower  
Fruit and vegetable

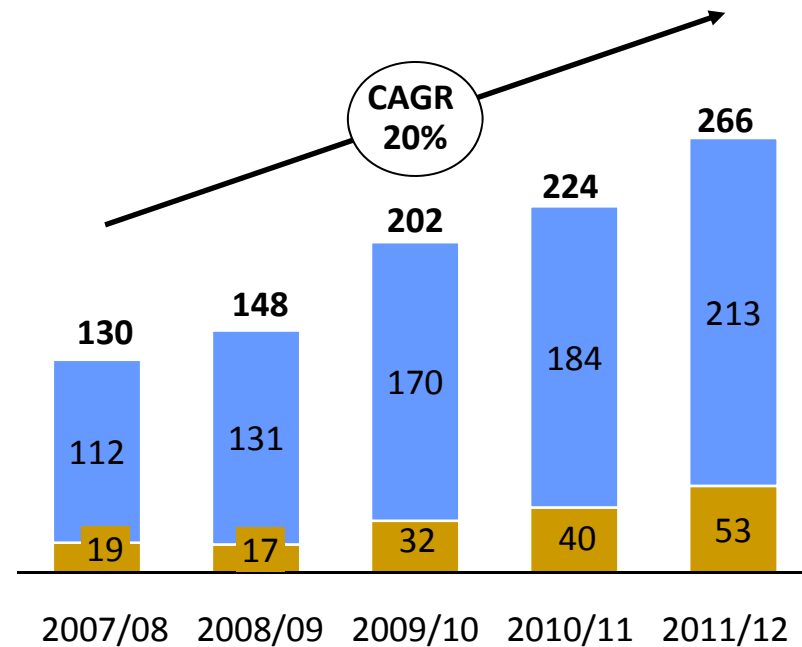
**Land Development Trend**

Thousand hectares



**Export value**

Million USD



Most of the fruit and vegetable produced today is being consumed locally; however, there are investments being made to expand F&V exports<sup>1</sup>

<sup>1</sup> See page 26



# Thank You!