



Eastern Africa Association



EASTERN AFRICA ASSOCIATION

Ethiopia's Economic Reforms and Investment Opportunities



Overview

The Africa Development Bank's latest economic outlook estimates Ethiopia's GDP to grow at 5.8% in 2023. This growth is driven by factors such as the peace dividend, rebounding tourism, and the potential liberalisation of more sectors. During the event, attendees gained insights from UK companies operating in Ethiopia and Ethiopia Capital Markets, providing practical information for businesses interested in the country.

Over 40 participants drawn from the private sector, governance, and academia attended the EAA Breakfast Roundtable that was hosted at the Embassy of Ethiopia in London.

This brief was prepared by Agnes Gitau and Mehret Ashenafi.



Purpose

The Eastern African Association (EAA), in collaboration with the Ethiopia Embassy, London and Ethiopia Investment Commission (EIC), organised a hybrid business roundtable to brief UK investors on Ethiopia's Economic and Political Reforms. This report provides an overview of the event's discussion on the significant reforms implemented by the Ethiopian federal government to attract international investment and strengthen its economic and political systems.



Speakers

- Dr Biruk Taye: Chief Executive Officer, Ethiopia Capital Markets
- Temesgen Tilahun: Deputy Commissioner, Ethiopia Investment Commission
- Mr Reg Hankey: Chief Executive Officer, Pittards PLC
- Mr Jeremy Lefroy: Managing Director, Africa Speciality Products & EAA Board
- Mr Dougie Brew: Head of Corporate Affairs and Sustainable Business, Unilever
- Colonel (Rtd) Sandy Wade OBE: Associate Director Horn of Africa, Africa Advisory Partners, and European Institute of Peace



Dr Biruk Taye, CEO, Ethiopia Capital Market: Financial Services Reforms and Capital Markets Progress

- Since the launch of the Ethiopian Government's Homegrown Economic Reform (HGER) Program in 2019, significant reforms have been undertaken to accelerate foreign direct investment in Ethiopia.
- **Banking sector reforms**
 - Reforms in the banking sector focus on four key areas: efficiency, liberalisation, financial inclusion, and technology utilisation.
 - The transformation of Ethiopia's national payments system has facilitated private domestic banks in providing online and mobile payment services.
 - The nationalised telecoms market has been liberalised, allowing foreign providers like Safaricom to operate in Ethiopia. Safaricom has obtained a licence to operationalise M-pesa in Ethiopia.
 - Amendment of the Banking Commission enables foreign banks to invest in Ethiopia.



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● Economic outlook

- Opening subsidiaries of foreign banks and new banks to operate in Ethiopia.
- Access for foreign banks to acquire shares of existing banks and banks under formation.
- Access for foreign banks to launch a branch.
- Opportunity for foreign banks to launch representative offices.

● Macroeconomic reforms

- Price stability: issuing a remarkable amount of T-bills and bonds, as well as undergoing various fiscal and monetary side adjustments, and a significant reduction in inflation from 34.2 percent (March 2023) to 33.5 percent (April 2023) and further to 30.8% (May 2023).
- Debt reprofiling: Ethiopia is eligible to benefit from the Debt Service Suspension Initiative (DSSI), providing debt relief in response to the COVID-19 pandemic and an extension of the time-bound suspension of debt service.
- Fund Programme: the Ethiopian government has renewed its commitment to its reform agenda under Homegrown Economic Reforms (HGER) II and is in progressive discussions with development partners IMF and WBG towards supporting Ethiopia's reform agenda. Discussions are expected to be finalised soon.



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• Capital Markets Development

- Enacted in 2021 as part of the Homegrown Economic Reforms Program, the Capital Market Proclamation No. 1248/2021 establishes a robust and vibrant capital market.
- Promising opportunities arise in investment bank services, brokerage services, and technology provision for online securities trading.





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● Licencing / business opportunities

- Investment Bank Services: Five state-owned enterprises in Ethiopia are looking to go public, presenting an opportunity for Capital Market Service Providers to offer investment banking services leveraging their expertise in financial markets.
- Brokerage Services: The establishment of the capital markets in Ethiopia opens avenues for Capital Market Service Providers to provide brokerage services, facilitating transactions in the market.
- Technology Providers: Capital Market Service Providers have the opportunity to provide a platform for online securities trading, offering the necessary technology for this platform.

● Ethiopian Securities Exchange (ESX)

- The ESX, to be established as a Public-Private Partnership, will be led by Ethiopia Investment Holdings (EIH) with the support of Financial Sector Deepening Africa (FSD Africa) – UK Aid with the Ethiopian government holding 25% of the reserves and the rest open to the private sector.
- Set up as a fully electronic and modern market with a green-filled exchange
- It will have a wide spectrum of products and services:
 - Equity market – with primary and SME board
 - Debt market – serving as a platform for government and corporate instruments
 - Alternative market targeting SMEs – e.g., crowdfunding, social enterprises, social mobilisation for SMEs
- Ample room to enhance Ethiopia-UK cooperation in the market, including engagement with the Ethiopian diaspora, opens avenues for investing in the Exchange and raising capital.



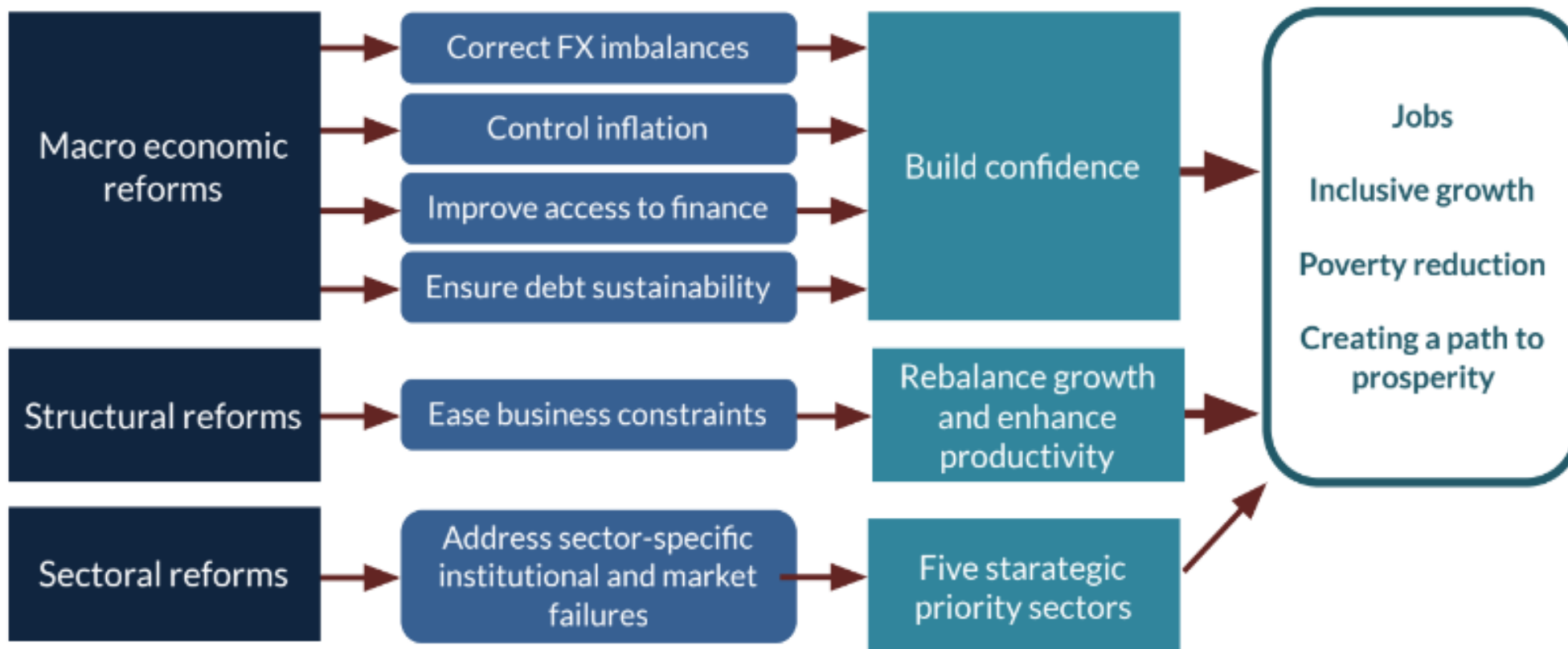
Mr Temesgen Tilahun, Deputy Commissioner, Ethiopia Investment Commission: Ethiopia's Business and Political Reform

- The Ethiopian government is committed to providing incentives for international investors to explore business opportunities in Ethiopia.
- Considering that Ethiopia is the 3rd largest economy in Sub-Saharan Africa of \$125 bn and a highly productive young labour force, investing in Ethiopia presents a huge investment opportunity.



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Homegrown Economic Agenda 1.0





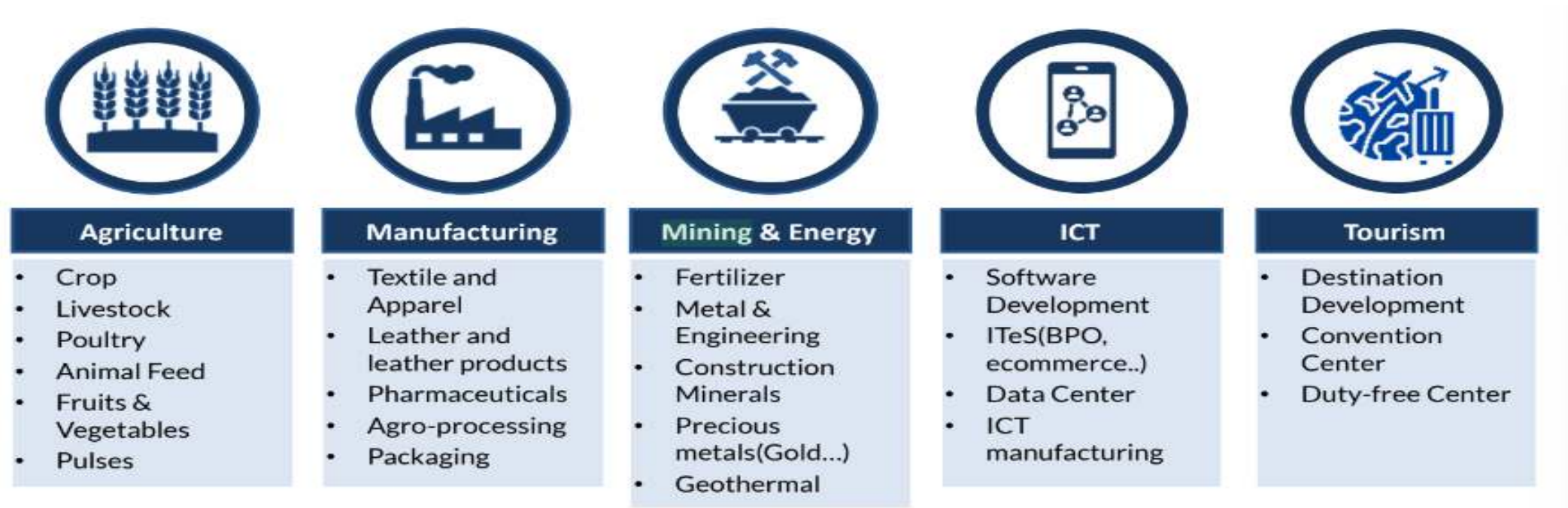
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Homegrown Economic Agenda 2.0 (revised priorities, 2023-2026)



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The five priority sectors





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Investment areas

- 1) Reserved for Joint Investment with Government
 - Weapon & ammunition manufacturing
 - Import & export of electrical energy
 - International air transport services
 - Bus rapid transit
 - Postal services excluding courier services
- 2) Reserved for Joint Investment with Domestic Investors
 - Accounting and Auditing services
 - Freight forwarding and shipping agency services
 - Domestic air transport service
 - Cross-country public transport service (seating capacity > 45)
 - Urban mass transport service
 - Advertisement and promotion services
 - Audiovisual services — motion picture and video recording, production and distribution
- 3) Reserved for Domestic Investors
 - Banking, insurance & microfinance (excl. capital goods finance business)
 - Wholesale trade, petroleum & products, wholesale of own products excluding whole of electronic commerce
 - Retail trade excluding. retail of & electronic commerce
 - Import trade (excl. liquefied petroleum gas and bitumen)
 - Export trade of raw coffee, khat, oil seeds, pulses, minerals, hides & skins, products of natural forest, chicken, & livestock
 - Hotel, lodge, resort, motel, guesthouse excluding star-designated
 - Travel agency, travel ticket sales & trade auxiliary, tour operation
 - Operating lease of equipment, machinery & vehicles excluding industry-specific
 - Transport services (excl. Railway, cable-car, cold-chain, freight transport)



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Investment climate reforms

- National initiative to improve ease of doing business:
 - Start-up business support
 - Registering property
 - Dealing with construction permit
 - Credit approval
 - Protecting minority investors
 - Resolving insolvency
 - Paying taxes
 - Cross-border trade
 - Enforcing contracts

Regional integration reforms

- 1) Africa Continental Free Trade Area (AfCFTA):
 - Ethiopia has signed and ratified the agreement, which will unlock market access to 1.2 billion people and facilitate intra-Africa trade, investment, and free movement of businesspersons. AfCFTA Secretariat has commenced pilot trading with seven African countries and is currently under Phase II of negotiations. For more information on the implementation of the AfCFTA see Research FDI's [article](#).
- 2) World Trade Organisation:
 - WTO accession negotiations re-initiated, key negotiation points include bilateral market access and multilateral trade.



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Investment incentives

• Fiscal

- Corporate income tax exemptions
- Custom tax exemptions
- Loss carry forward
- Full export duty exemption
- Expatriates' income tax exemption

Disclaimer: companies looking to expand are further eligible for tax holidays up to 100% of the additional income generated for the period which equals 50% of their initial tax holiday incentive.

• Non-Fiscal

- Guarantee against expropriation
- Guarantee for repatriation of funds
- Customs facilitation through bonded export
- Relaxed industrial park land regime
- One-stop shop service
- Expedited procedure for securing visa, work permit, and certificate of residency
- Facilitation of market linkages



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Opportunities to invest in Ethiopia's Sustainable Infrastructure

- Air: Ethiopian Airlines Cargo is the largest cargo network and terminal in Africa (incl. >125 international destinations)
- Road: All-weather roads nationwide and the current expansion of all corridors
- Railway: Railway improvements from Djibouti to Modjo (dry port city 70 km from the capital city) cut from 84 hours to under 10 hours. Cargo trains operating with a capacity of 3500 - 4000 tons of freight per day
- Electricity: Grand Ethiopian Renaissance Dam produces low-cost green electricity rates at 4 US cents/KWH – among the cheapest in the world. Country power generation potential:
 - Non-Hydro-electric power capacity: > 17,000 MW
 - Hydropower: 45,000 MW



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Special Economic Zones



- Examples of priority industries include logistics and product processing and manufacturing
- Dire Dawa (453 km from Addis Ababa) is a focal investment hub



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EIC-OSS Investment Services

Under the Investment Proclamation no.1180/2020 legislated by the federal government of Ethiopia, EIC is mandated with providing end-to-end services to investors.

Role	Promotion	Facilitation	Registration	Licensing	Aftercare
Activities	<ul style="list-style-type: none"> - Identify potential investor bases/ leads, organize promotional events and pitch investment opportunities inc. facilitating business trips 	<ul style="list-style-type: none"> - Hand-holding investors through their investment exploration phase (e. g., feasibility) including setting up meeting with key stakeholders - Facilitating negotiations - Leveraging the Ethiopian Investment Board to resolve deal-breakers 	<ul style="list-style-type: none"> - Providing the required registration inc. commercial reg. and investment permits 	<ul style="list-style-type: none"> - Provide a license that allows investors to carryout their project per their contract 	<ul style="list-style-type: none"> - Provide aftercare services to investors when needed - Create FDI linkages



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EIC-OSS Investment Services

- **Key services**

- OSS: Key trade/business licence issuance, registration, renewal related services are now offered by EIC end to end (entry to exit);
- All work permit issuance, transfer of knowledge and skills, renewal, and cancellation;
- Visa Facilitation and Visa Benefits;
- Coordination with Regional Investment Bureaus: facilitate the efficient provision of pre-and post-investment facilitation services;
- Establishment of an Inter-Regional Council (Council): facilitating the establishment and functioning of a high-level inter-regional council that will coordinate federal and regional state administrations in the area of investment;
- Regulating Brownfield Investments: All foreign investors, entering Ethiopia either through greenfield or brownfield investments (acquisition or buying of shares of existing enterprises) are now serviced and regulated by EIC end to end (entry to exit); and
- Provision of Investment Land: regions respond to investors' requests for land within a maximum of 60 days (for the manufacturing sector) and a maximum of 90 days for other sectors.



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Aftercare Strategy	
Developing an aftercare strategy and implementation plan	Supporting the development of the aftercare strategy work (including several consultations and iterations), and developing a full step-by-step guide implementation plan was developed
Assessing existing aftercare resources (tools, systems, etc.)	Eight key aftercare interventions [1] were identified based on a stock-taking exercise, and later developed to improve aftercare services
Identify investors' base and their needs	Over 5,700 investors' data are recorded on the FDI tracking tool. 100 top-tier companies and VIP services are identified. 3 surveys were conducted to assess investors' needs
Develop Key Performance Indicators (KPIs)	>150 investors' problem resolution tracked through the TC (>60% resolved). Investors Development Program launched with 100+ companies, targets set and monitored.
Developing tools and procedures	Developed >25 tools, SOPs and procedures to guide implementation, facilitate aftercare services and create consistency in the team
Building implementation capacity	Half-day training on aftercare services, joint monthly planning, on-the-job coaching and additional refresher training was provided to 27 staff in the aftercare directorate
Implementation	Implementing the aftercare strategy, adopting best practices, using tools and procedures, applying learnings, capturing and monitoring results, etc.
Monitoring and evaluation	Monthly performance reviews against goals, checking investors' pulse through surveys to ensure results are being achieved, etc.



Roundtable Discussion: Summary Points on Investment Opportunities and Challenges

Panel discussions

Prospects and Considerations

- Lord Valentine encourages UK investors not to delay investing in Ethiopia, and the wider market opportunities on the Continent. Africa retains abundant natural minerals, raw materials, a large population, and a vast landmass, making it an attractive destination for sustainable investment opportunities.
- Jeremy Lefroy predicts Ethiopia will become a trailblazer for coffee exports in Africa, citing the success of the Ivory Coast, a small African country surpassing larger African nations like Ghana in exporting cocoa beans. He emphasises the benefits at both the macro level, such as the foreign exchange market, and the micro level, benefiting smallholder farmers.
- There are opportunities to commercialise Ethiopian cooking powders, such as Unilever's Shiro packet, for export through e-commerce and distribution to foreign supermarkets.
- Dougie Brew speaks positively about the collaboration between the Ethiopian Investment Commission (EIC) and Unilever in subleasing land to provide manufacturing services.
- Temesgen is optimistic about addressing the challenges of implementing federal policies at the regional level under the relaunch of the Homegrown Economic Reforms Program 2.0. Despite setbacks from COVID-19 and the conflict in Tigray, the EIC remains committed to supporting the private sector.
- Tesmesgen draws attention to Ethiopia's optimistic outlook regarding the opening up of the banking and insurance sectors, the liberalised information technology sector, and the opportunity to benefit from prospective debt relief through the Debt Service Suspension Initiative (DSSI).



Roundtable Discussion: Summary Points on Investment Opportunities and Challenges

Panel discussions

Limiting factors and considerations

- Bureaucracy in regional governments has hindered the operationalisation of business activities in certain provinces, as they struggle to keep up with the federal government's policy implementations under the Homegrown Economic Reforms Program. Additional support from the federal government is needed to navigate the licensing and taxation regime of regional provinces.
- UK investors and business owners express concerns regarding the difficulty of moving money in and out of Ethiopia.
- The minimum start-up investment threshold of \$100,000 per project for wholly-owned investment is deemed too high by foreign investors, creating a barrier to trade. The limited access to dollars may lead to a long-term crisis in the future.
- Currency volatility poses a challenge for investors.
- The lack of containers for exports presents logistical challenges.
- Jeremy Lefroy calls for domestic coffee exporters to adopt a market-oriented strategy, suggesting the lowering of prices to meet the high demand for hard currency.
- Lefroy supports the Homegrown Economic Reforms aimed at liberalisation, considering it the best course of action for importing productive equipment to support SME growth and job creation.



Roundtable Discussion: Summary Points on Investment Opportunities and Challenges

Panel discussions

Limiting factors and considerations (cont)

- Dougie Brew also emphasises the need for renewed trust with regional revenue regulators and the necessity of building the capacity of the labour force to meet the demands of entrepreneurship growth.
- Sandy Wade urges UK investors not to overlook Ethiopia's regional governments and emphasises the importance of understanding regional regulations and laws in local indigenous languages, rather than relying solely on English translations. He disputes the notion that Ethiopia is less regulated, highlighting that it is feasible for foreign investors but requires an understanding of the local context.
- Toby Latta raises the issue of foreign investors being unable to resell imported goods in Ethiopia and the difficulty of accumulating USD reserves to meet the minimum start-up threshold requirement of \$100,000.
- Brew highlights the capacity issue arising from growing pressure on Ethiopia's unstable tax regime, while other guests express grievances about difficulties in resolving tax audits.
- Sandy Wade emphasises the need for Ethiopia to change its perspective, creating a trading environment conducive to trade with global partners and shifting away from the perception of being "unique" to the world.



Roundtable Discussion: Summary Points on Investment Opportunities and Challenges

Panel discussions

Summary points highlighted by EAA members and guests

- There is a lack of predictability for businesses in getting money in and out of Ethiopia due to highly bureaucratic regional tax regulators, which results in additional costs of hiring local lawyers to resolve tax disputes.
- Tesmesgen dismisses rumours of Ethiopia's Government devaluing its currency, stating that there is no evidence to support such claims. He reiterates that the federal government's priority is to address the inflation crisis through the implementation of the Homegrown Economic Reforms Program, which aims to tackle supply-side and structural economic issues while addressing the hard currency challenge.



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