



Ethiopian Investment Report 2019



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Message from the Management and Staff of
the Ethiopian Investment Commission (EIC)

We extend our congratulations to H.E. Dr. Abiy Ahmed Ali, Prime Minister of the Federal Democratic Republic of Ethiopia on being awarded the 2019 Nobel Peace Prize.

It is a much-deserved recognition of his hard work, dedication and commitment to peace in our region. His admirable efforts have laid the foundation for peace, co-existence and prosperity for all.

We salute your success and we continue to be inspired by you to build a better future for Ethiopia and Africa as a whole.



ADLI	- Agriculture-Development Led Industrialization
ARRA	- Administration for Refugees and Returnees Affairs
CADF	- China–Africa Development Fund
CAETE	- China Africa Economic Cooperation Exposition
CCER	- China Centre for Economic Research
CCPIT	- China Council for the Promotion of International Trade
CEO	- Chief Executive officer
CFO	- Chief Finance Officer
CIFIT	- China International Fair for Investment & Trade
CILE	- China International Import Exposition
COO	- Chief Operations Officer
DB	- Doing Business
DFID	- Department for International Development
EIB	- Ethiopian Investment Board
EIC	- Ethiopian Investment Commission
EP	- Enterprise Partners
EPSA	- Ethiopia Pharmaceuticals Supply Agency
EU	- European Union
FDI	- Foreign Direct Investment
GVC	- Global Value Chains
IFC	- International Financial Corporation
IPDC	- Industrial Parks Development Corporation
IPR	- Intellectual Property Rights
ITC	- International Trade Centre
JCP	- Jobs Compact Programme
JV	- Joint Venture
MA	- Manufacturing Africa
MDG	- Millennium Development Goals
MFI	- Micro-Finance Institutions
MICE	- Meetings Incentives Conferences and Exhibitions
MoLSA	- Ministry of Labor and Social Affairs
MoU	- Memorandum of Understanding
OSS	- One Stop Shop Service
PIGA	- Partnership for Investment and Growth in Africa
PPP	- Public Private Partnership
SOE	- State-owned enterprises
TBI	- Tony Blair Institute
UNCTAD	- United Nations Conference on Trade and Development
UNHCR	- United Nations High Commission for Refugees
WB	- World Bank
WTO	- World Trade Organization
YPDP	- Young Professionals Development Programme



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Message from the Commissioner Abebe Abebayehu

The sweeping reforms that H.E Dr Abiy Ahmed, the Prime Minister of Ethiopia, started in 2018 have gained momentum during 2019 giving hope and inspiration to many within and outside Ethiopia. 2019 will be remembered as a year in which peace and prosperity were framed as the two central pillars of Ethiopia's development vision and the government's aspiration to achieve inclusive, fair and sustainable development. While achieving double-digit growth is important and necessary for generating wealth and propelling the process of capital accumulation, it is insufficient if it does not create productive jobs, reduce poverty, improve living standards and result in widely shared prosperity. Only through shared prosperity will we be able to tackle the adverse consequences of inequality, youth unemployment, social injustice, deprivation and achieve a lasting peace. Prosperity, like peace, is indivisible; and achieving one is necessary for achieving the other.

These are the principles that guide our work at the Ethiopian Investment Commission (EIC), Ethiopia's leading investment promotion agency. Investment (both local and foreign) – made in response to demand or emerging opportunities – creates new jobs, which enables workers to earn an income, which leads to consumption and greater demand for goods and services, which in turn leads to more investment and continues the cycle of growth. It was largely due to this central role of investment as an engine of growth and prosperity that major efforts were made during 2019 to reform Ethiopia's investment laws and regulations. This annual report discusses the rationale behind the investment law reforms, the scope and depth of the reforms undertaken and the implications for investment promotion.

Thus, at this point, suffice it to say that the reform process has been completed successfully and as of January 2020, Ethiopia has new investment laws endorsed and approved by Parliament. I am deeply grateful to the team that spearheaded the drafting process under the leadership and guidance of the EIC. The consultative approach adopted was comprehensive and exemplary. It involved all relevant stakeholders, particularly private enterprises – both local and foreign – who are most affected by the laws and regulations that govern the country's investment regime.

The modernization of investment laws is essential for attracting increased investment. But, by itself, it is insufficient unless supported by an administrative and regulatory environment conducive to doing business. Ethiopia's current ranking in the World Bank's 'ease of doing business' Index is unacceptable for a country that has achieved growth rates above most countries in the world and that has emerged as one of the top five biggest FDI recipient countries in Africa. In this connection, the reforms in 'ease of doing business' initiated by His Excellency, the Prime Minister of Ethiopia, Dr Abiy Ahmed, has been a timely and a welcome undertaking. As explained in this annual report, his direct leadership and guidance has enabled us to make steady progress in removing some of the regulatory hurdles and unwieldy administrative procedures that investors encounter when starting a business in Ethiopia. I have no doubt that within the coming two years, Ethiopia will be among the top 100 ranking countries in 'ease of doing business'.

A key challenge in Ethiopia's current development trajectory is the slow progress in export growth, particularly merchandize exports. Increasing export capacity is a sine-qua-non for generating the foreign currency that the country needs to import essential goods and services and creating job opportunities for the millions of young people who join the labour market every year. The role of FDI is critical in creating the production and supply capacity that the country needs to boost export growth. The EIC devotes most of its activities attracting and facilitating foreign investors who can contribute to export growth. As discussed in this report, the policy

decision to establish industrial parks has been decisive in transforming Ethiopia into an attractive destination for efficiency-seeking FDI searching for countries with the right policy environment and competitive production cost structure. The industrial parks – both private and public – have enabled Ethiopia to attract increased FDI, growing on average by 50% a year since 2011/12 and reaching a peak of US\$4.1 billion (5.1% of GDP) in 2017. What is worth noting is the increasing concentration of FDI in manufacturing activities, which demonstrates that Ethiopia's export-led industrialization strategy, anchored in the manufacturing sector, is working and will lift the country up in the development ladder and catch-up with middle-income economies.

In the current global economic environment, it is difficult to predict how the global FDI flows and trends will unfold in the coming years. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows have been on a downward slide since 2017, which partly explains the slight decline in FDI flows to some African countries, including Ethiopia in 2018. It seems that this sliding trend, along with the impact of the coronavirus on investment flows and the smooth operation of the global supply chains, may continue to dampen foreign investors' plans to initiate new investments. However, at EIC, we are confident that Ethiopia will attract increased FDI in the course of 2020 and the amount will exceed the peak reached in 2017.

Our confidence and conviction is based on the following reality: the initiation of a home-grown economic reform programme which has already begun to stabilize the macroeconomic policy environment; the launch of the Ten-year Perspective Plan, mapping the policy direction and the priority sectoral pillars for the rest of this decade; the opening of sectors that were previously closed to foreign investors and Ethiopian Diasporas; the government's decision to privatize major State-owned enterprises; the completion within the next two years of industrial parks that are currently under construction; the dividend and goodwill generated from the peace process that our Prime Minister has initiated; and the dynamism of a new leadership in Ethiopia with a vision to take the country into a higher stage of development. These are some of the building blocks that will help us position our country as an attractive location for quality investment.

Aware of this potential, we, at EIC, have begun to introduce the tools and capacities that we need to create an investment promotion agency fit-for-purpose and capable of contributing to the country's development vision. During 2020, we will conduct a series of capacity building measures aimed at improving our statistical management capability, investment promotion skills and our ability to reach out to potential investors targeting those we wish to attract. We are currently developing a new investment promotion strategy that will reflect the new investment laws and regulations. We have introduced an online licensing system to ease the process for new investors and will continue to use digital technology as an effective tool for investment promotion and facilitation.

Strengthening our working relationship with regional investment offices/commissions will be given top priority, including through the application of digital technology to consolidate information on investors gathered by different regions. We are currently developing an 'aftercare' services strategy based on 'best practice' experiences to help us upgrade our work on investment facilitation, monitoring the contributions of FDI to job creation, export growth and capability building through linkages and provide the necessary support as the need arises. This will include supporting foreign investors in industrial parks working closely with the Industrial Parks Development Corporation (IPDC). We will also strengthen our analytical capability to ensure that the actions we take are based on informed evidence and reflective of the reality on the ground.

I wish to take this opportunity to thank other institutions – public and private – and development partners who collaborated with us and made our efforts to attract and retain investment possible. Above all, I wish to thank the staff at EIC for their dedication and commitment in translating our mission, hope and vision into a reality.

Abebe Abebayehu
Commissioner





Ethiopia at a Glance



General Info:

- **Official Name:** Federal Democratic Republic of Ethiopia
- **Capital City:** Addis Ababa
- **Area:** 1.13 Million square kilometers
- **Time Zone:** GMT +3
- **Population size:** ~110 Million



Leadership:

- **Head of State:** H.E. Sahle-Work Zewde
- **Head of Government:** H.E. Abiy Ahmed



Economic and Regional Outlook:

- **Currency:** Ethiopian Birr (ETB)
- **GDP per capita (2017):** 767.56
- **GDP (2019):** 91 Billion USD
- **GDP growth rate (10-year average):** 10%
- **One of the top 5 FDI destinations in Africa**
- **Regional platform:**
 - Current African country hosting the AU and ECA
 - Ratified of the African Continental Free Trade Agreement
 - Ethiopia has had strong ties within the Horn of Africa (incl. Eritrea)



New Leadership:

- H.E. Prime Minister Dr. Abiy Ahmed was **awarded the 2019 Nobel Peace Prize**
- Ethiopia's cabinet is now **a record 50 percent female**



New Strategy:

- Ethiopia has developed and is implementing a new **'Home Grown Economic Reform Agenda'** aimed at sustaining the country's rapid economic growth.



Business Environment:

- Ethiopia has implemented a series of reforms towards improving its investment and doing business environment.



Legal Reforms:

- Ethiopia has overhauled its investment law; a new Investment Proclamation has been issued
- Ethiopia is finalizing the revision of its **Commercial Code and Export Incentives Proclamation** to promote greater investment within the country.

Ethiopian Flag



Ethiopian Map



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1 Trends in FDI inflows to Ethiopia



Trends in FDI flows to Ethiopia

African economies can draw on a range of external sources of finance, including Overseas Development Assistance (ODA), loans (private and public), remittances, portfolio equity investment and Foreign Direct investment (FDI). For many, FDI has been the most reliable and largest source of external finance. It has also been an important source of technology transfer, access to management skills, marketing network and a major driver of export trade. FDI inflow into African countries has risen sharply in the last two decades, in line with improvements in economic performance and a growing global demand for African products.

Ethiopia has been one of the countries that has attracted substantial amount of FDI. However, despite high-level economic growth since early 2000, it was only after 2012 that Ethiopia began to attract FDI in quantities commensurate with the country's economic size and growth performance. Between 2003 and 2011, for example, Ethiopia's GDP growth rate was an unprecedented 10.3 per cent on average - up from less than 3 per cent annual growth during the previous ten years and much faster than the average annual growth in Africa as a whole (nearly 6 per cent). Ethiopia was one of the fastest growing economies in the world and even the global financial crisis of 2008/9 and the subsequent collapse in global commodity prices did not hinder Ethiopia's growth drive.

The impressive growth performance had a positive impact on the country's economy. Ethiopia's per capita income increased over two-fold during the same period, albeit from a very low base. The country's headcount poverty ratio (the percentage of its population living on an income of under \$1.25 per day in PPP terms) fell by more than half, meeting the Millennium Development Goals (MDGs) target well before 2015. These improvements were underpinned by a steady increase in public investment in agriculture, education, health and road development and a shift in industrial strategy towards export-led industrialization, anchored in the manufacturing sector and based on inputs from agriculture.

Transition from the least to the most favoured FDI destination in East Africa...

Yet, FDI inflow during the initial period of growth was consistently below the level expected for a country that was growing above the global average. As shown in Figure 1, between 2000 and 2011, Ethiopia was the least favourite FDI destination country in East Africa, attracting - in most years - below US\$500 million, despite the country's outstanding economic performance and a growth rate far above any country in the African region and the developing world as a whole.

FDI inflow in East Africa

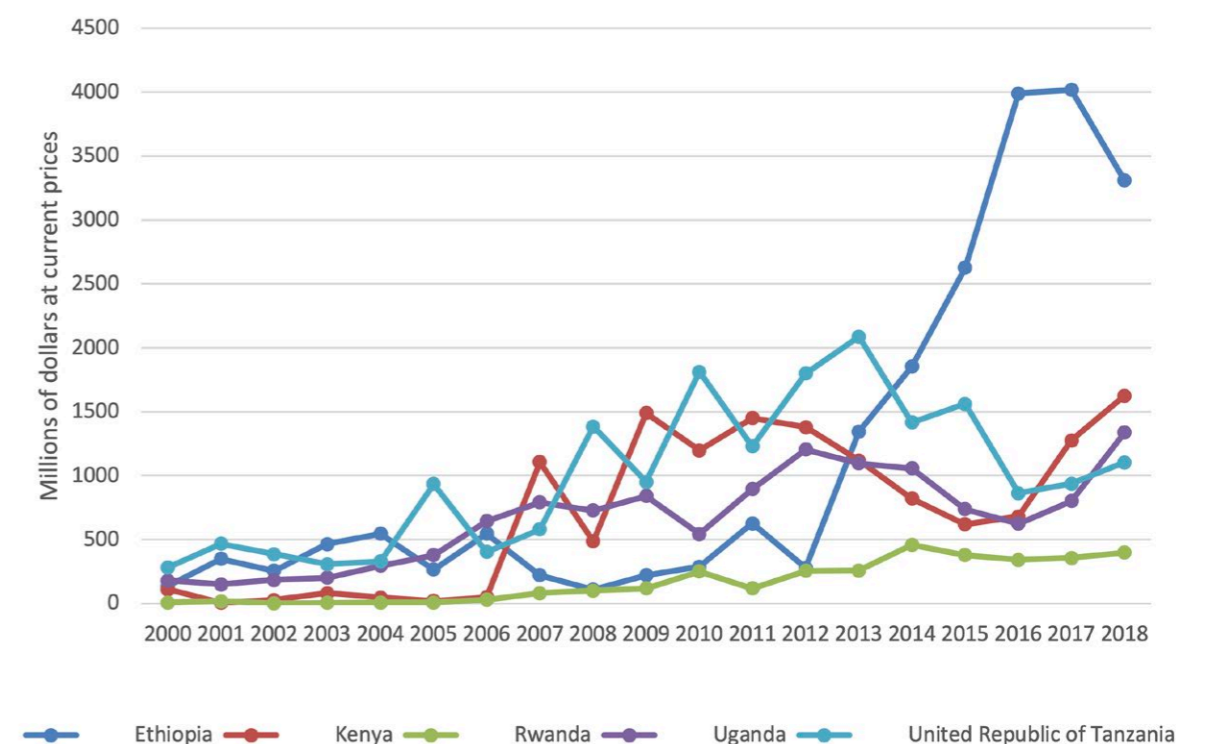


Figure 1. FDI Inflow in East Africa | Source: UNCTAD Database

However, Ethiopia's fortune as an FDI destination began to change around 2012. Since then FDI inflows to Ethiopia have been growing by 50 per cent per year on average, reaching the peak of \$4.1 billion in 2017. While FDI inflow to Ethiopia declined slightly in 2018 - in line with the global downward trends and

the slowdown in global economic growth - Ethiopia was still the largest recipient of FDI in the East African region and the fifth largest recipient of FDI in Africa after Egypt, South Africa, Congo and Morocco (Figure 2 next page).

Developing economies in Africa

FDI flows, Top 5 host Economies

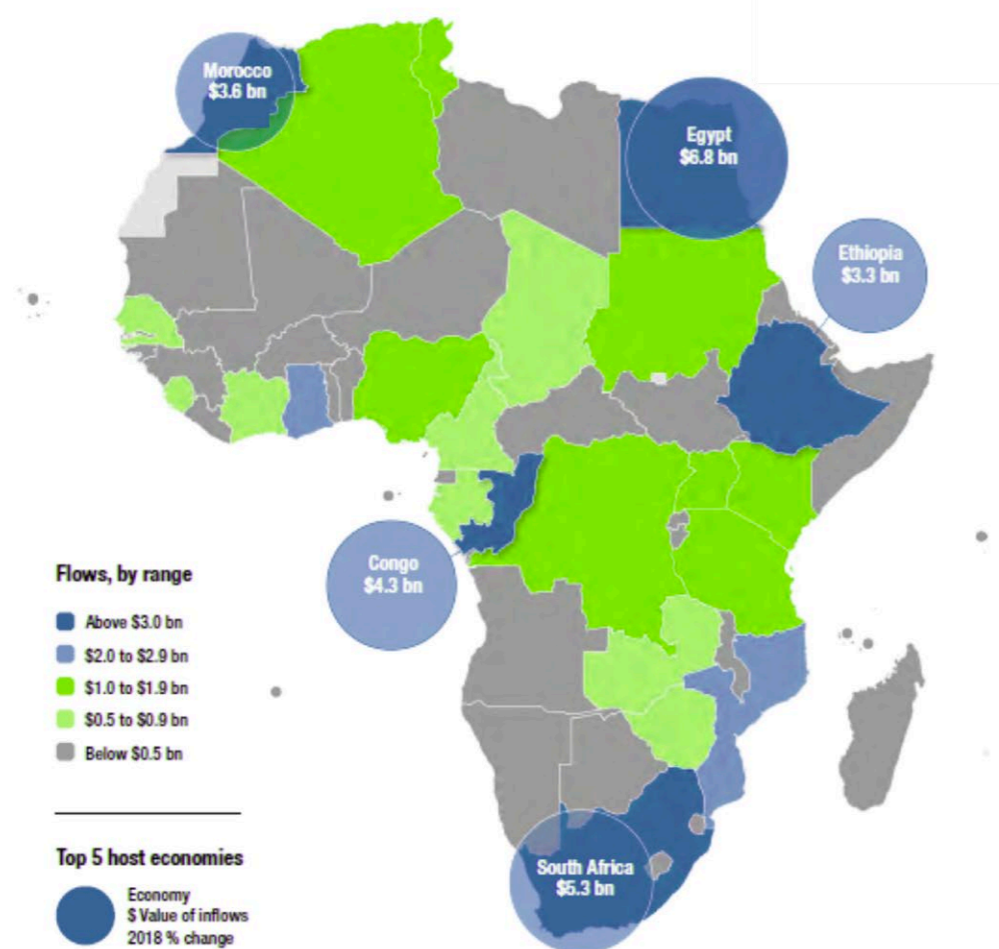


Figure 2. FDI Inflow, Top 5 Host Economies | Source: UNCTAD, WIR 2019

In fact, in 2018, Ethiopia absorbed about half of the FDI inflows to East Africa: the total quantity received that year was 3 times larger than the second-ranked country in the group (the Republic of Tanzania). Moreover, in 2018, Ethiopia's stock of FDI was larger than any other country in the region after remaining well below other countries during the first decade of 2000. Once again, the cut-off period for the sudden increase in the stock of FDI in Ethiopia was 2010/11.

FDI stock in East Africa

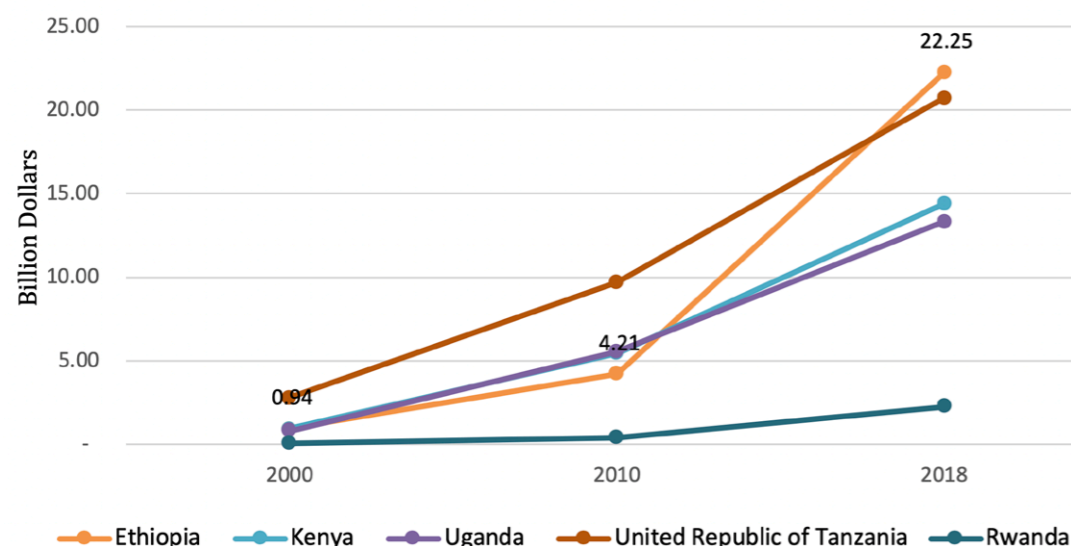


Figure 3 FDI Stock in East Africa | Source: UNCTAD database

What are the explanations for the post-2011/2 surge in FDI flows to Ethiopia? What has been the impact on sectoral distribution of FDI and its contributions to domestic productive capacity building?

Domestic investment-driven growth...

From Figure 1, it is evident that Ethiopia's rapid growth in the pre-2012 period was not driven by FDI but largely by domestic investment, particularly public investment in key sectors such as agriculture, infrastructure, construction and the services sector. During this period, public investment in infrastructure alone reached around 20 per cent of GDP (US\$6 billion), which was large relative to the size of the economy and compared to FDI flows to Ethiopia. The massive public investment helped to fuel domestic demand and enhance the economy's productive potential.

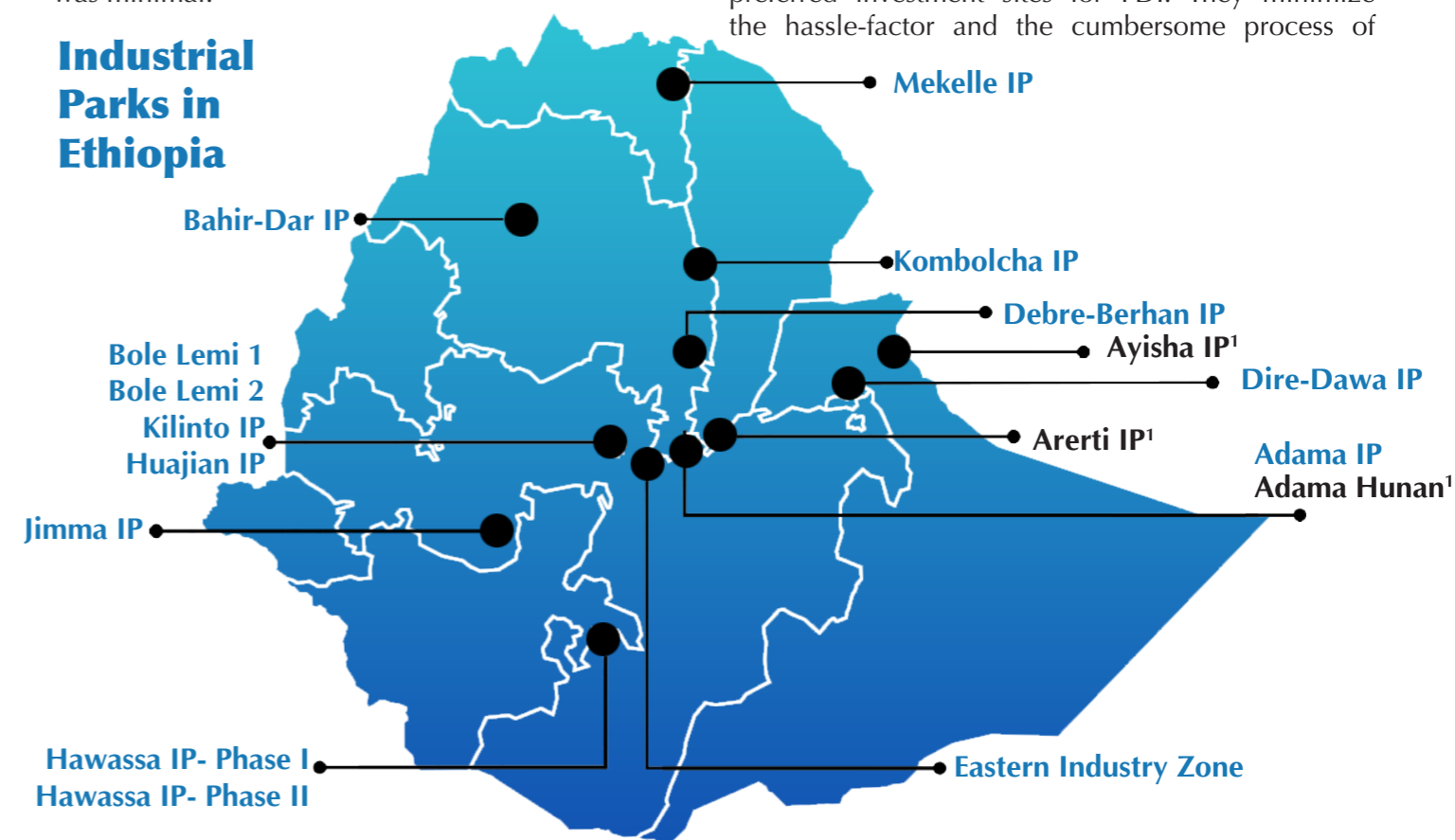
At that time, the most important source of external finance was not FDI but ODA and remittances, which helped to complement public investment particularly in social sectors. Rising international commodity prices also helped to increase merchandise exports at an average annual rate of 10.5 per cent between 2004 and 2009. Obviously, these favourable external environments helped to sustain the growth momentum. In contrast, however, the role of FDI in Ethiopia's growth process during the first decade of this century was minimal.

The turning point in FDI inflows...

The turning point for FDI inflow came when the country was preparing to implement its first Growth and Transformation Plan (GTP I – 2010-2015), which coincided with an increased inflow of foreign investment from non-traditional investors in the South, particularly Turkey, China and India, and the establishment and inauguration of the first industrial park in Ethiopia – the Eastern Industrial Zone (EIZ) – built by a Chinese private company, the Yonggang group. With hindsight, the construction and operation of the EIZ was instrumental in influencing the government's decision to build publicly owned industrial parks as policy instruments to attract export oriented (or efficiency-seeking) FDI and promote exports of value-added goods. In this respect, the decision to construct industrial parks was a step change in the evolution of Ethiopia's industrial policy and export-led industrialization strategy.

Industrial parks are specially designated economic sites containing all the necessary support systems and the basic infrastructure and services – such as, energy, water, transport connection, logistics, production sheds, etc., – that enterprises need to manufacture goods for export. The readily availability of these essential provisions and administrative services within a confined area makes industrial parks the most preferred investment sites for FDI. They minimize the hassle-factor and the cumbersome process of

Industrial Parks in Ethiopia





initiating investment, especially in countries where the administrative system is still underdeveloped and basic infrastructures are not widely available or accessible throughout the country.

It was not surprising, therefore, that the first Growth and Transformation Plan (GTP I – 2010-2015) identified industrial parks as one of the main policy instruments for driving the export-led industrialization agenda. Since 2011, the government has constructed twelve industrial parks and the total number – including private industrial parks – has reached nineteen. The plan is to construct a total of 30 industrial parks by the end of 2025. The parks are expected to attract investment into selected and largely export-oriented activities. The priority sectors include textile and apparel, leather products, agro-processing, pharmaceutical products and information and communications technologies (ICTs).

The first three sectors were selected to maximize Ethiopia's comparative advantages. The selection of the pharmaceutical sector and the construction of the Kilinto Pharmaceutical Industrial Park was based on a dual objective of creating import-substitution capacity and attracting export-oriented investment. The rationale for establishing the ICT Park in Addis Ababa in 2011 was to serve as the major driver of Ethiopia's Digital transformation agenda and attract investment in export-oriented IT products and IT-enabled services.

The sudden surge in FDI flows to Ethiopia since 2012 is undoubtedly related to the shift in industrial policy, particularly the decision to establish state-of-art industrial parks containing all the services and infrastructure necessary for investment. The parks have so far served as magnets pulling FDI into the country at a rate unprecedented in the country's recent history. More importantly, however, they have been instrumental in triggering new trends in the role of FDI in the country. Three of these trends are worth highlighting.

Manufacturing as a source of FDI attraction...

First, increasingly FDI in Ethiopia is concentrating in the manufacturing sector, which is exceptional for a low-income and agrarian-based African economy. In most developing countries, FDI is dominant in the extractive, agricultural and service sectors. Currently, on average about 60 per cent of FDI flows to Ethiopia goes to the manufacturing sector. This makes Ethiopia one of a handful African countries where the bulk of FDI stock is invested in the manufacturing sector, largely due to investment attracted into the industrial parks. This is good news for Ethiopia. It illustrates that the Government's ultimate objective of growth with structural transformation and sustainable development by encouraging investment flows into productive sectors is working.

Trends in FDI flows in the manufacturing sector (in Billion USD)

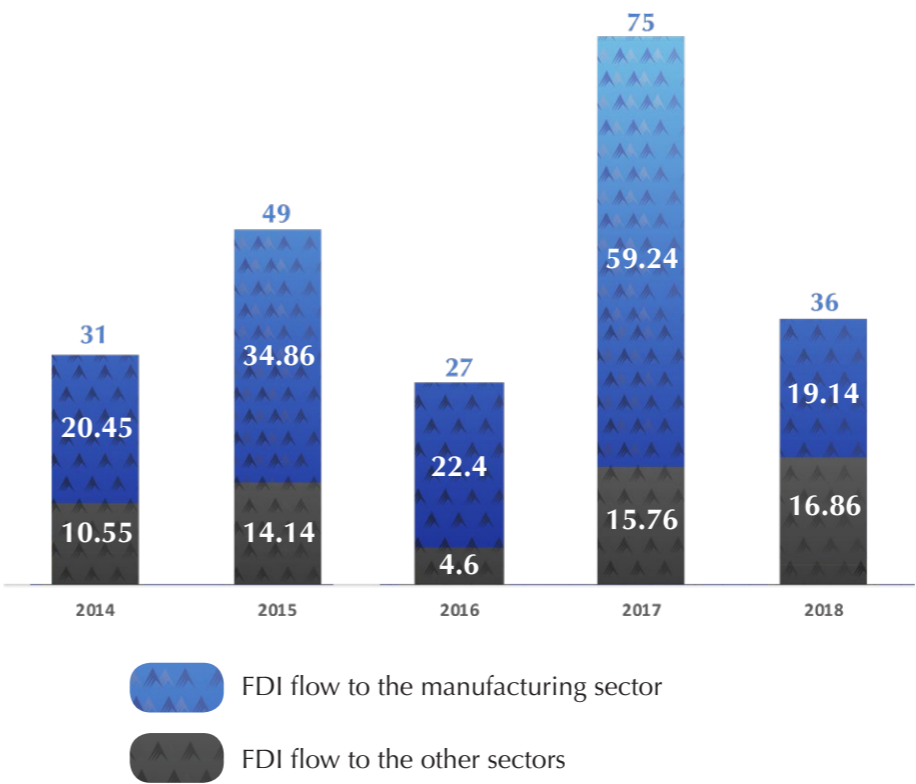


Figure 4 FDI in Ethiopia in Billion USD | Source: EIC



The surge in 'greenfield investment'...

Second, increased FDI flows to manufacturing sector represent a surge in what is often referred to as 'greenfield investment', which is investment in new and productive investment projects. These are the types of FDI that countries prefer to attract because of their positive impact on job creation, introduction of new technology and sometimes new products.

Announced greenfield investments in textile and leather sectors

Country	Amount
Kazakhstan	2656
Vietnam	869
China	466
Ethiopia	306
Indonesia	193
India	157
Russian Federation	150
Cambodia	149
Mexico	140
Serbia	129
France	92
Myanmar	77
United Kingdom	65
Egypt	50
Bosnia and Herzegovina	47
Finland	46
Belarus	39
Dominican Republic	30

Table 1. Announced Greenfield Projects Millions USD
Source: UNCTAD database

Globally announced greenfield investment has been on a long-term downward slide for the last decade. In Africa, Ethiopia is one of a few countries where announced greenfield investment has been rising in recent years linked to increased investment in industrial parks. According to UNCTAD, for example, in 2018, Ethiopia was among the top five countries in the world that have attracted a significant amount of greenfield investment into the textile, clothing and leather sectors. (Table, 1).

The contribution of FDI to domestic capital formation.....

Third, the upsurge in greenfield investment flows to Ethiopia has implications for productive capacity building through its impact on Gross Fixed Capital Formation (GFCF). GFCF measures the net investment in fixed capital, which is indicative of how much a firm or a country is developing its productive capacity. Ultimately, economic development is not about achieving high level growth only, as is often assumed, but also about building the productive capacity that a country needs to produce a wide range of high-quality products and services for domestic consumption and/or to export competitively. While it is possible to achieve high-level growth without necessarily making significant progress in productive capacity building, in the long-term, the growth achieved will be unsustainable without productive capacity building. The latter requires a process of capital accumulation and investment in fixed capital. GFCF measures the net increase in fixed domestic capital.

Generally, countries with rapid rates of economic growth tend to devote a higher percentage of GDP to investment, most of it invested in fixed assets, including technology, to enable them to improve productivity and achieve economic growth. The more countries increase net investment in fixed capital and replace old technologies by new and emerging technologies, the more likely that these countries accumulate productive capability and achieve sustained growth.

FDI inflows as a percentage of Gross Fixed Capital Formation (GFCF)

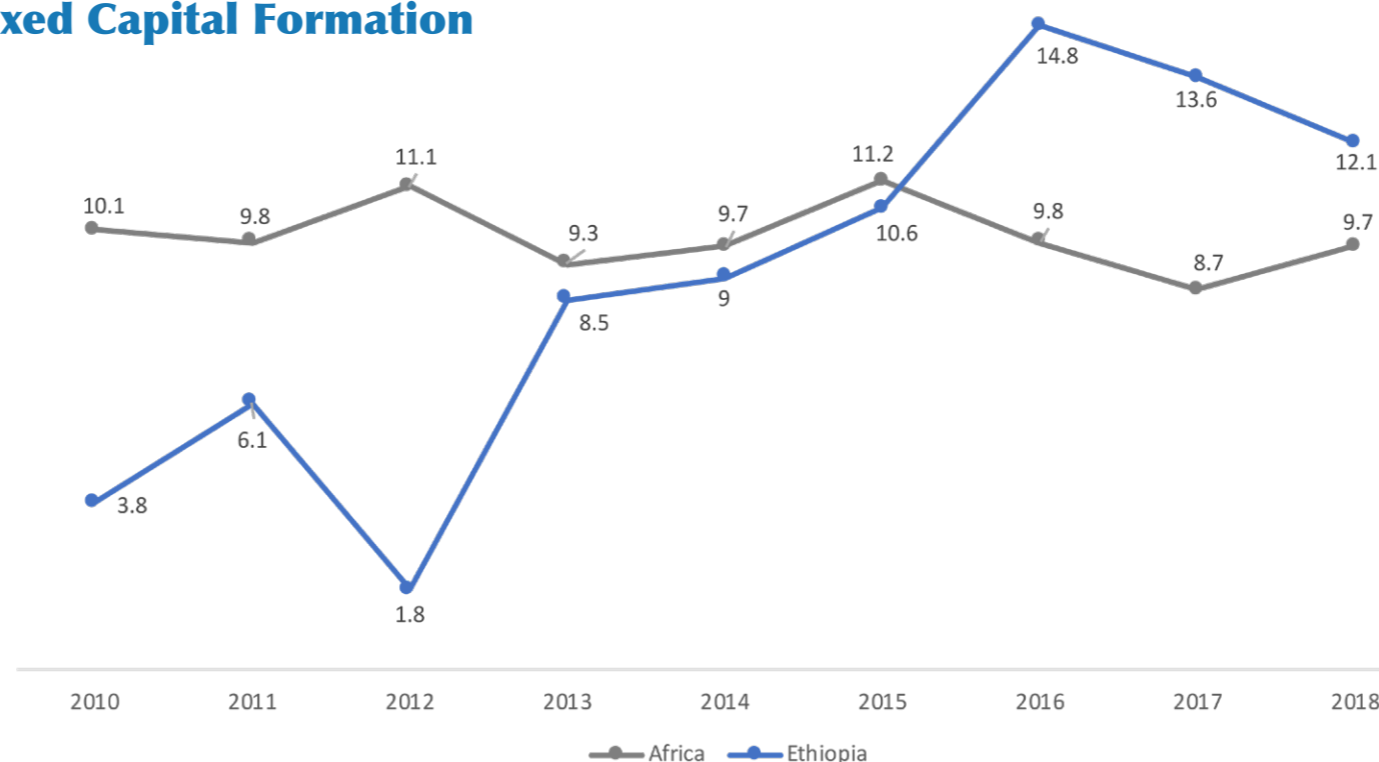


Figure 5 FDI Inflows as a Percentage of Gross Fixed Capital Formation (GFCF)

Figure 5 presents the share of FDI in GFCF in Ethiopia. It is evident that the proportion of FDI flows as a percentage of domestic capital formation in the early growth years was insignificant. However, as FDI inflows increased, the share of FDI in total GFCF rose rapidly and significantly from less than 2 per cent in 2012 to 15 per cent in 2016, suggesting that FDI has become a major contributor to domestic capital formation and productive capacity building. As FDI inflow declined slightly in the last two years, there has been a downward slide in the share of FDI to GFCF. However, it remains higher than the average for African countries.

The way forward...

The world is on a slow and uneven growth trajectory with uncertainties on the future of the multilateral trading system and the impact of the coronavirus on investment flows and the smooth operation of the Global Value Chains (GVCs). It is difficult to predict the trend in global FDI flows in such uncertain times. However, given the intensity and scope of the economic reforms that are currently underway in Ethiopia, which includes a major overhaul of investment laws and the privatization of major State-owned enterprises, and the completion of a number of industrial parks that are currently under construction, it is expected that in the course of 2020, Ethiopia will attract greater amounts of FDI exceeding the peak reached in 2017.





2

Economic reforms and implications for investment



2. Economic reforms and implications for investment

A. The Homegrown Economic Reform Agenda

Over the past 15 years, the Ethiopian economy registered a double-digit growth rate and over a three-fold increase in per capita income. Growth was poor as reflected in a significant poverty reduction and improvements in access to education, health and infrastructure. This remarkable progress was made possible through a public investment agenda aimed at building critically needed human and physical capital.

Sustaining this significant progress requires correcting macroeconomic imbalances, easing structural and institutional bottlenecks to doing business, and creating new sources of jobs and productivity growth. To assist with these adjustments, the Government of Ethiopia has launched a comprehensive and well-coordinated homegrown economic reform agenda aimed at stabilizing the country's economy within the next three years. The home-gown reform agenda has three pillars:



Macroeconomic reforms to correct foreign exchange imbalances, control inflation, safeguard financial stability while promoting intermediation, and ensuring debt sustainability;



Structural reforms to ease institutional and structural bottlenecks to productivity and job growth; and



Sectoral reforms to address institutional and market failures inhibiting productivity growth in key strategic sectors.

Key priority sectors where reforms are particularly targeted include agriculture, manufacturing, tourism, mining, and ICT.



Homegrown Economic Reform Agenda Pillars

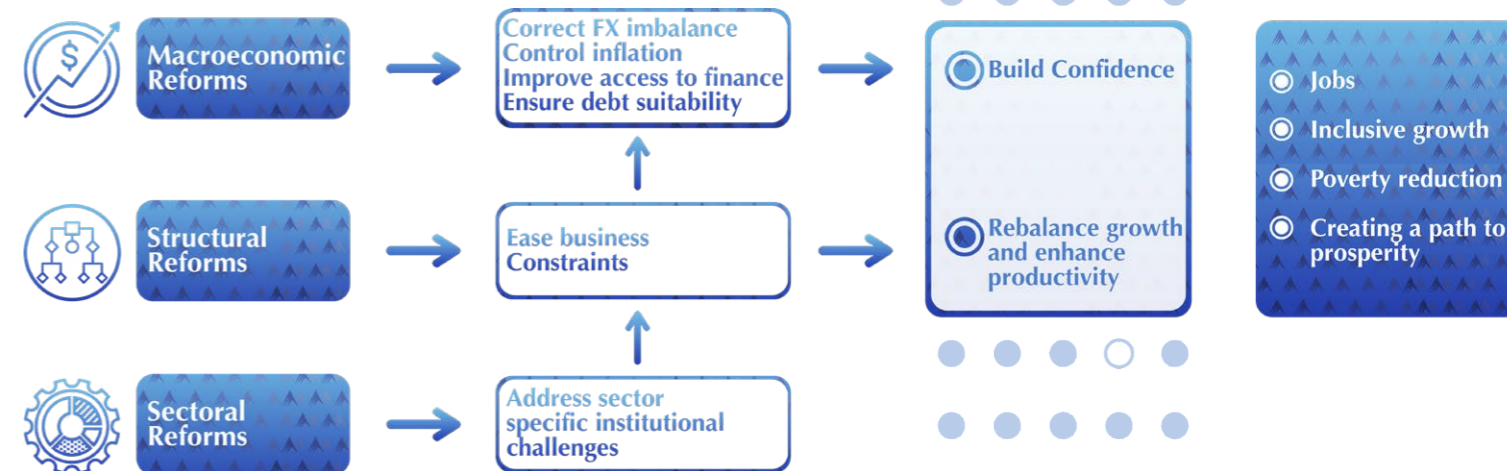


Figure 5. Homegrown Reform Agenda Pillars and Framework



DB reforms implemented in the short-term/up to May 2019

To achieve quick ranking improvements, 8 new laws and 40 procedural and administrative reforms were enacted in 5 months. These short-term reforms focused on 'quick-wins' while laying the ground for a more ambitious medium and long-term reforms.

1. Starting a business

- Company name publication requirement removed
- Lease/rental agreement requirement removed
- OSS at MOTI (covering tax and authentication) created
- Legal base for the application of software replacing cash register machine created

2. Getting credit

- Directive to include MFIs and leasing companies in to NBE credit registry system adopted
- Credit information system coverage expanded from 0.4% to over 5% of adult population
- Movable properties security rights proclamation approved

3. Trading across boarder

- Electronic single window system piloted
- Deferred payment; pre-arrival & advance ruling implemented
- Number of documents required for import & export reduced by 4 (12-10 for export; 11-9 for import)
- Risk level for both import & export improved (more yellow & green) reducing the need for physical inspection
- E-certificate of origin implemented

4. Paying tax

- E-filing & e-payment on gradual expansion beyond large tax payers (2,800 e-filing, 25% medium tax payers)
- Tax payment through banks implemented
- Dedicated medium tax payers branch opened
- Risk-base VAT refund system introduced

5. Dealing with construction permit

- Online construction permit application platform piloted
- Registered professionals for verifying plans; inspection and supervision hired
- Directives issued to:
 - Set time standard to connect to water (3 days) & sewerage (12 days) for commercial & industrial clients
 - Reduce time to get planning consent from 3 days to 45 minutes
 - Reduce the maximum number of days for review and approval of plan to 13 from 21 days

6. Registering property

- Digitalization of majority of title deed - 77.4% scanned & 22.8% fully digitalized □ Land plot fully digitalized
- Document requirements, land transactions and disputes availed online
- Notification period on transaction reduced from 30 to 7 days
- Time to get tax clearance reduced to 1 day

7. Enforcing contract

- Commercial benches expanded (additional 2 benches established at FFIC)
- Commercial bench procedure code enacted setting time standard for court events and introducing new case management systems

8. Getting electricity

- Effective tariff information availed online
- Working procedure revised to reduce number of documents required

DB reforms in the pipeline

Starting a business: a legal reform was approved by the government in November 2019, eliminating lease agreement and authentication requirements. In addition, online business licensing system has been finalized and will be launched in the first quarter of 2020.

Getting credit: Credit information system has been expanded further to include Micro-Finance Institutions (MFIs) and lease companies. Movable assets as security rights proclamation has been enacted in August 2019. Currently, collateral registry system is under development.

Paying tax: VAT amendment proclamation has been enacted in November 2019. The proclamation reduces the frequency of VAT reporting by small and medium businesses from monthly to quarterly and the time it takes to refund expenditure on capital goods. E-filing and e-payment systems are also being expanded to cover large and medium taxpayers.

Trading across borders: The development of electronic single-window for cross-border trade has been finalized and will be operational in the first half of 2020. The risk-based customs clearance is also being modified constantly to optimize results. The government has also decided to eliminate the mandatory hiring of clearing agents to reduce the cost and time it takes to start business. Finally, the freight transport sector, which was previously a government monopoly, is now open to investment under the reformed investment laws.

Protecting minority investors and resolving insolvency: A new Commercial Code has been prepared (replacing the 60+ years old commercial code) based on experiences of best practice in insolvency and protecting minority investors regime. The Code is expected to be enacted during 2020.

Construction permit: Risk-based inspection system has been introduced and the process has been streamlined to reduce time and cost. Furthermore, legal reforms for insurance and liability clause have started, including online application and follow up systems.

Registering property: Online application portal is being developed to ease the process of registering property.

Getting electricity: Online application platform is being developed, which is expected to reduce the time it takes for installation and make the process more transparent.

Enforcing Contracts: Specialized commercial court have been established to deal with enforcement of contracts. A new commercial bench proceeding code has also been enacted, mandating shorter time standard.



3

Investment
reforms



A. Reform in Ethiopia's investment legislation

Investment is, without doubt, one of the primary engines of growth in all economies. The challenge for many countries, particularly low-income economies, however, is how to attract quality investment in sufficient quantity. Ideally, the most viable and sustainable option is to rely on domestic investment and the domestic private sector to kick-start and sustain the process of growth and economic development. Unfortunately, not all countries have the savings capacity or a strong private sector that could propel a dynamic investment-growth nexus. Hence the need to rely on foreign savings and attract Foreign Direct Investment (FDI). FDI is expected to inject into the host country not only the capital needed to initiate investment projects but also bring with it technology, technical know-how, management skills and global marketing networks. These elements make attracting FDI a natural point of departure for countries such as Ethiopia, seeking to achieve high-level growth and implement a robust export-led industrialization strategy.

However, attracting quality FDI and retaining it is neither easy nor straightforward, as is often assumed. It requires, among other things, a favorable macro policy environment, specific policies and institutions aimed at attracting investment, and clearly defined laws and regulations that are transparent, predictable and easy to implement. The existing investment regime issued in 2012 (Investment Proclamation No. 769/2012) lacks these essential features. Thus, during 2019, Ethiopia initiated major reforms in investment laws and regulations radically changing the focus, scope and level of openness of the investment regime.

In January 2020, the Ethiopian parliament approved the new investment proclamation, marking a major shift in the country's policy direction towards investment, particularly foreign investment. This report will briefly outline the rationale for revising the existing investment laws and the implications for investment promotion.

What was the rationale for revising the investment legislation?

- Modernize the legal, regulatory and administrative framework of Ethiopia's investment regime and investment policy framework;
- Align the investment regime with national development goals and the recent reforms in policy direction and priorities;
- Revisit and revise the sectoral restrictions imposed on foreign investment, including on Ethiopian Diasporas with foreign nationalities;
- Establish a more user-friendly investment regime by moving from a 'positive' to 'negative' listing approach to identification of sectors and activities that are open to foreign investors;
- Adopt best practice investment promotion, facilitation and aftercare services and efficient investment administration system, including One-Stop-Services; and
- Devise a faster and more transparent investor grievance handling mechanism.
- Align the investment regime with the country's commitment under African the Continental Free Trade Area (AfCFTA) and the plans to join the World Trade Organization (WTO).

Inclusive and consultative approach to reforms

The revision of the investment laws was conducted by a team appointed by the EIC. The team, consisting of investment law experts, policy analysts/advisors, legal practitioners and researchers, was supervised by the EIC management, which provided guidance and reviewed and approved key milestones in the process. From the start, the approach followed was transparent, evidence-driven and based on consultations with all relevant stakeholders.

In discharging its responsibility, the team used the following methodological approaches:

Legal analysis

Review of the current and preceding investment policy, proclamations, regulations, and identify strengths and limitations;

Benchmarking

In-depth desk research on the evolution and development of investment laws in several countries to draw lesson for Ethiopia (about 25 countries);

Empirical evidence

Gathering empirical evidence and data from international organizations that have wider perspectives on investment policy and regulations such as the United Nations Conference on Trade and Development (UNCTAD), the World Bank (WB), the International Financial Corporation (IFC) with a view to arriving at informed recommendations;

Consultations with government agencies

Held consultations with high-level officials from several sectoral Ministries and other public institutions;

Consultations with sub-regional investment offices

Held one-to-one consultations with relevant officials from Oromia, Amhara and Tigray Regional States;

Feedback from foreign investor associations:

Useful feedback was received from American, EU, French, Netherlands, Indian, Chinese and British investor associations;

Survey

A survey was conducted to solicit views and suggestions from investors in Ethiopia, both domestic and foreign;

Validation Workshops

Several validation workshops were organized involving private investors and public sector actors;

Review of the draft law

Written comments and feedback received from over 20 Ministries/Agencies and investor associations.

Government commitment to enhance the role of the private sector in the economy

Ethiopia has pursued a public investment-led economic development model since the mid-1990s, reserving a pro-active role for the government in many sectors of the economy. Some of the more notable features of the policies applied include high-level public investment in basic infrastructure, in particular transport and energy; enhancing productivity in smallholder agriculture through massive investment and extension services; stimulating consumption-driven growth through interventionist macroeconomic policies; regulating the operations of both domestic and foreign enterprises; promoting economic diversification through the Agriculture-Development Led Industrialization (ADLI) strategy; and initiating bold and ambitious public sector projects.

These sets of policies have served Ethiopian development well over the past two decades and are the main factors for the country's impressive economic growth and outstanding performance in poverty reduction. Ethiopia's growth rate has been consistently well above the African and global average since 2003 making the country one of the fastest growing economies in the world. Between 2003 and 2014, Ethiopia reduced the level of extreme poverty by half thereby meeting the internationally agreed poverty reduction goal well before the 2015 Millennium Development Goals (MDGs) deadline.

Building on these initial successes, Ethiopia has embarked on the next and more demanding stage of its development process. It has adopted an export-led industrialization strategy anchored in the manufacturing sector. As the country implements this ambitious and challenging strategy, however, it may prove increasingly difficult to continue to rely on the same policy mix and source of growth that has enabled the country to achieve the recent impressive growth record. The country needs to shift gear and increase the role of the private sector in the economy, complementing the important function that the public sector will continue to play in building the country's basic infrastructure, knowledge-base and macroeconomic stability.

There is a growing recognition of the need for such a balancing act, particularly by the new administration under the leadership of Prime Minister Abiy Ahmed since 2018. Since his appointment as the Prime Minister in April 2018, Dr Abiy Ahmed has emphasized the need for a balanced approach to economic development, particularly the respective roles played by the private and public sectors in the economy.

In a major speech at the 2019 World Economic Forum in Davos, the Prime Minister outlined his government's intention to open up sectors that were previously closed to foreign investment, consult regularly with the private sector, and create a business environment conducive for private investment. He reaffirmed that the first act towards meeting these objectives would be to revise Ethiopia's investment laws and the regulations that govern investment activities in Ethiopia.

In addition to reforming investment laws and rules, other specific policy measures to be taken to enhance the role of the private sector in the economy include:



PRIVATIZATION:

A programme to privatize State-owned enterprises (SOEs) has already been initiated. The objective is to reduce public sector involvement in productive and service sectors through partial equity sales in four strategic sectors (airlines, telecom, power, and logistics) and full privatization of several other SOEs (sugar plants, railways, industrial parks, etc.);



PUBLIC-PRIVATE PARTNERSHIPS (PPPs) :

A new policy commitment to increase public-private partnership, particularly in the implementation of large-scale projects. Already, the government has plans for \$7 billion worth of infrastructure projects to be implemented through PPPs;



EASE OF DOING BUSINESS:

To improve Ethiopia's standing in the ease of doing business ranking, which measures the extent to which countries' regulatory environment is conducive to business operation and protection of property rights; and



ACTIVE ENGAGEMENT IN REGIONAL AND INTERNATIONAL TRADE AGREEMENTS:

Ethiopia will participate actively in regional trade negotiations and intensify the process of accession to the World Trade Organization (WTO).



Improvements in the new investment law

Addressing the limitations of the 'positive' list approach

One of the most significant adjustments to the existing investment regime has been the shift from a 'positive' to 'negative' list approach when classifying sectors or economic activities that are open to foreign investors. The 'negative' list model identifies and defines exhaustively the investment areas that are fully or partially restricted to foreign investors. Experience shows that most investors find this approach more transparent, predictable and less confusing. It also makes attracting and facilitating investment relatively easier for host countries.

1. Investment definition, scope, and screening	
Investment definition	1. Recognizes acquisition of shares 2. Recognizes all forms of Intellectual Property
Domestic investor status	1. Gives a grandfathering protection for operational investments with domestic investors status
Jurisdiction	1. Extends delegation to Ethiopian Communication Authority and the National Bank of Ethiopia
Minimum capital for foreign investment (\$200,000 - \$150,000)	1. Waives requirement if already fulfilled by main FDI firm and/or PLC 2. Exempts existing investments wanting to engage in new areas

2. Investment organs	
Ethiopian Investment Commission (EIC)	1. Clarifies mandate (proactive investment promotion, aftercare, investment climate improvement, investor feedback loop etc...)
Ethiopian Investment Board (EIB)	1. Adds two non-voting private sector representatives. 2. Instructs the issuance of procedures for submission of application, decision making, and dissemination of decisions
Federal Government and Regional State Administrations Investment Council	1. Establishes a Federal-regional Investment Council chaired by the PM, comprised of regional presidents, mayors, Investment Commissioners/Heads 2. Clarifies investment land approval

In contrast, the 'positive' list approach that existed before the recent revision of the investment regime presents a list of sectors and activities open to foreign investment along with an exhaustive 'negative' list of sectors reserved for the government and those reserved for domestic investors. This tends to create ambiguity, especially in new and innovative areas, and gives the perception that the Ethiopian economy is closed to foreign investors. By repealing the existing 'positive' list system and replacing it by a 'negative' list, the new investment proclamation has made it relatively easier to revise the list over time and as new activities arise that require foreign investment.

The sector listing in the new investment proclamation include the following:

- Areas reserved for Joint Venture (JV) with the government;
- Areas reserved for domestic investors;
- Areas reserved for JV with domestic investors (with equity cap) and

All investment areas that do not fall under the investment areas mentioned above will be open to foreign investors, subject to legality, morality and public safety. To maintain the policy space of the government in view of the shift towards a 'negative' list approach, the Ethiopian Investment Board is given the authority to allow the participation of foreign nationals in areas closed to foreign investors or restrict the participation of foreign investors in sectors open for foreign investment.



Strengthening Coordination between the EIC and Regional Investment Offices

While the EIC is Ethiopia's leading investment promotion agency and responsible for the implementation of the national investment policy under the supervision of the Ethiopian Investment Board (EIB), at regional level, the tasks of facilitating and supporting investors, both domestic and foreign, are undertaken by Sub-Regional Investment Offices. Thus, at the operational level, the role of Sub-Regional Investment Offices and governments is critical, making collaboration with EIC an essential requirement for efficient implementation of investment policy.

To strengthen this important relationship, the new Investment laws have included a clearly defined legal basis for collaboration between the EIC and Sub-Regional Investment Offices. One key innovation in this regard is the establishment of an intra-governmental forum (i.e, between the central government and sub-regional governments) (IGR Forum) for joint vision/strategy setting and high-level problem solving. The IGR Forum is composed of the Prime Minister and the Presidents of sub-regional governments (including the Addis Ababa and Dire Dawa City Administrations). The IGR Forum is expected to iron out investment facilitation-related challenges as they arise and as necessary.

3. Investment facilitation	
One Stop Shop Services (OSS)	1. Expands service coverage to regions (for domestic investment) 2. Adds post-establishment stage (business license renewal) services
Visa	1. Clearly defines EIC facilitation role 2. Gives a right to apply for visa from 3rd country 3. Allows 5 years multiple entry investment visa for owners and shareholders 4. Allows 3 years multiple entry investment visa for general manager, board members and top managements

4. Investment administration	
Investment permit issuance, renewal, and cancellation	1. Recognizes online system 2. Clearly defines timeline for permit approval, grounds and process for suspension and revocation
Grievance handling	1. Outlines process for grievance handling o Bases it against final decision of EIC and other federal agencies 2. Sets escalation mechanism to Ethiopian Investment Board
Dispute settlement/investment protection	1. Provides Alternative Dispute Resolution (ADR)

Relaxing the investment sectors open for Ethiopian Diasporas

Remittances sent by Ethiopian Diasporas currently constitute a significant source of external financing, much larger than the other three important sources of foreign exchange income namely, Overseas Development Assistance (ODA), FDI and earnings from exports of goods. However, remittances are private sector financial flows sent to family members in Ethiopia for the purposes of supplementing household income or to finance investment in real estate. Available evidence suggests that up to 60% of remittances received by households are used for consumption purposes and to finance health care and education.

Harnessing remittances for purposes of investment – other than consumption – will require targeted policies and investment laws that make it attractive for Ethiopian Diasporas to use their savings abroad for investment in productive sectors in Ethiopia. The new investment regime has taken steps in this direction. The new investment laws allow Ethiopian Diasporas, including those with foreign nationality, to invest in any sector without restrictions and be on a par with Ethiopian nationals. In this respect, the new investment laws will attract not only the diaspora members' savings and investment potential, but also their latent role as “knowledge brokers” who could facilitate the emergence of new trade patterns, technology transfer, skills and knowledge exchange.

Other Issues Addressed in the new Investment Proclamation

The new investment proclamation provides clear provisions on the conditions and procedures for issuing, renewing, suspension and cancellation of investment permits. It has also added clear provisions on investment guarantees and protection and has elaborated the rules and procedures for handling investment disputes and grievances raised by investors.

The new proclamation also includes several first timer provisions that have implications for investment administration. For example, there are new provisions on the composition and responsibilities of the Ethiopian Investment Board (EIB). It also clarifies the mandate of the EIC and reinforces its role in investment promotion, facilitation, aftercare, investment climate improvement etc. Finally, it recognizes online systems of investment licensing and registration as essential tools for the administration of investment laws and regulations.

B. Key takeaways under the new investment legislation

Providing legislative clarity

The existing law guarantees investors the right to employ qualified foreigners as managers, supervisors, trainers and other technical professionals (subject to transfer of skills and know-how to Ethiopian replacements). However, in the previous investment regime, neither the substantive laws nor the procedures were explicit in terms of how this process is carried out in practice. To ensure the required level of transparency and predictability in the system, the new investment proclamation has substantially expanded the specific provisions dealing with expat employment. The new proclamation clarifies the rights and obligations of foreign investors, detailing the procedures that apply and specifying the respective roles of line ministries in delivering the services.

In Ethiopia, investors are permitted to employ foreigners in top management positions without adhering to conditions or restrictions that apply to other expats. However, unfortunately, the previous investment proclamation did not distinguish between the different top management positions, for example, Chief Executive officer (CEO), Chief Operations Officer (COO), Chief Finance Officer (CFO), etc. To remedy this ambiguity, the new investment legislation have included an indicative list showing the types of positions that are considered as top management in the context of the Ethiopian investment regime.

End-to-end provision of work permit related services

Under the previous investment laws, EIC's One Stop Shop facility offered work permit related services (covering issuance, renewal, replacement, suspension and cancellation of foreign employee work permits); but this had limited timeframe, i.e., the service was extended only until the investor obtains the business license or basically enters into project implementations phase. This led to unnecessary division of work streams between the Ministry of Labour and Social Affairs and the EIC – causing difficulty in the effective delivery of services to investors. In recognition of this problem, the new investment laws have streamlined the process to enable investors to receive end-to-end services at the One Stop Shop of the EIC. The Commission shall provide work permits at any stage of the investment cycle – representing the Ministry of Labour and Social Affairs.

Work permit to a co-habiting spouse

As part of making the investment landscape more attractive to foreign investors and foreign employees with families, a new substantive right is formulated under the new proclamation – clearing the possibility that a work permit may now be issued to a cohabiting spouse of any investor and a foreign worker.



4

Ethiopian Investment Commission: Key undertakings

4. Ethiopian Investment Commission: Key undertakings

A. Online registration and licensing: Keeping up with time

EIC Online System: As part of the Commission's desire to provide services via digital platforms, the EIC, in collaboration with the International Financial Cooperation (IFC), has developed an Online Investment Services Management System. Through this platform, the Commission aspires to provide online investment services effectively and efficiently. The System was developed by an Ethiopia-based IT company with vast experience in this area. This system can be found on invest-ethiopia.com.

The system was launched in May 2019 and currently provides two types of services online - Registration of New Investment Permits and Registration of Expansion of Investments). Eight other services, including incentive management, commercial registration and other, are currently at the pilot testing stage and will be operational very soon.

Chinese Portal: The EIC, in collaboration with the Partnership for Investment and Growth in Africa (PIGA) project, has also developed a web-portal aimed at providing up-to-date information to potential Chinese investors. So far, the Chinese portal with translation to English, has gained the attention of global viewers with more than 43% of the views originating from China.

Scan here to get to our websites and services



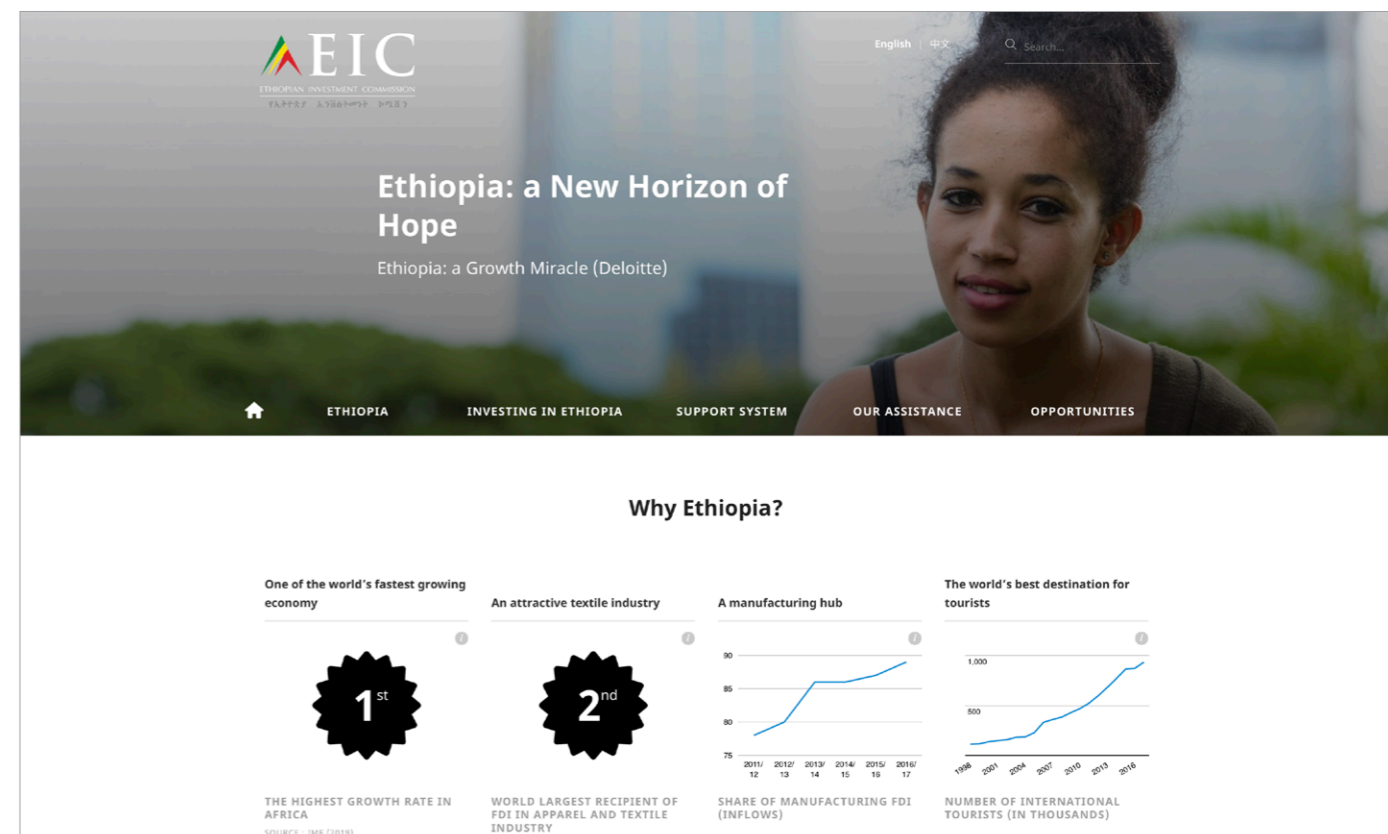
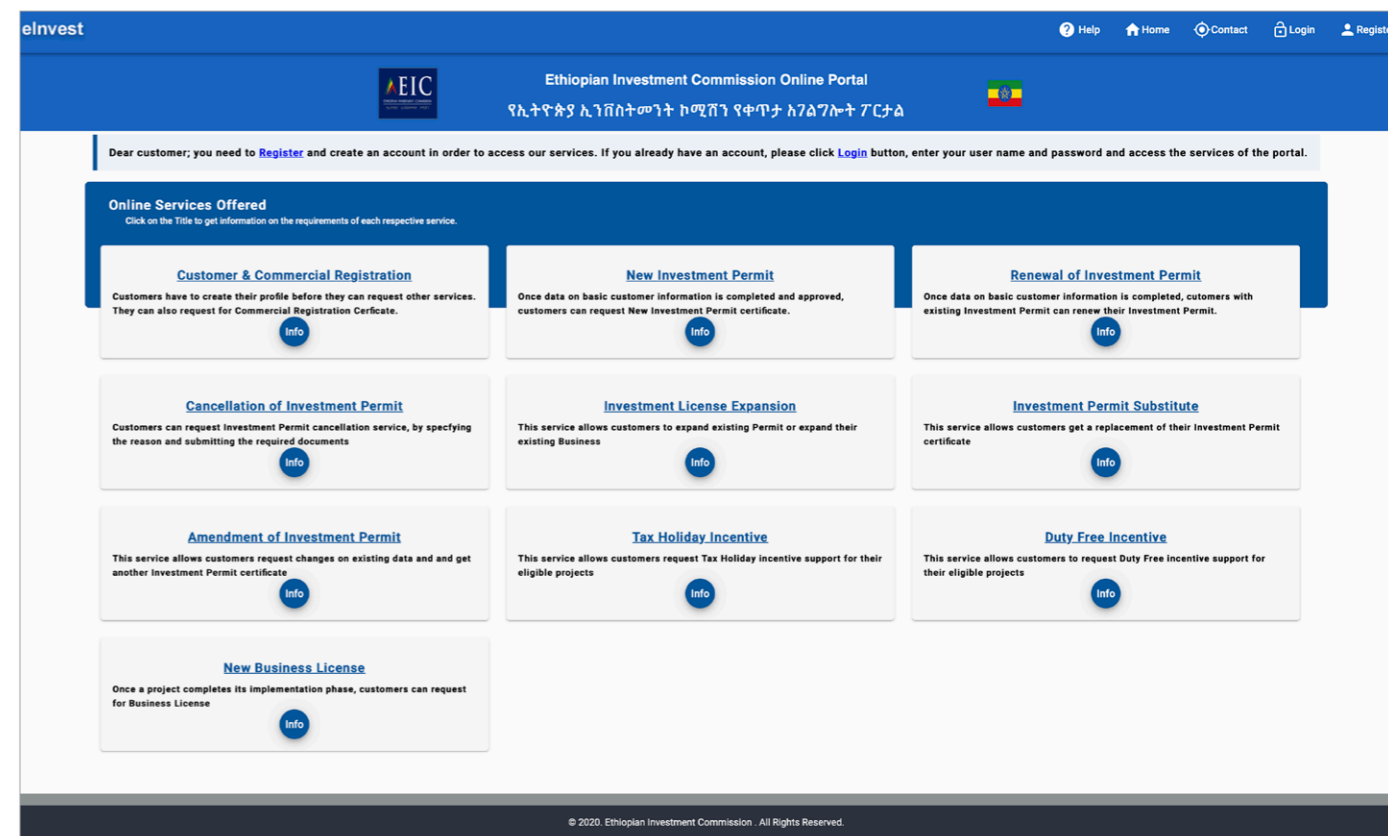
EIC's Online Licensing System can be found here.



EIC's Chinese Portal can be found here.



English version of EIC's Chinese Portal can be found here.



B. Partnership-driven investment promotion: Partnership for Investment and Growth in Africa (PIGA) Project

PIGA is part of the Manufacturing Africa (MA) initiative that the Department for International Development (DFID) of the UK established to facilitate the flow of foreign direct investment with high development impact into selected African countries.

PIGA is a multi-national programme aimed at contributing to job creation and sustainable growth in Ethiopia, Kenya, Mozambique and Zambia by supporting these countries to attract foreign direct investment, specifically Chinese investment, in the agro-processing and light manufacturing sectors. PIGA is also designed to enhance the capacity of these countries in investment promotion.

PIGA is implemented by the International Trade Centre (ITC), a UN body based in Geneva, in cooperation with the China Council for the Promotion of International Trade (CCPIT) and the China–Africa Development Fund (CADFund) as well as investment promotion agencies in each of the programme countries. In Ethiopia, ITC partners with the Ethiopian Investment Commission (EIC) for the implementation of the project.

Project achievements in Ethiopia:

Output 1: Generating business leads

- Since the start of the project implementation period in 2017, PIGA has been actively engaged in promoting Ethiopia, through a series of investment promotion activities, as an attractive destination to Chinese investment. These efforts have generated close to 27 promising investment leads with an estimated total value of over US\$2.5 billion. The promotion activities are focused mainly in the pharmaceutical, medical equipment, textile and paper processing sectors. It is estimated that the investment interest expressed to date has the potential to generate more than 35,000 jobs.
- Four leads with a total value of about US\$2.3 billion have progressed into MoU signing stages (\$2 billion of this is represented by a mega scale bamboo pulp & paper project proposed by Taison Group and partners).

- One of the four MoU stage leads has been converted into an actual investment, with a large state-owned Chinese textile & apparel company registering its investment in Ethiopia for about US\$ 12 million (representing only the first phase of the investment project).
- The PIGA programme has enabled the EIC and Ethiopia to shift from a ‘reactive’ to ‘proactive’ and ‘targeted’ approach to investment attraction and promotion. EIC and other government officials have taken an active part in 14 investment promotion events and 6 sector specific roadshows that PIGA organized in the last two years.

Output 2: Strengthening capacities to deliver investment services

- Developed and launched a Chinese language on-line portal for investment promotion;
- Hired a qualified native Chinese speaker to be posted in the EIC China Desk
- Developed five business cases for investments in priority sectors of textile & apparel, leather, and agro-processing
- Trained and coached more than 30 EIC staff in assessing market potential, pitching investment opportunities, negotiating with investors, and handling inward/outward investment missions
- Developed a prototype for an FDI Tracking Tool to improve investor data tracking and servicing, and implementation started for a full-fledged deployment in April 2020.

Output 3: Overcoming FDI obstacles and enabling knowledge sharing

PIGA has developed a Sustainable investment handbook for investments in Ethiopia to provide investors with a step-by-step guide on how to comply with all mandatory requirements and implement additional sustainability practices for agro-processing and light manufacturing.

C. Building the next generation Ethiopian technocrats

EIC's Young Professionals Development Programme (YPDP)

The gap between expected outcomes of national policies and development plans and actual implementation and effective delivery is one of the challenges facing the Ethiopian economy. A key factor for the limited implementation capacity is the lack of sufficient qualified personnel with the right experience and competences to translate policy action-lines into action. To remedy this binding constraint, in 2016, the EIC introduced the donor-supported Young Professionals Development Programme (YPDP).

The objective of the YPDP is to recruit fresh university graduates for training within the EIC through mentoring by senior officials, training by instruction, learning by doing and observing, and through exposure to the day-to-day investment promotion and facilitation activities that take place at the EIC. The training programme is rigorous and tailored to create highly competent professionals who will enable the EIC to deliver on its mandates and responsibilities: at the same time, the young professionals develop the experience and skills that they require for career progression either within the EIC or other institutions or sectors.

reforms. Hopefully in the near future, institutions such as the EIC will not need extra-budgetary support from donors to be able to recruit the best among the young graduates. In the short-term, however, the EIC pioneering initiative seems to have provided a solution to skill-related constraints to implementation of policies and institutional mandates.

Achievements and potential lessons

The second cohort of the YPDP program graduated in December 2019. Since the introduction of the programme, the Young Professionals (YPs) have become an integral part of EIC, contributing and delivering on core areas such as investment promotion, facilitation, retention, support to investors in industrial parks and assisting in dispute settlement. They are discharging their responsibilities working closely with other regular staff and while acquiring new skills and experience.



The programme is implemented in collaboration with Enterprise Partners (EP). The EIC is grateful to DFID and the Bill & Melinda Gates Foundation for providing the finances required to start the programme. The extra-budgetary financing has enabled the EIC to recruit the best and the brightest from among the young university graduates by offering a pay structure compatible with the private sector. Ultimately, the solution to attracting the best graduates and the necessary skills and talent into the public sector lies in the ongoing civil service

The presence of YPs in the EIC has injected new dynamism and skills, particularly in the application of new technologies and software for improving the services provided by the Commission. The fact that the EIC is now able to handle an increasing number of investors and their demands in a timely manner is attributed to the contributions made by the YPs. Obviously, there are lessons for other institutions from this innovative scheme for tackling the short-term constraints to effective implementation and delivery of policies and institutional mandates.

D. The Objectives of “Jobs Compact Programme”

According to the United Nations High Commission for Refugees (UNHCR), in 2019, the number of refugees in the world had reached nearly 69 million. It is estimated that about 85 percent of them are hosted by other developing countries that are themselves low-income and still at an early stage of development. One of these host countries is Ethiopia, which is home to over a million refugees, the largest number of refugees than any other African countries. Some of the refugees have resided in Ethiopia for more than a decade without immediate prospect of returning home or moving on to other destinations.

To ensure that the refugees enjoy a productive and dignified life while staying in Ethiopia, the government has established a special programme – “Jobs Compact Programme (JCP)” – to explore ways in which refugees and Ethiopians seeking employment could obtain ‘decent’ jobs and engage in economic activities that supports their livelihood. The JCP is supported by development partners and coordinated by the EIC, which also serves as implementing agency working closely with other public institutions, most notably the Administration for Refugees and Returnees Affairs (ARRA), the Ministry of Labor and Social Affairs (MoLSA) and the Industrial Parks Development Corporation (IPDC).

Key components of the programme include:

- Creating economic opportunities for Ethiopians and Refugees who reside in Ethiopia. The support offered includes providing the legal basis for refugees to take up employment opportunities. The programme also provides additional support in housing, skills development, employer/employee matching, and oversight to ensure that refugees’ and Ethiopians’ rights and wellbeing are upheld.
- Improving the broader investment climate. The Government has prioritized significant investments in transport logistics and power to help crowd-in private investment. In addition, a ‘One Stop Shop’ (OSS) service (labour units in industrial parks) have been introduced along with a ‘Client Charter’ on the turnaround and investor registration processes. Strengthening investment promotion capability is another important support provided by the programme..
- Improving labor productivity and quality of jobs. An important component of the programme is improving worker skills and reducing levels of absenteeism and turnover. Much of the Ethiopian labour force is new to both the formal sector and factory-based work and the transition will need carefully targeted policies that improve labour sourcing, grading, and the provision of soft and technical skills training. It also includes creating good working conditions and providing adequate social infrastructure for workers in industrial parks. Fulfilling these conditions will improve labour productivity.
- Enhancing the sustainability of existing industrial parks. Ethiopia’s reputation for sustainable and inclusive development is both an important end by itself and a prominent part of the ‘brand’ for investment promotion. The commitment to carbon neutral growth, zero liquid discharge facilities at the Hawassa industrial park, and other investments have played an important part in reinforcing the parks sustainability. Future activities will include seeking innovative approaches to rainfall capture and solar power generation, and adherence to global best practice in social compliance in both industrial park construction and protection of the workforce in the textile sector (predominately female).





**Tourism:
Time to reveal
the hidden
potential of
Ethiopia**

5. Tourism: Time to reveal the latent potential of Ethiopia

Over the last two years, the Government of Ethiopia has taken bold steps to promote the tourism sector as a priority area and transform Ethiopia into one of the preferred tourist destinations in Africa.

Tourism forms one of the priority sectors identified for economic competitiveness and job creation under the home-grown economic reform agenda and the Ten-year perspective plan.

In June 2018, Ethiopia launched an e-visa regime, allowing travelers to process visa requirements online.

In November 2018, the Government decided to extend a visa on arrival regime for almost all African travelers – making it possible for African travelers to have easy mobility and stopover in Ethiopia. This has moved Ethiopia's ranking in the AfDB's Africa Visa Openness Index from 50th in 2018 to 18th in 2019.

In August 2019, Ethiopia launched two new strategies for the development of Stopover and Meetings Incentives Conferences and Exhibitions (MICE) tourism. The strategies aim to place Ethiopia among the most competitive destinations on Stopover and MICE tourism leveraging the various assets the country already has including its globally leading national airline - Ethiopian Airlines - as well as Addis Ababa's strategic hub position not only in air-traffic but also as a Pan-African diplomatic and political hub.

In October 2019, Ethiopia inaugurated and opened for visitors 'Unity Park' which is located in Ethiopia's National Grand Palace. The Park has various attractions, including historical buildings, indigenous plants exhibition, indigenous black mane lion zoo, a green area, regions' pavilion and over 1000 displayed items.

The concerted reform efforts taken by the Government of Ethiopia has been fully recognized in global platforms with increased attention being given to the country by the international media and global awards coming into Ethiopia.



The e-visa platform can be accessed by scanning this qr-code.



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Ethiopia e Visa

[Apply for Ethiopia e Visa](#)

The **Ethiopia Visa** is an electronic travel authorization which allows visitors to enter the country. It is available to citizens of all countries and it has eliminated the need to physically go to an embassy or consulate or queue at the border for a visa. The application is completed online and only takes a matter of minutes.

What is the Ethiopian Visa?

The **Ethiopian Online Visa** was launched to accelerate the process of obtaining a visa for Ethiopia. Citizens from all countries can quickly complete the online application form by answering a series of basic questions. Applications are normally processed within 24 hours though on rare occasions the process can take up to three (3) days. Once approved the eVisa is sent to the applicant by email.

Travelers can present their eVisa, along with their passport, to the Ethiopian border authorities at Addis Ababa Bole International Airport to gain entry. The **electronic visa for Ethiopia** is a single-entry visa and applicants have the choice of either a 30-day or 90-day visa.

Who needs a visa for Ethiopia?

The vast majority of travelers need a visa for Ethiopia to be able to enter. Citizens of Kenya can enter without a visa for periods of up to a year and citizens of Djibouti can enter for a period of up to three (3) months visa-free. These are the only two visa-exempt nationalities.

The **Ethiopia eVisa** has effectively eliminated the need to queue at the border for a visa on arrival as the application can be completed in advance. The **eVisa** is available to eligible passport-holders from every country.



6

A brief
summary
of sectoral
studies
conducted by
the EIC

6. A brief summary of sectoral studies conducted by the EIC

The pharma industry

The annual pharmaceutical market in Ethiopia is estimated to be worth ~US\$ 500 million and growing at a rate of 25% per annum. However, Ethiopia is still highly dependent on imports for the supply of pharmaceutical products. Local manufacturers have limited production capabilities and the product ranges produced locally is narrow. It is estimated, for example, that local producers supply only 90 of more than 380 products that are on the national list of essential medicines. The lack of domestic productive capacity limits the availability of affordable and easily accessible medicines to Ethiopia's growing population of more than 110 Million.

Ethiopia has also a growing domestic medical devices market (composed of medical instruments/apparatus, supplies and equipment), with imports expected to grow to US\$383 million (2020) or about 96% of the total demand for medical devices. The government, through the Ethiopian Pharmaceutical Supply Agency (EPSA) is the largest customer, representing 97% of the total market.

The Tony Blair Institute for Global Change (TBI) has supported the EIC and other agencies in conducting analytical studies to assess the potential for manufacturing medical supplies and instruments/apparatus in Ethiopia; current opportunities and challenges; and the reforms required to improve the sector, particularly in attracting FDI and developing the capabilities for import substitution and eventually exports.

The rationale for conducting a study on the medical supplies and instruments/apparatus are:

- The rapid increase in health coverage in Ethiopia led by massive public investment in the health sector to meet the increasing demand for health care services by a growing population. In 2015, there were 17,154 health posts across the country and additional 438 were under construction. There were also 4,063 health centres and 68 were under construction. The number of hospitals in the country 381 and additional 218 were under construction. Most of the facilities under construction at that time are now finished and operational. Predictably, the rapid increase in health care facilities, including at referral hospital level, has generated a growing demand for medical supplies, instruments/apparatus, and equipment.

- The choice for the government is to either continue to rely on imports to meet the growing demand for medical supplies or set in motion the policies and incentives required to encourage investment in import substitution of medical supplies and instruments. The government has identified the pharmaceutical sector in general as a priority area for import substitution and the study by TBI contributes towards that objective by assessing the feasibility for producing medical supplies and instruments in Ethiopia.

Ethiopia does not have a strategy on medical devices and instruments/apparatus per se. However, the Government has put forward an ambitious national health sector transformation plan and a strategy for the development of the pharmaceutical industry. Achieving both these objectives will require steady progress in the country's domestic capability to produce medical devices and instruments/apparatus. In this respect, the study on medical devices has been extremely helpful in mapping what the government needs to do to boost domestic capacity for manufacturing of medical devices and instruments. For example, the study has identified the fiscal and non-fiscal incentives required to encourage investment in import substitution of medical devices. The recommendations are now being considered by the Ministry of Finance, which is responsible for reviewing the country's incentive system. Similarly, other recommendations covering areas such as the improvement of industry-focused skills, strengthening regulatory and certification procedures, and investment financing options are also under consideration. Some of these measures will enable the country to acquire the capability to meet the Good Manufacturing Practice (GMP) certification requirements, which is essential if Ethiopia is to develop a medical devices manufacturing capacity that meets international standards.



The agro-processing sector

In 2019, the EIC, in collaboration with the Ethiopian Agricultural Transformation Agency (ATA), initiated a study on the Food and Beverage Processing and Auxiliary Industries (FBPAI). The main objectives of the study were two-fold: to assess the level of development of the Food and Beverage Processing and supporting industries in Ethiopia; and to develop a strategy for attracting investment into the industry, including the development of effective domestic supply chain.

Although the Food and Beverage industry has been growing consistently over the past decade, its contribution to the country's GDP remains small. At present, the industry accounts for only 2 percent of GDP. However, domestic demand for processed food products has been growing fast in recent years outpacing the capacity of the local industries to meet local demand. This has forced the country to increasingly rely on imports. In 2017, the total cost of imported processed food and beverages accounted for US\$ 465 Million.

The FBPAI study focuses in two areas: landscape analysis and value-chain-specific analysis. The landscape analysis evaluates the current landscape of the Food & Beverage Processing Industry focusing on the actors/institutions and policies/regulations, including an assessment of the existing challenges and providing recommendations for enhancing the capacity of local industries. The value-chain-specific analysis focuses on a rigorous and phased prioritization process and identified five high-potential value chains, namely, Red Meat, Poultry, Edible Oil, Wheat, and Fruit Juice. Deep dives were developed for each value chain that assessed the market opportunities, challenges across the value chain and improvement areas. The strategy has identified over 5.25 million Ha of land to provide opportunities for the development of selected commodities in the value chains.

In short, the strategy that the EIC and ATA developed has multiple objectives: to identify key opportunities and recommend on how to attract investment and transform the value chains in food processing and beverages; develop local capacity to meet domestic demand for processed foods and beverages; and make Ethiopia competitive in the export market by learning from best practices in other countries, leveraging existing natural resources, creating enabling policy and institutional environment and implementing the recommended interventions across value chains.



Summary of recommendations of the strategy developed by EIC/ATA on value chains

Fruit Juice: Although Ethiopia is the 5th largest producer of fruits in the African continent, it does not have price competitiveness in fruit juice and concentrate production. The strategy recommends a two-phase approach: Phase 1: promoting local processing capacity (importing pulp and concentrate) and increasing fruit production (yield and volume). This will be followed by Phase 2: end-to-end processing with a view to gradually discontinuing import of pulp and concentrate for processing and making Ethiopia competitive in the export market.

Red Meat: Ethiopia has the 2nd largest population of livestock in the continent, ranking 6th globally, yet has relatively low exports of red meat. Ethiopia is currently unable to compete in the international market due to high cost of production. The new strategy recommends commercial ranching to ensure consistent supply of livestock, reduce the involvement of middle-men in marketing and introduce regulations and standards that will upgrade Ethiopia's competitiveness in international markets.

Wheat: Ethiopia currently imports about 19 percent of the national wheat consumed in the country, which accounts for 36 percent of local demand for processed wheat. This requires large amounts of foreign currency, which it lacks because of slow growth in exports. Reliance on imports also distorts local prices and can create supply shortages when foreign exchange is in short supply. In line with the Government of Ethiopia's goal of making the country wheat self-sufficient by 2023, the strategy proposes an additional 23,000 ha of land to be allocated for production of wheat (either in the lowlands or through salinity improvement in the highlands). In addition, large scale processors are needed to meet the demand gap in existing final goods processing.

Poultry: Ethiopia is far behind in utilizing its abundant chicken resources efficiently. The country has the potential to become competitive in the global market due to its low processing and operational costs, if limitations in feed and cost of day-old-chickens (DOCs) are addressed. The strategy proposes a two-phase approach; Phase 1: import substitution, and Phase 2: exporting to international markets based on meeting quality and standard requirements.

Edible Oils: Ethiopia has abundant resources suitable for oilseed production, but due to limited edible oil production capacity, over 90% of local demand is met through imports (mainly palm oil). Ethiopia can become competitive in edible oil by addressing challenges in raw material sourcing, packaging and processing efficiency. To achieve this, a two-phased strategic direction has been recommended; Phase 1: enhancing local primary and secondary processing capacity through import of crude palm and soft oils while increasing local production of oilseeds and end-to-end local processing, and Phase 2: increasing local processing capability and efficiency and becoming over time a net exporter of edible oils.

Auxiliary Industry: to ensure the success of the food and beverage processing industry, it is imperative to develop the local capacity of the auxiliary industries that support the sector. To this end, cold chain transportation, packaging and storage were identified to be the most critical challenges across value chains. Addressing the bottlenecks in these three auxiliary industries will greatly enhance the efficiency and effectiveness of the supply chain in the industry. The recommendation to allow FDI in cold chain business has been endorsed by parliament as part of the recently new investment laws. It is hoped that this policy adjustment will help boost investment into one of the important value chains in the industry.

Book review

The Oxford Handbook of Industrial Hubs and Economic Development

Arkebe Oqubay and Justin Yifu Lin,

Oxford University Press, May 2020 [1,232 Pages; ISBN: 9780198850434]

In the last two decades, Ethiopia has pursued an export-led industrialization strategy, anchored in the manufacturing sector and supported by a new generation of sustainable industrial parks as part of the strategy. Globally, industrialization, supported by industrial hubs, has been widely associated with structural transformation and catch-up. There are about 6,000 industrial hubs (special economic zones, export processing zones, industrial parks, technology parks etc) spread across 147 countries, with a high concentration in developing and emerging economies, particularly in Asia. While the short-term economic benefits (such as exports, employment, and revenues from taxes) of industrial hubs are important, their value lies first and foremost in their role as incubators of manufacturing firms and technological capability building.

The appeal of industrial hubs as instruments of export-led industrialization is likely to grow in Africa. The success of a few countries, such as Ethiopia, in using industrial parks as springboards for participation in Global Value Chains (GVCs) has generated heightened interest and curiosity on industrial hubs as instruments of investment and industrial policy. It is important, therefore, to have a thorough and comprehensive understanding of industrial hubs and their impact on economic development, particularly the implications for job creation, attracting investment, building export capacity, technology transfer, gender equality, sustainable development and boosting domestic productive capacity through linkages. All these issues are addressed in a forthcoming Handbook on Industrial Hubs edited by Dr Arkebe Oqubay and Professor Justin Lin and to be published by Oxford university Press. The Oxford Handbook of Industrial Hubs and Economic Development is a well-research volume that applies an inter-disciplinary approach to examine the conceptual underpinnings and operational imperatives of industrial hubs.

The Handbook reviews empirical evidence from different regions and economies and extracts pertinent lessons for both policymakers and researchers. It illustrates the diverse and complex nature of industrial hubs, and shows how they promote industrialization, economic structural transformation, and technological catch-up. The Handbook also explores the interface between industrial hubs and emerging issues and trends such as environmental protection and sustainability, technological advancement, the shifts in the global economy, and urbanization. The concluding chapter emphasizes the centrality of learning and latecomer advantages.

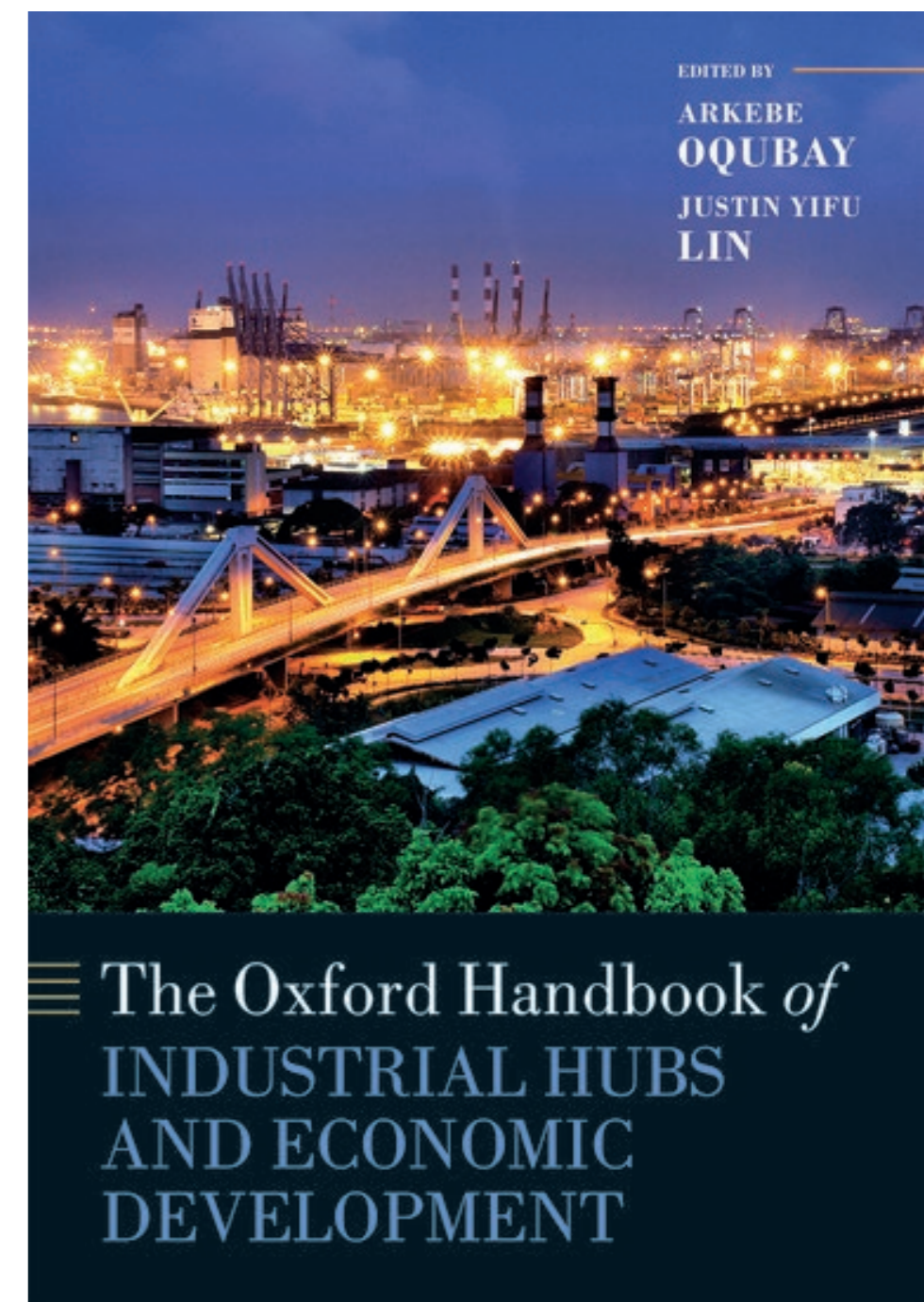
The main objectives of the Handbook are: to examine the conceptual underpinnings and research methodologies associated with industrial hubs and economic development; to extract, from empirical evidence, relevant policy lessons for researchers and practitioners; and to provide alternative perspectives and approaches on industrial hubs, embedded in an industrial policy framework and linked to the process of structural transformation and technological catch-up. The Handbook includes over fifty chapters written by eminent scholars and researchers with an in-depth knowledge of the role, impact and the strength and weaknesses of industrial hubs. Their contribution provides conceptual clarity on the term 'industrial hub', which is a generic term often used to describe a variety of specially designated sites that countries establish to incubate manufacturing enterprises - such as industrial parks, special economic zones, industrial districts, export-processing zones and technology parks.

The Handbook is organized under seven themes: theories and methodologies; context and historical perspective; gender and environmental sustainability; policy and practices in Asian, Latin American, and African economies; and future pathways.

Authors bio

Arkebe Oqubay, PhD, is a Senior Minister and Special Adviser to the Prime Minister of Ethiopia and has been at the centre of policymaking for over twenty-five years. He currently serves as board chair of several leading public organizations and international advisory boards. His recent works (published by Oxford University Press) include the path-breaking *Made in Africa: Industrial Policy in Ethiopia*; *The Oxford Handbook of the Ethiopian Economy*; *How Nations Learn: Technological Learning, Industrial Policy, and Catch-up*; *China-Africa and an Economic Transformation*; *African Economic Development: Evidence, Theory, and Policy*; and *The Oxford Handbook of Industrial Policy*.

Justin Yifu Lin is Dean of the Institute of New Structural Economics and Institute of South-South Cooperation and Development, and Professor and Honorary Dean of the National School of Development at Peking University. He was the Senior Vice President and Chief Economist at the World Bank, 2008–12. He is the author of more than 20 books, including *Beating the Odds: Jump-starting Developing Countries*; *Going Beyond Aid: Development Cooperation for Structural Transformation*; *The Quest for Prosperity: How Developing Economies Can Take Off*; *New Structural Economics: A Framework for Rethinking Development and Policy*; *Against the Consensus: Reflections on the Great Recession*; and *Demystifying the Chinese Economy*.







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