

## Business Landscape 2013

Precise Insights



**Invest in Ethiopia**  
**The Emerging Workshop of Africa**



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## ETHIOPIA'S BUSINESS LANDSCAPE *WHAT IT OFFERS TO INVESTORS*

### THE PITCH

Ethiopia is growing rapidly. That is no longer a well-kept secret. But the Ethiopia story is not just about growth, it's about transformation: quantum improvements in infrastructure, diversification of production, and climate change—business climate change.

#### Change and Transformation

The structure of the economy is shifting from agriculture to industry and services. With over 20 million of its citizens in schools, its people are increasingly educated. Given the ambitious health care investment plan of the Government, its people are increasingly healthy. With the most dramatic expansion of infrastructure ever seen on the African continent, its people are poised to enjoy universal access to electricity and telecommunications within the coming few years. Building on an abundant, healthier, and better-educated workforce, industry parks are starting to spring up across Ethiopia much like in China 20 years ago. Change is in the air and is spreading through Ethiopia's many cities and towns.

#### Connectivity

Ethiopia is connecting with the world. It's a two-way street: Ethiopia is reaching out to the world and the world is coming to Ethiopia. Reforms to trade logistics are about to dramatically shrink the effective distance between Ethiopia and global markets. Addis Ababa is already the main air hub for Africa and the home of Ethiopian Airlines, which already carries two thirds of Africa's air freight and has just significantly extended its cargo capacity and range. The infrastructure program now underway will stitch the country's internal economy together and connect that economy to global markets with new, high speed rail and

road corridors. For the internal market, this will do for Ethiopia what the United States accomplished by building its Interstate Highway network in the 1950s and what China did with its rail and road program in the 2000s. For international trade, this will position Ethiopian industrial parks closer to fully modern seaport facilities than Munich is to Rotterdam, on the trade route that accounts for 30% of global container traffic and connects East, South and West Asia to Europe and the Americas.

Ethiopia's location on this trade corridor has always been its natural advantage. The Axumite Empire of Ethiopia, which flourished as one of the five most powerful kingdoms in the world during the first millennium AD, drew its strength from its full control of Red Sea trade. In building its new connections to global markets, Ethiopia is actually restoring what once was, and what once made Ethiopia prosperous.

#### Business Conditions

On paper, Ethiopia's business climate ranks relatively low globally. But Ethiopia's exports are growing rapidly. Take flowers: Over the past decade, Ethiopia has gone from zero commercial production of cut flowers to become one of the largest suppliers of cut flowers in the world. Of course, Ethiopia's suitable climatic conditions helped greatly in this achievement. However, growing flowers is only half the battle. Getting them to the customers without losing significant value is another thing. The deciding factor has been Ethiopia's experimentation with facilitating business conditions and actively supporting the emergence of just-in-time supply chain businesses. What it has achieved in the perishable export sectors of flowers, vegetables, and meat, Ethiopia is about to

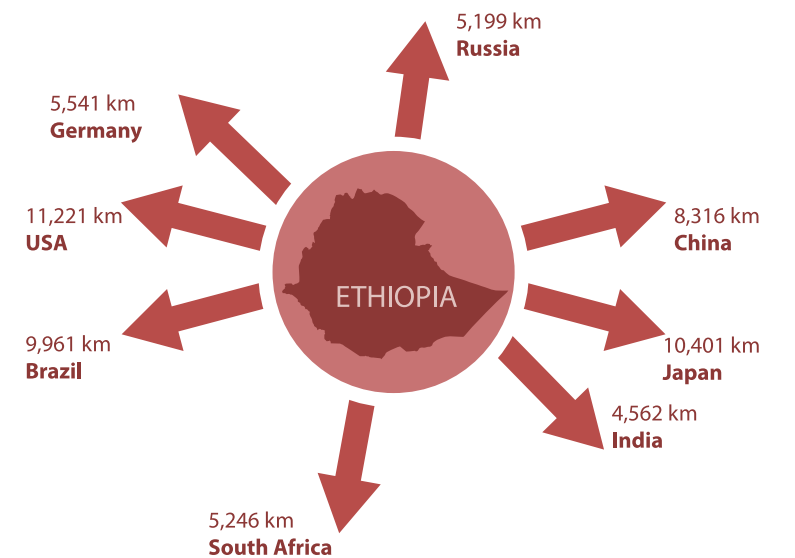
unleash for labor-intensive manufacturing. Already some firms have established themselves as “authorized economic operators” (AEOs) which greatly facilitates their import and export processes. Reforms now underway will roll this out to entire industry parks, a GAME CHANGER for business operating in Africa’s fastest-growing economy. When it comes to business climate, Ethiopia GETS IT.

From land-locked isolation to global value chain partner: prepare to meet the world’s next emerging market, Africa’s newest LION ECONOMY.

## THE VALUE PREPOSITION *LOCATION & TIMING*

With wages rising across Asia, the factors that made Asia the “Workshop of the World” for the past several decades are changing. Ethiopia’s strategic location, natural resources, and abundant labor position it to become the next global location for labor-intensive manufacturing. Ethiopia is centrally located in the global economy, roughly equidistant between the United States and Japan, between China and Brazil, between Europe and India, and between Russia and South Africa (Exhibit 1).

As regards labor costs, a recent World Bank study affirms that Ethiopia is already cost competitive with China in manufacturing textile and garments and other labor-intensive light manufacturing industries. Putting the picture together, Ethiopia has a unique opportunity to become the “Workshop of Africa”, the first truly significant labor-intensive manufacturing hub on the African continent.



Modern Ethiopia thus poses two questions to global businesses:

➤➤ Would the business benefit from a strategic position on the main supply route from West, South and East Asia to Europe and onwards to the Americas, in the air transport hub of emerging Africa, with low labor costs, and rapid access to modern port facilities and state of the art air cargo facilities?

➤➤ What is the risk-reward trade-off of staking out that position now, as Ethiopia is starting to take off and East Asia is starting to shed labor-intensive functions, versus waiting to see the full realization of Ethiopia's transformation?

If the answer to the first question is yes, it is timely for investors to take an in-depth second look at Ethiopia now.

## THE BUSINESS LANDSCAPE SURVEY

This survey assesses the extent to which the numbers, the business stories, and the analysis validate the pitch and the proposition, and identifies the sectors in which the business opportunities in emerging Ethiopia are likely to be found.

Part 1 provides an overview of Ethiopia's investment prospects at the macroeconomic level. It reviews trends and prospects for real growth, inflation, and external performance including the exchange rate, trade and the balance of payments. As well, it provides a macro scan of overall economic management and performance indicators and a horizontal scan of the framework for investment, overall investment trends, and the challenges that Ethiopia faces to sustain its resurgence.

Part 2 provides an in-depth assessment of investment prospects in major sectors of the economy: manufacturing, agro-processing, mining/oil & gas, infrastructure, and selected services, including health and tourism.



## **ACKNOWLEDGMENTS**

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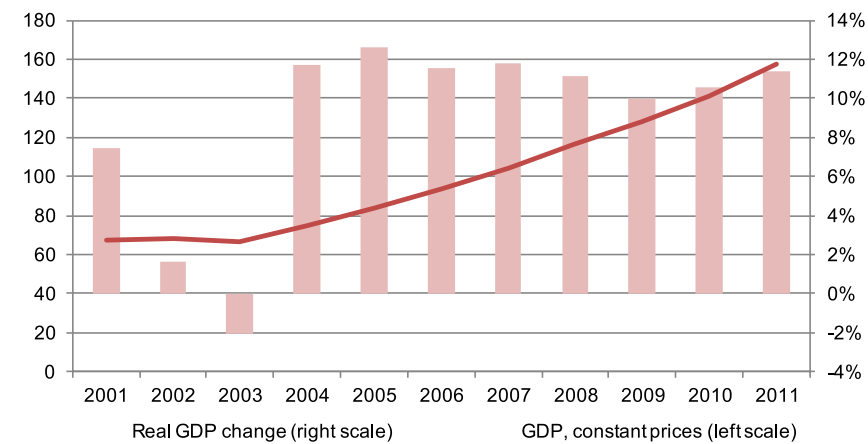
**PART 1: ETHIOPIA  
INVESTMENT OUTLOOK  
A MACROECONOMIC SCAN**

**GROWTH AND INFLATION TRENDS**

Ethiopia was one of the fastest growing countries world-wide during the past decade (Exhibit 2). Excluding oil and gas exporters, only China has outpaced Ethiopia since 2003. And although the global economic slump since 2008 has moderated growth, Ethiopia has remained within the top five performers globally (including oil exporters).

*Ethiopia's GDP has more than doubled since 2003*

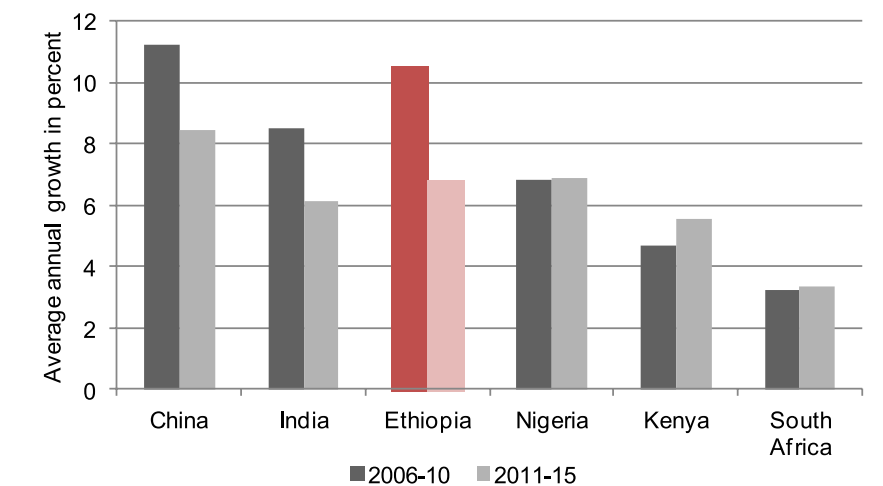
Exhibit 2: Ethiopia's GDP Growth over Time



Source: Own calculations based on IMF World Economic Outlook, October 2012, and Central Statistical Agency National Accounts data. See notes to Exhibit 16.

*Ethiopia's growth since 2005 has outpaced growth of major African economies, and is expected to remain strong*

Exhibit 3: Ethiopia's GDP Growth vs. Regional Peers



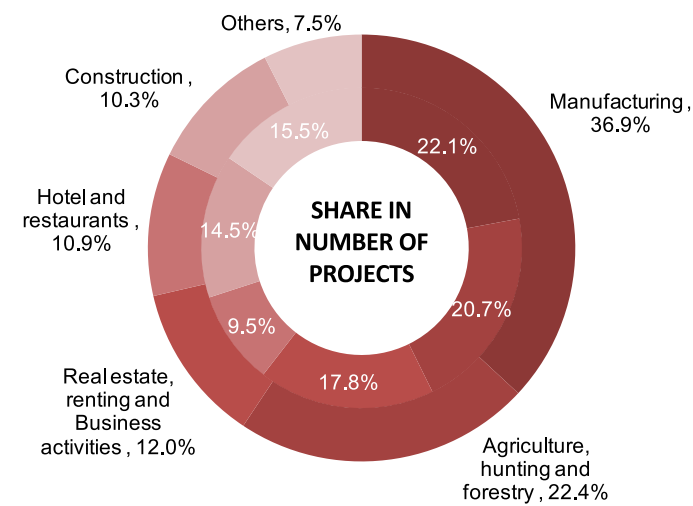
Source: Own calculations based on IMF World Economic Outlook, October 2012, and Central Statistical Agency National Accounts data. See notes to Exhibit 16.

Investment has been well distributed across sectors. This is a strong indicator that Ethiopia's economic growth is resulting in and being driven by development across the whole economy, not just certain sectors (Exhibit 4).

Headline inflation has been strongly affected by volatility in food prices, much of it reflecting international price developments and the exchange rate adjustment. Non-food-price inflation has been steady but relatively high (Exhibit 5).

*Investment is targeting a broad range of sectors in Ethiopia*

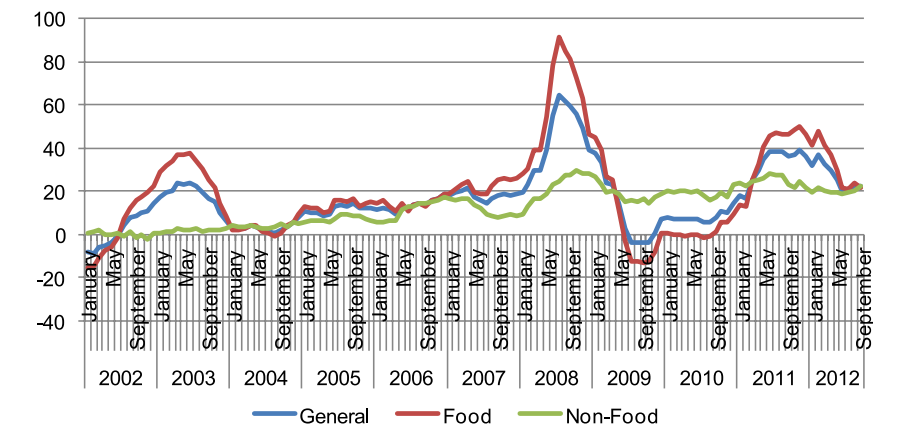
Exhibit 4: Breakdown of Total Approved Investment Projects by Sector, 2009/10



Source: National Bank of Ethiopia.

*Inflation has been a problem in the past but is expected to be contained in the 10% range over the medium term.*

Exhibit 5: Inflation Trends: Rolling Monthly Year-On-Year Inflation Rates in %, 2002-2012 (September)



Source: Central Statistical Agency

While the temporary surge in headline inflation in 2011-2012 was worrisome, inflationary pressures have since eased as the effects of some of the shocks that had contributed to the surge—including the rise in import prices following the currency devaluation in September 2010, steep international commodity price increases, and drought—have run their course.

IMF analysis suggests that Ethiopia is in a position, given appropriate monetary policies (in particular increases in interest rates), to restore a reasonable measure of macroeconomic stability (IMF, 2012a). A restoration of positive real interest rates would also activate the treasury bill market which would facilitate monetary policy management and mobilize domestic savings which in turn would provide the basis for the investment required to maintain the pace of development. Inflation declined over the course of 2012, and the most recent IMF projections (IMF, 2012a) suggest the measures taken will result in inflation being contained to single digits over the medium-term horizon.

*The real exchange rate is again experiencing upward pressure after regaining competitiveness*

## EXTERNAL FACTORS

After appreciating steeply during much of the past decade, Ethiopia's real exchange rate temporarily returned to more competitive levels due to a series of nominal exchange rate adjustments, but this trend has been reversed again since 2010, calling for renewed policy attention (Exhibit 6).

Exhibit 6: Birr/USD Real Exchange Rate, 2000-2012



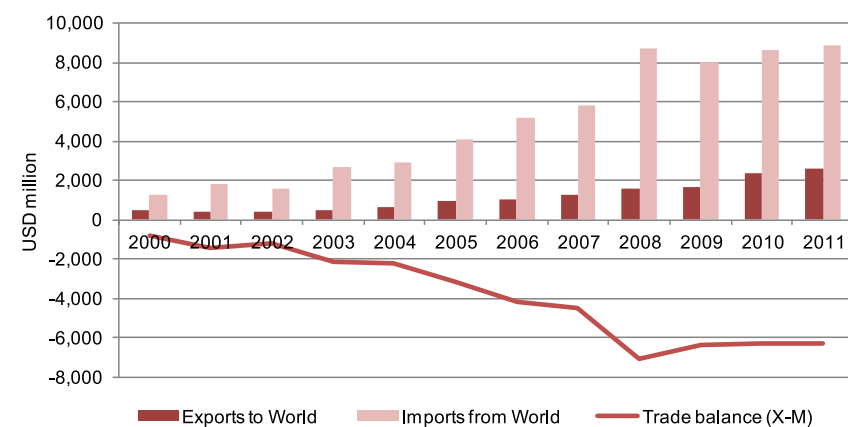
Source: National Bank of Ethiopia, own calculations.

Ethiopia's international trade has grown rapidly over the past decade (Exhibit 7). Until 2008, import growth was especially strong, reflecting not only Ethiopia's rapid industrialization but also the real exchange rate appreciation. Export growth picked up strongly in 2010 and 2011 following the real exchange rate adjustment, which resulted in a stabilization of the trade deficit.

However, export growth slowed significantly in the final quarter of 2011, which the National Bank of Ethiopia attributed to both reductions in volumes of major export products and the pace of international prices of the export products.

*Trade is growing strongly; accelerating export growth has stabilized the trade balance since 2008*

Exhibit 7: Ethiopian Exports, Imports and Trade Balance

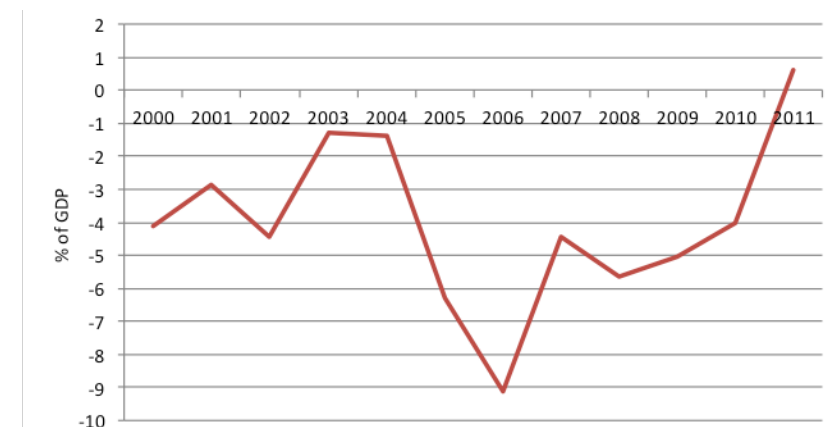


Source: Own calculations based on UN COMTRADE data.

Ethiopia's external position is vulnerable to terms of trade shocks from international food and fuel price movements and to weather-related shocks, such as the current East Africa drought. However, the stabilization of the trade balance and strong growth in remittances have improved the current account position significantly since 2008 (Exhibit 8). Together with continuing public transfers, this has strengthened Ethiopia's balance of payments substantially: Ethiopia recorded a comfortable balance of payments surplus of almost USD 1.45 billion or over 4% of GDP in the fiscal year 2010/11, before registering a shortfall of USD 1.2 billion in 2011/12 (IMF, 2012a); the most recent IMF Article IV projections assume modest surpluses over the medium term (IMF, 2012a).

*The improved trade balance and growing remittances have improved the current account.*

Exhibit 8: Current Account as Percent of GDP, 2000-2011



Source: IMF World Economic Outlook, October 2012.

## ECONOMIC POLICY FRAMEWORK

### The growth and transformation plan

In overall conception, the Growth and Transformation Plan, which sets out Ethiopia's current economic framework and strategy, is cast in terms of the developmental state model applied successfully in East Asia (Exhibit 9). This involves government stepping in where there are apparent market failures (e.g., trade logistics), the identification of strategic sectors to drive economic growth (textiles, leather, agro-processing, mining), and an ambitious program of economic infrastructure development (transport, energy, telecommunications).

#### Exhibit 9: Summary of the Growth and Transformation

Building on the results of previous poverty reduction strategies, the GTP, which was adopted in 2011 and covers the period until 2015, aims to achieve the Millennium Development Goals in Ethiopia by 2015 and middle-income status for Ethiopia by 2020–23. The GTP's objectives are to:

1. attain high growth within a stable macroeconomic framework;
2. achieve the MDGs in the social sector; and
3. establish a stable democratic and developmental state.

To accomplish these objectives, the GTP identifies the following strategic pillars:

1. sustain rapid growth;
2. emphasize agriculture;
3. promote industrialization;
4. invest in infrastructure;
5. enhance social development;
6. strengthen governance; and
7. empower youth and women.

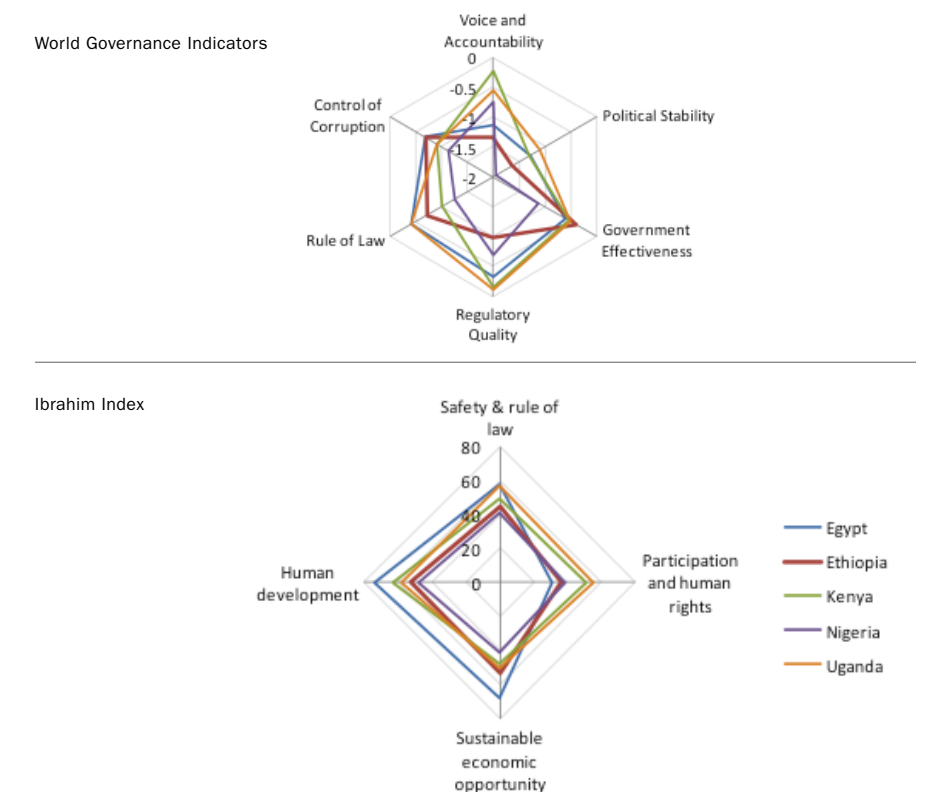
For the five-year GTP period, the sum of budgetary government spending and off-budget spending by public enterprises is programmed to reach ETB 1.26 trillion, i.e., an average of 41% of GDP. The capital expenditure share is projected to increase from 56% to 61%.

### Stability of economic policies

*Ethiopia's governance is strongest in areas directly relevant for business, i.e. government effectiveness and control of corruption*

As regards policy delivery, overall governance is comparable to African peers – Ethiopia is in the middle of the pack on most indicators, with the strongest suit being government effectiveness, an area where there has been marked improvement since 2000 (Exhibit 10).

Exhibit 10: World Governance Indicators & Ibrahim Index – Ethiopia vs. Regional Peers, 2011



Source: Own calculations based on World Governance Indicators and Ibrahim Index.

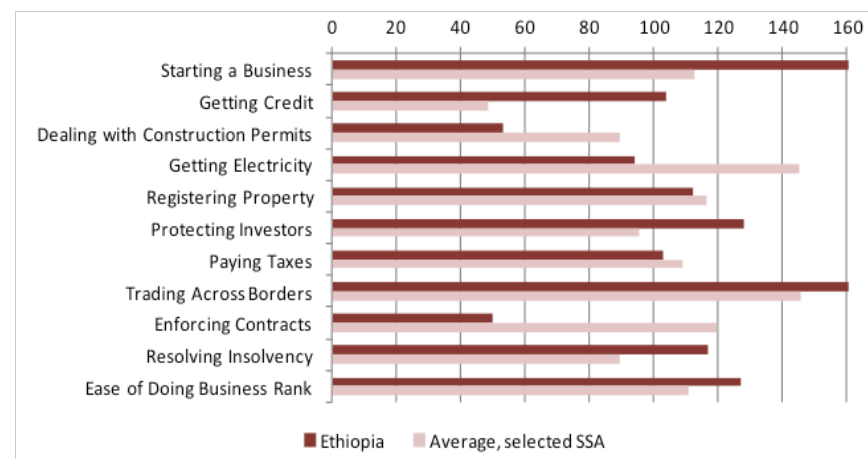
## INVESTMENT FRAMEWORK

The growth and transformation plan

According to the 2013 edition of the World Bank’s Doing Business indicator, Ethiopia overall “Ease of Doing Business” rank is 127 out of 185 economies. This is roughly in line with the average score of regional peers (Exhibit 11).

*Ethiopia’s rank in most Doing Business sub-indices is better than that of regional peers*

Exhibit 11: Doing Business Ranks – Ethiopia vs. Regional Peers, 2013



Note: Selected SSA is the simple average of Kenya, Nigeria, South Africa, Sudan and Uganda.  
Source: Own calculations based on Doing Business Index.

Ethiopia’s trade logistics performance is expected to improve drastically

Ethiopia’s relatively low rank mainly is the result of its low scores in three sub-indices: “getting credit”, “trading across borders”, and “protecting investors”. The first of these indicators is of limited importance to foreign investors, which rarely source funding on the destination country’s capital market.

With regard to the facilitation of trade across borders, Ethiopia’s low score is confirmed by the World Bank’s Logistics Performance Index (LPI), which measures on-the-ground trade logistics performance. The 2012 edition of the LPI ranks Ethiopia at number 141 out of 155 economies, down from number 123 in 2010.

However, as discussed in the introduction, major initiatives are currently under way to improve trade logistics. These include: new high-speed rail and multi-lane highway connections to the main port of Djibouti and improved border connections to neighboring countries; reforms to shipping logistics through the consolidation of the management of Ethiopia Shipping Lines, logistics operators and interior dry ports; and the establishment of new industrial parks for export production in which all firms will benefit from the Authorized Economic Operator (AEO) procedures for dealing with import and export processes.

Investment is protected ...

With regard to protection of investors, Ethiopia provides an attractive policy regime for foreign investment in terms of protection of investments and repatriation of profits: The Constitution and the Investment Law protect private property and assure the repatriation of capital and profit. Investments can also benefit from guarantees from the Multilateral Investment Guarantee Agency (MIGA), and from measures in Ethiopia's Bilateral Investment Promotion & Protection Treaties (BIPPTs).

... and benefits from attractive incentives

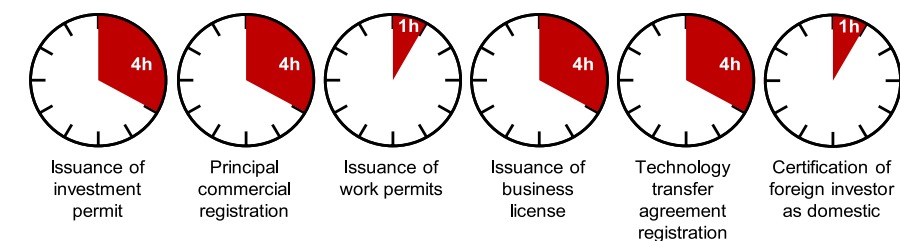
There is also a comprehensive and highly attractive set of incentives, particularly for investors in priority sectors:

- No restriction on the modality of participation
- No discrimination between domestic and foreign investors
- Exemption from the payment of customs duty on capital goods and construction materials and on spare parts whose value is not greater than 15% of the total value of the imported capital goods
- Income tax exemption from two up to seven years for manufacturing or agro-processing and agricultural investments
- Carry forward of losses: half of the tax holiday period
- A number of export incentive schemes, such as a Duty Draw-Back scheme, a Voucher scheme, a Bonded Manufacturing Warehouse scheme, and an Export Credit Guarantee scheme.

Investment licenses are fast-tracked in the investor one-stop shop

Finally, the process for approval of investments has been expedited—recently passed legislation will make a reality of the promise of one-stop shopping for investment approvals. Together with pre-approval and post-approval services to foreign investors (facilitation & aftercare services), foreign investors can expect to obtain the necessary approvals within a few hours (Exhibit 12).

Exhibit 12: Duration to Obtain Approvals for Foreign Investors



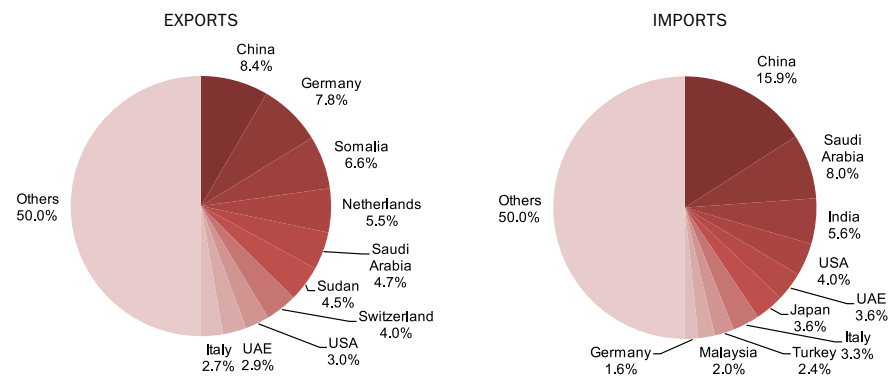
Source: Ethiopia Investment Agency.

## ETHIOPIA'S GLOBAL INTEGRATION : TRADE AND INVESTMENT TRENDS

In terms of geographical trade patterns, while China and India have been the most important sources of Ethiopian imports, China has also become Ethiopia's most important foreign market in recent times (Exhibit 13).

*Ethiopia's trade pattern is global – there is no dependency on any single trading partner*

Exhibit 13: Ethiopia's Key Trading Partners, 2009-2011



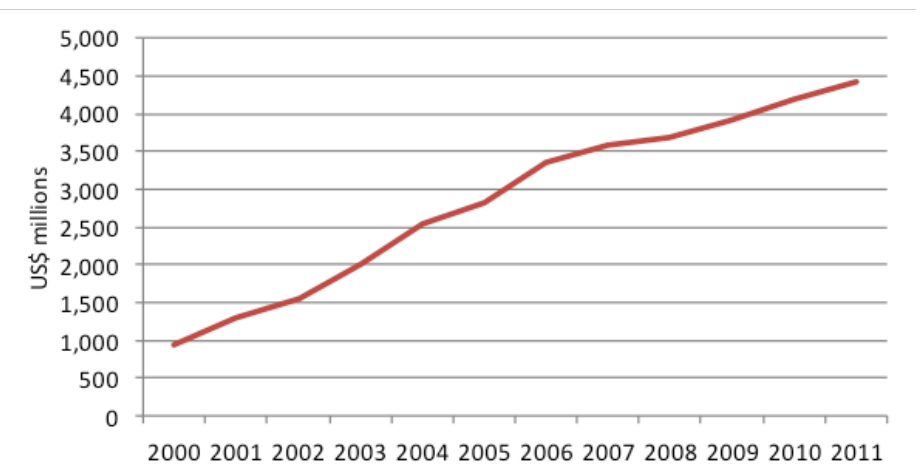
Source: Own calculations based on UN COMTRADE data.

*FDI stocks have increased steeply*

At the same time, exports reflect Ethiopia's global position at the cross-roads between the East and the West. It is telling, therefore, that the three most important destinations of Ethiopia's exports are China (east), Germany (west), and Somalia (region). This pattern of export markets ensures that Ethiopian exports are not vulnerable to business cycles in any one of the global regions.

The stock of inward FDI in Ethiopia has grown steeply in the past decade, although the rate of accumulation has slowed since the onset of the global crisis in 2008. The level in 2011 was almost five times the level in 2000 (Exhibit 14).

Exhibit 14: Inward FDI Stock, 2000-2011



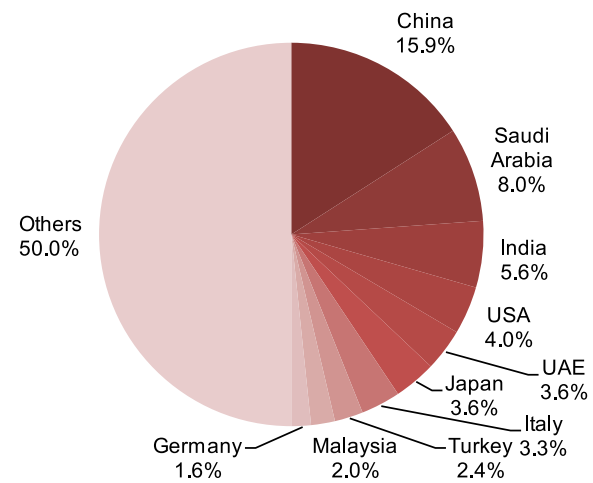
Source: UNCTAD.



Like Ethiopia's trade, its sources of FDI are also remarkably diversified. This is another indicator of how central Ethiopia is in the global economy, taking distance and size of economic partners into account (Exhibit 15).

*FDI inflows are remarkably well balanced by source economy*

Exhibit 15: Sources of Foreign Investment in Ethiopia



Source: Ethiopia Investment Agency.

Ethiopia's economic record features many strong positives but also some challenges

## SUMMARY

Ethiopia's growth is underpinned by a wide range of factors. Foreign investment is pouring in from all over the world and into a wide range of sectors, corroborating the impression obtained from analysis of the statistics.

In summary, Ethiopia's economy features a number of important positive developments:

- Strong growth based on an increasingly diversified economy
- Stable non-food price inflation
- Increasing exports to a diversified range of markets
- Improved trade balance
- Stable economic policies and investor protection framework

At the same time, there remain some important macro challenges, most notably the combination of still high headline inflation, renewed upward pressure on the real exchange rate, and negative real interest rates. This situation generates a broad range of macroeconomic management challenges for the authorities, constrains the growth of the savings needed to fuel Ethiopia's investment requirements.



## PART 2: SECTORAL OPPORTUNITIES

### SECTORAL OVERVIEW

#### A CHANGING BUSINESS LANDSCAPE

Sometimes bigger is also different. To change Ethiopia's business landscape is indeed the explicit objective of Ethiopia's Growth and Transformation Plan. Part 1 of this Business Landscape Survey addressed the growth dimension; Part 2 addresses the transformational aspects.

Today, it is understood that economic development is not a simple linear process of moving from agrarian to industrial, to services and finally to knowledge-based economic structures. Nor is integration into the global economy simply conceived as a process of increasing specialization – a narrowing of the production palette as each economy focuses on doing what it does best.

Rather, economic development is understood as involving a massive diversification of production and trade, of developing new capabilities as well as capitalizing on existing ones. It is understood to involve the development of industry to increase the productivity of the agricultural base, as well as the development of agricultural feedstock for downstream industrial development. It is understood to mean the development of services in order to enable industry to compete globally. And it is understood to ultimately depend on the development of knowledge and human capital to enable the evolution of the complex ecology of products, functions and businesses that comprise the modern economy.

Exhibit 16: Development of Key Economic Indicators of Ethiopia, 2001 - 2011

	Source*	Notes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Growth &amp; inflation</b>													
GDP at current market prices, ETB billion	IMF, CSA	1-3	68.0	66.6	73.4	86.7	106.5	131.6	172.0	248.3	335.4	382.9	511.2
GDP at current market prices, USD billion	IMF, CSA	1-3	8.2	7.8	8.6	10.1	12.3	15.2	19.6	26.6	32.2	29.7	31.3
GDP constant prices, ETB billion	IMF, CSA	1, 3, 4	66.9	68.0	66.6	74.4	83.8	93.5	104.5	116.2	127.8	141.4	157.5
GDP constant prices, % change	IMF, CSA	1, 3, 4	7.4	1.6	-2.1	11.7	12.6	11.5	11.8	11.2	10.0	10.6	11.4
Inflation, average consumer prices, %	IMF		-5.2	-7.2	15.1	8.6	6.8	12.3	15.8	25.3	36.4	2.8	18.1
<b>External performance</b>													
Nominal exchange rate ETB/USD	CSA		8.33	8.54	8.58	8.63	8.65	8.68	8.79	9.24	10.42	13.00	16.00
Real exchange rate ETB/USD, Index 2000=1.00	NBE	5	0.90	0.80	0.90	0.95	0.98	1.06	1.18	1.34	1.64	1.34	1.24
Exports to World, current USD billion	UN		0.40	0.41	0.51	0.61	0.93	1.04	1.28	1.60	1.62	2.33	2.61
Imports from World, current USD billion	UN		1.81	1.59	2.69	2.87	4.09	5.21	5.81	8.68	7.97	8.60	8.90
Trade balance (X-M), current USD billion	UN		-1.41	-1.18	-2.17	-2.26	-3.17	-4.16	-4.53	-7.08	-6.36	-6.27	-6.28
Current account balance, % of GDP	IMF	1	-2.9	-4.5	-1.3	-1.4	-6.3	-9.1	-4.5	-5.6	-5.0	-4.4	-0.2
<b>FDI</b>													
Inward FDI stocks, current USD billion	UNCTAD		1.29	1.55	2.01	2.56	2.82	3.37	3.59	3.70	3.92	4.10	..
FDI inflows, current USD million	UNCTAD		349.4	255.0	465.0	545.1	265.1	545.3	222.0	108.5	221.5	184.0	..
Net FDI inflows, BoP data, current USD million	NBE	1	..	..	123.3	150.0	150.0	365.1	521.2	814.6	893.7	956.4	1,229.5
Capital of approved FDI projects, ETB billion	NBE	1	2.92	1.47	3.37	7.21	15.41	19.98	46.95	92.25	73.11	55.17	45.92

\*Sources: IMF – IMF World Economic Outlook Database, April 2012; CSA – Central Statistical Agency National Accounts 2011; NBE – National Bank of Ethiopia Annual and quarterly reports, various editions; UN – UN COMTRADE Database; UNCTAD – UNCTADstat database.

Notes:

1 Data refer to fiscal years (July 8/July 7). Data for 2011 represent fiscal year 2010/11.

2 According to IMF source notes this is GDP at factor costs; see however the notes in CSA.

3 Values for 2010 and 2011 have been adjusted based on CSA latest data which appear not to have been reflected in the IMF data.

4 GDP at factor costs.

5 Own calculations based on stated source.

Ethiopia's growth since 2005 has outpaced growth of major African economies, and is expected to remain strong

Development thus involves a profound structural transformation of an economy. Ethiopia will offer a much changed business landscape as this transformation process unfolds. To understand the implications in terms of business and investment opportunities, a closer look is necessary at what is happening at the sectoral level.

The sectoral case studies developed in Part 2 focus on, in turn:

- agribusiness and agro-processing
- mining/oil & gas
- economic infrastructure
- manufacturing
- tourism
- health services.

Each chapter considers the role of the sector in the Ethiopian economy, the factors that are driving growth and development in the sector, the policy framework, and a discussion of opportunities and challenges both within the core activities in the sector and in the various ancillary activities and upstream and downstream supply opportunities.

Consistent with this understanding, the development of priority sectors highlighted in the Growth and Transformation Plan also involves the evolution of complex value chains, upstream and downstream from the core activity.

In many cases, enabling factors put in place to support priority sector development also facilitate numerous other activities. The GTP model of emphasizing vertical and horizontal links to drive industrial development is exemplified in various cases studied in the sectoral chapters.

For example:

- In the chapter on agribusiness, the discussion focusses on breweries which represent downstream industrialization from the resource base but at the same time drive a range of other industrial activities including goods production (e.g., bottle manufacture and packaging), and services (transportation, storage etc.), while also serving as inputs to other industries further downstream (e.g., tourism).
- In the manufacturing sector, the proposed entry into Ethiopia of an Indian jeans manufacturer is partly contingent on acquiring land for backward integration into upstream development of cotton as a basic input.
- In the review of the mining sector, the proposed privatization of the state-owned Ethiopian tantalum mining concern EMDSC is linked to entry into downstream manufacturing of tantalum industrial products such as wire.
- In the discussion of telecommunications infrastructure development, ancillary or horizontal opportunities are identified, such as cell phone assembly by China's SMADL and ZTE to meet growing local and regional demand stimulated by the infrastructure development.
- Similarly in considering the health care services sector, there are horizontal opportunities in manufacturing pharmaceuticals to meet the growing demand stimulated by improved access to health services.

## **ETHIOPIA'S INDUSTRIAL POLICY: THE DEVELOPMENTAL STATE MODEL**

Ethiopia explicitly embraces the developmental state model of industrial policy. It applies all the tools of traditional industrial policy:

- Targeted financial support, such as subsidies, loans from domestic policy banks, and equity participation, including setting up public corporations or, where necessary to address a market failure, nationalization of firms or even industries (as it recently did with the trade logistics industry which was folded into Ethiopian Shipping Lines);
- Trade policies that favor export-oriented and import-substituting industries;
- Tax incentives, including import duty exemptions, tax holidays, etc. that promote priority sectors, particularly where these sectors face particular handicaps such as the currently inadequate trade logistics;
- Strategic government procurement (e.g., assured profit margins for pharmaceutical manufacturers in government health-care procurement);
- Investment in specific projects supporting economic infrastructure, and/or
- Regulatory exemptions to attract, preserve or foster the growth of particular industries, including by attracting foreign direct investment.

How these policies are applied is addressed in the sectoral chapters, both in terms of how they are supposed to work on a de jure basis and how effective firms and industries have found them to be.

## **THE ANALYTICAL APPROACH**

An important element in the analysis is its exploration of the distinction between the business conditions as documented in pro forma analyses such as the World Bank's Doing Business survey, and the actual experience of firms working within the system as reported in the World Bank's other business climate survey, the Enterprise Survey. The distinction between the two is often quite large.

In the discussions conducted by the Project Team with companies and business associations, an adapted version of the World Bank's Enterprise Survey was used as a guide. The results of these discussions shed light on how firms can apply "business climate control" to enable them to operate efficiently, even under frameworks that are clearly difficult on a pro forma basis. For example, even though Ethiopia's regime for importing and exporting is identified as being highly problematic, the leather industry, a priority sector for Ethiopia, faces no problems in exporting due to facilitation by the Ethiopian authorities and its state-owned logistics and transportation firms, although its experience with importing inputs corroborates the low rating given to Ethiopia in the pro forma analyses.

## A PREVIEW OF THE MAIN RESULTS

### Agribusiness

Ethiopia has already learned the business model for developing export-oriented time-sensitive industries such as cut flowers and fresh vegetables. It is now intent on building on this experience by:

- Making more intensive use of existing farmed land, especially that in the proximity of urban centers where intensive agriculture-based industrial clusters will be viable;
- Bringing under cultivation substantial portions of the 80% of its arable land that presently is not being cultivated;
- Expanding the use of commercial-scale farms to increase productivity and to develop exportable cash crops;
- Addressing input supply constraints, including irrigation, fertilizer, seeds, and smallholder-farm knowledge base;
- Continued improvements in infrastructure to allow presently isolated communities to plug into commercial opportunities; and
- Promoting foreign direct investment in commercial agriculture and downstream agro-processing industries.

The analysis sheds light on how firms have been able to successfully function in Ethiopia in the current formal policy setting, and confirms that planned improvements to Ethiopia's trade logistics, including improved rail and road export corridors and the application of the authorized economic operator concept by customs officials will have a further dramatic effect in facilitating the conduct of time-sensitive business in Ethiopia.

Various analyses, including a recent assessment by the World Bank, suggest that Ethiopia can, with well-rehearsed and for Ethiopia technically feasible policy reforms, make quantum leaps in its ability to capitalize on its rich agricultural base to develop downstream industries and create jobs. The expansion of output and exports that is identified is in the scale of orders of magnitude.

### Mining/Oil & Gas

Ethiopia's varied geology endows it with a wide variety of minerals including gold; platinum and platinum group elements (PGE); tantalum and other metals such as copper, iron, lead, nickel and zinc; gemstones such as ruby, emerald, sapphire, garnet, opal, etc.; decorative and dimension stones such as marble and granite; and various industrial minerals such as potash, phosphorous, coal, marble, limestone, and soda ash. There is also significant potential in oil and gas as well as an enormous amount of geothermal energy within the Rift Valley, where pilot exploration drilling has proven the existence of steam capable of generating geothermal power.

Despite the mineral potential suggested by its geology, Ethiopia was not a mining hub until very recently. The accelerating mining sector boom is being driven by several factors:

- The rich resource base that is only now being brought to light by systematic mapping (geological-related mapping is to be increased from 50%, and evaluated and delineated areas of potential industrial exploration, from 48% to 77%, of Ethiopia's land mass over the period to 2015).
- Strong global demand for resource products.

- Attractive terms and incentives for mining sector investment, including generous terms for royalty rates and income taxation, and security of tenure.
- Strong engagement by the private sector, including entry into Ethiopia's mining sector by major players in the global mining industry.

Reflecting these developments, in 2010 and 2011, mining was the fastest growing sector in the economy, averaging over 50% per year growth in real terms. The intensified exploration has resulted in a series of new discoveries, including of gold, tantalum and potash, which position Ethiopia to strengthen output growth over the coming years as new production sites come on stream.

The main issues facing mining companies—transportation logistics and trained personnel—are being addressed through government-supported infrastructure development and by the private sector with, for example, the establishment of a mining engineering program at Unity University, which was accredited at the beginning of 2012.

#### Infrastructure

The emergence of a world class mining sector in Ethiopia spells opportunities not only for the extractive industries but also for the myriad of suppliers and downstream applications of mined resource products, including in the first instance industrial materials manufacturers who can take advantage of the raw material supply, inexpensive labor, and low-cost energy supplies.

Ethiopia is in the midst of one of the most ambitious economic infrastructure development programs in history that has already seen major expansion of installed electricity capacity and distribution, road length, water and sanitation supply, and telecommunications service throughout the country. The ambitious objectives in this area include:

- A quintupling of Ethiopia's power generation capacity.
- A major upgrade to its network of trunk roads.
- Substantial expansion of its rail corridors, including a new heavy-duty, high-speed rail link to Djibouti, Ethiopia's main export port.
- A further major expansion of its telecommunications capacity.
- Further major expansion of water supply.

While the Government is the sole direct provider of infrastructure, opportunities for private sector investments abound both in terms of providing services (e.g., France Telecom has been brought in to manage Ethio Telecom), and in terms of supply chains that surround infrastructure development (e.g., China's TE has developed solar power solutions to enable the extension of telecoms services to remote areas which lack conventional power supply – the result will be the largest scaled solar telecom network in the world).

In addition, the Ethiopian customs department is working with the country's two main carriers, Ethiopian Airlines and Ethiopian Shipping Lines (ESL), to deliver a major leap in the efficiency of its trade logistics, in particular through the implementation of the modern Authorized Economic Operator (AEO) system to all of its export-oriented industrial parks. Ethiopian Airlines already accounts for a full two-thirds of all African air cargo, making Ethiopia the main air-hub for Africa, and has recently significantly extended its cargo capacity and range. ESL is a major integrated shipper serving the Gulf, India and the Asia Pacific. It operates two dry ports in Ethiopia.

## Manufacturing

Manufacturing is under-developed in Ethiopia – even by African standards. Several mutually reinforcing factors have conspired to prevent the emergence of a stronger manufacturing base in the country historically, including a history of isolation from global markets. Ethiopia has had limited success in a few narrow areas, namely leather and textiles.

However, Ethiopia has the means to change that as a number of factors are coming together at the same time:

- Ethiopia has a surging supply of young, increasingly well-educated, trainable and inexpensive labor.
- Ethiopia has an advantageous geographic position to access global value chains: Addis Ababa is already the air cargo hub of Africa, within non-stop reach of all the major G7 and BRICSA economies. Moreover, with new high-speed road and rail corridors being built to connect Ethiopia to the Red Sea, the sense of landlocked isolation that has historically characterized Ethiopia will be transformed— Ethiopia will be seen as perched on the main trade route from Asia to Europe and the Americas.
- Ethiopia is implementing what will amount to a quantum improvement in trade logistics: its new industrial parks will give their tenants, as authorized economic operators, seamless multimodal links to the global economy

- With duty-free, quota-free access to the US and EU markets already in hand, Ethiopia's manufacturing sector is well positioned to absorb some of the basic manufacturing jobs being shed in East Asia due to rising labor costs in that region
- The supply of energy in Ethiopia is being expanded in quantum leaps through major new infrastructure developments.
- Ethiopia has no hangover of legacy manufacturing technology.
- Ethiopia has a supportive policy framework aimed at leveraging the agricultural and mineral resource base which will provide the feedstock for downstream manufacturing activity.
- The inflow of foreign direct investment is now being encouraged by the experience of first-movers who have entered the Ethiopian market with success.

According to a recent World Bank case study , Ethiopia has significant potential in several light manufacturing subsectors: apparel, leather products, agribusiness, wood products, and metal products. With policy reforms that have already been proven in application in other countries, Ethiopia's export potential could be expanded by orders of magnitude.

To offset the frictions that firms may experience while the full package of reforms are still being implemented, the Government of Ethiopia offers attractive terms to foreign investors, as described earlier in the macroeconomic scan.

#### Services : Tourism

Ethiopia has great – and largely unexploited – tourism potential. Its tourist attractions are many and varied. In terms of cultural tourism, Ethiopia features the richest archeological heritage of any country in Sub-Saharan Africa. It is the home of Lucy, the world's oldest hominid skeleton, has a claim to being the land of the legendary Queen of Sheba and the even more legendary Ark of the Covenant, but also is the beneficiary of the rich heritage of the Axumite Kingdom, the medieval castles of Gondar, the rock hewn churches of Lalibela (the 8th wonder of the world); and the birthplace of coffee with its rich traditions. In fact, Ethiopia has the most World Heritage sites of any country in Africa (9).

Ethiopia's natural attractions are equally varied: the source of the Blue Nile; the Rift Valley with its volcanoes, lakes and exotic wildlife; and a topography that ranges from rugged mountains to lowland savannas for the adventure tourist. Although situated close to the equator, the country's climate is tempered by altitude, which makes it suitable for year-round tourism.

As well, Addis Ababa hosts both the African Union headquarters and the UN Economic Commission of Africa and is thus considered to be the political capital of Africa. By the same token, it is host to a disproportionate number of international events which can be leveraged for tourism purposes.



Tourist arrivals are growing rapidly and the industry is starting to attain scale: Tourist arrivals in Ethiopia increased from 184,078 in 2004 to 560,000 in 2010/11 – an almost four-fold increase. For 2012, leisure travel spending is expected to reach USD 2.1 billion and business travel spending USD 0.5 billion.

Nonetheless, by global standards, Ethiopia is relatively under-explored, a reflection of limited historical accessibility. Accessibility is increasing as Addis Ababa expands its role as an air transport hub for the African continent. Connectivity was recently improved, as exemplified by Ethiopian Airlines' joining the Star Alliance effective 13 December 2011. Ethiopia's tourism sector is poised to benefit from an upgrade program that includes constructing airports, road and communication networks, and upgrading the country's electric power generation and water works.

The tourism industry is fairly liberalized and open for all investors (with the exception of travel services) and 100% foreign ownership is allowed. Tax holidays and 100% duty exemptions on all imports of investment capital goods are available. The Ethiopian Government has removed constraints relating to visa and customs regulations, with the objective of positioning Ethiopia as a top-notch African tourist destination.

Tourism requires a wide range of supporting services, engages a wide range of other services as part of the delivery of the tourism product, and drives activity in a wide range of downstream and ancillary industries. Particular opportunities for private investment are opening up in the hotel sector, as the top hotels are already operating at very high capacity and there is very limited existing capacity near major tourist attraction sites and areas which are emerging industrial zones.

#### Services : Health

Like many developing economies, Ethiopia has an inadequate supply of health care services, notwithstanding an expansion of the number of health facilities (hospitals, clinics, and health stations) from 575 in 1997 to 17,300 in 2010. Total health expenditure is on the order of 4 to 5% of GDP and been rising steeply and will expand further under the ambitious targets set by the Growth and Transformation Plan.

The growth of private hospitals has been significant during the past 5 years, triggered by factors such as the rapid influx of medical technology, rising middle class incomes, and supporting policy of government. Indeed, 47% of spending on health care in Ethiopia was financed privately (out of pocket) in 2010, up from less than 40% in 2005. Moreover, the government has sought to increase the involvement of the private sector (both for-profit and not-for-profit enterprises) in the delivery of health services. Today, practically all drug vendors and drug stores are privately owned, as are more than 70% of pharmacies. There are also just under 200 non-governmental health clinics and 8 non-governmental hospitals operating throughout the country,

Land for construction of hospitals and related services may be obtained on a lease basis; the terms are liberal. Investments can be facilitated through the state-owned bank with a minimum of 30% of equity provided by the investor. The government also offers tax holidays, duty free privileges on biomedical instruments and equipment, minimal or zero tariffs on raw materials (where relevant such as in the pharmaceutical industries) with a 20% margin advantage granted to domestic suppliers over imports on public procurement tenders. Improved regulation in a number of areas, including hospital autonomy, pharmaceutical distribution, and licensing is being developed to facilitate private sector engagement.

The investment planned for Ethiopia's health care system will drive demand for a wide range of goods and services provided by the private sector, including laboratory services, ambulance services, pharmaceutical manufacturing, and training of health care personnel.

A specific opportunity, examined as a case study, concerns provision of medical tourism services. In 2010 alone, some 6,000 Ethiopians traveled to Bangkok for medical treatment spending approximately USD 36 million. Citizens of many other Sub-Saharan African countries also use foreign facilities for medical treatment as part of a broader global trend towards so-called "medical tourism" whereby individuals obtain needed procedures in a low-cost country bundled with a tourism experience for the price that would have been paid in the home country for the procedures alone. Ethiopia is well placed to apply this concept. First, it has an advantageous geographical location. Secondly, Ethiopia serves as a major air hub for Africa: Ethiopian Airlines provides air service to 66 destinations worldwide of which 41 are within the African continent. And, as discussed in the tourism chapter, Ethiopia also has a multitude of attractions for tourists.



### Overview

Ethiopia is the 27th largest country in the world by land size and is endowed with significant agricultural resources. Historically, Ethiopia has produced large amounts of maize, sorghum, barley, and wheat along with the Ethiopian staples of teff and coffee. However, given its diverse topography and geographical location the country is suitable for growing practically any type of crop and vegetable: indeed, while Ethiopia lies within the tropics, temperatures range from a mean annual high of 86 degrees Fahrenheit (30° Celsius) to a mean annual low of 50 degrees Fahrenheit (10° Celsius).

Ethiopia's population is predominantly rural which gives the agricultural sector a large pool of available local labor. According to the World Bank, 82% of Ethiopia's population is rural, which is high compared to even the average for Sub-Saharan Africa of less than 64%. Furthermore, approximately 85% of the Ethiopian population is already employed in the agricultural sector and thus has some of the skillset required for expanding agribusiness.

The policy environment for the development of the private sector's role in agribusiness is also very supportive. Ethiopia has consistently sought to leverage its agricultural base for industrial development. In line with the Agricultural Development Led-Industrialization (ADLI) strategy and building on the lessons learned from past plans and programs, the Growth and Transformation Plan (GTP) continues to rely on agriculture as a major source of economic growth.

The commercialization of smallholder farming will continue to be the major source of agricultural growth under the GTP, supported by policies to increase productivity of smallholders. At the same time, the GTP's Agriculture Growth Program emphasizes a shift to high value crops and the development of large-scale commercial agriculture where it is feasible (e.g., in the lowlands). To these ends, concerted support is being given to increase private investment in large commercial farms, including through public investment in relevant infrastructure, such as water supply for irrigation. As well, the Program emphasizes the development of intensive agricultural production in the highlands and in areas where basic infrastructure is available.

The GTP also envisages agriculture as a springboard to bring about structural transformation in the long run by contributing to industrial growth. To this end, vertical and horizontal linkages between agriculture and industrial sector are being promoted. In particular, support is targeted for agriculture-related cluster formation such as that which has developed in the vicinity of Addis Ababa and other major cities. This support includes the development of green house facilities and irrigation systems, together with programs to enhance the role of breeders and seed suppliers, and to expand the number of horticulture investors, input suppliers, and service providers within the sub-sector.

Given its diverse topography and geographical location Ethiopia is suitable for growing practically any type of crop and vegetable

Ethiopia's most important cash crop remains coffee, a product which originated in Ethiopia's highlands. However production of fresh fruits and vegetables, oilseeds and most recently cut flowers has contributed substantially not only to GDP but also to export performance. Sub-sectors with substantial opportunities for new investment include:

- Plantation crops (such as tea and tobacco, in addition to coffee);
- Production and processing of oil crops and cotton;
- Fish farming;
- Horticulture and floriculture (fruits, vegetables and flowers);
- Livestock and poultry (Ethiopia's livestock resources are the largest in Africa, and the tenth largest in the world); and
- Forestry and forest by-products.

## **ROLE OF AGRIBUSINESS IN THE ECONOMY**

Although Ethiopia is diversifying its economic base, agriculture remains by far the largest contributor to Ethiopia's overall output. In 2011, crop production and animal husbandry accounted for almost 43% of GDP (Exhibit A1). By the same token the agricultural base provides significant and wide-ranging opportunities in terms of commercial production of agricultural commodities, input supplies and downstream agro-processing.

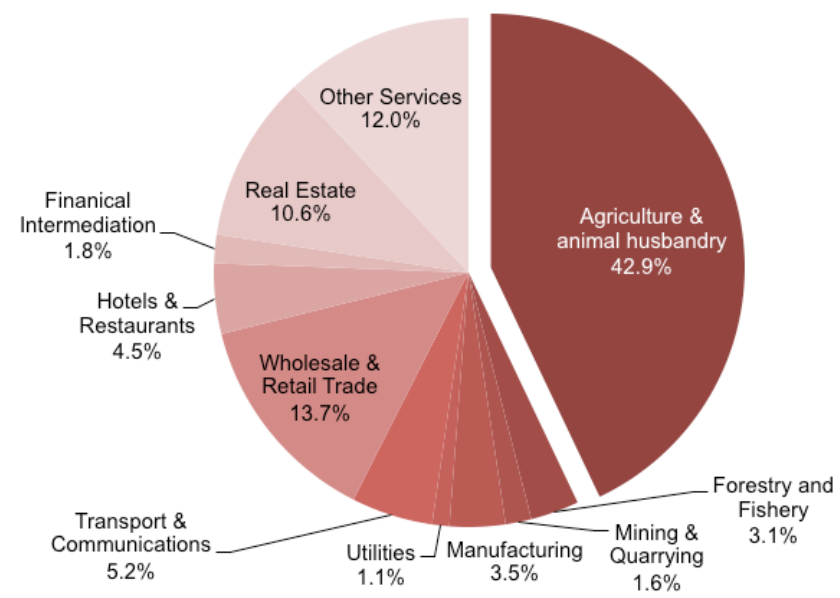
Ethiopia's economy is highly reliant on the agricultural/agribusiness sector for exports. Almost 80% of the country's foreign exchange is derived from the sector. The country's staple export commodity, coffee, accounted for over 32% of total exports in 2011, followed by edible vegetables and oil seeds (Exhibit A2). Since 2005, the cut flower sector has emerged as the country's fourth largest source of export earnings.

Note that these statistics do not include exports of chat, a plant that is native to the Horn of Africa and is chewed. It is an amphetamine-like stimulant, which typically causes euphoria and loss in appetite. It is banned in certain countries, including the United States, and is of economic importance only in trade with neighboring African economies, primarily Somalia.

The agriculture sector's major export commodities of coffee, sesame, beans, maize, and wheat are predominantly exported through the Ethiopian Commodities Exchange (ECX). The ECX was established in April 2008 on the basis of a government mandate to create a more efficient, transparent and orderly system for the trade of Ethiopian agricultural commodities.

*Agriculture remains the largest sector of Ethiopia's economy*

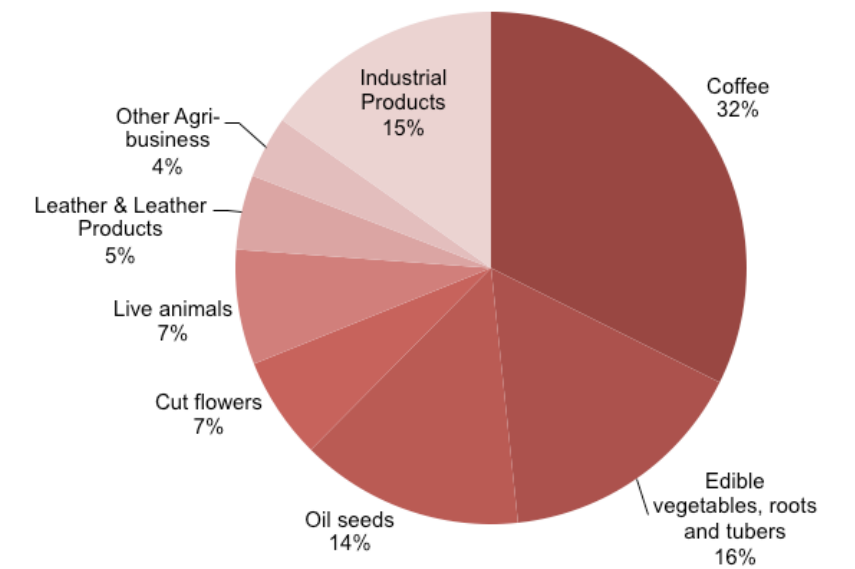
Exhibit A1: Agriculture's Contribution to GDP, 2011



Source: Central Statistical Agency

*Agriculture remains the largest sector of Ethiopia's economy*

Exhibit A2: Agribusiness Contribution to Exports, 2011



Source: International Trade Centre, Trademap

## GROWTH DRIVERS *DRIVERS OF SUPPLY*

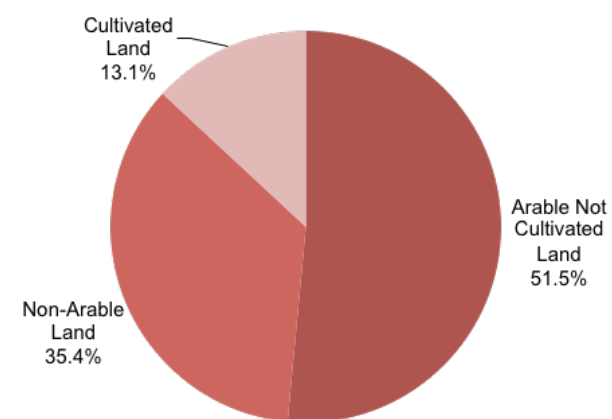
Several supply-side factors are expected to substantially expand Ethiopia's agricultural production and thus the feedstock for downstream agribusiness production:

- bringing arable but not cultivated land into production;
- expanding the share of land that is under commercial scale cultivation
- increased public support through the Growth and Transformation Plan.

There is considerable scope to expand the amount of land under cultivation. Almost 65% of Ethiopia's landmass is classified as arable (Exhibit A3). However, much of the arable land lies non-cultivated or underutilized. In fact, according to Ethiopia's Central Statistical Agency, 80% of Ethiopia's arable land is currently not being cultivated.

Ethiopia's arable land remains substantially under-utilized

Exhibit A3: Usage of Ethiopia's Land



Source: Central Statistical Agency

According to the German Gesellschaft für Internationale Zusammenarbeit (GIZ), the main reasons for the underutilization of arable land have been inaccessibility, water shortages; and infestation by disease-causing insects (mainly mosquitoes). Accessibility is being addressed by the construction of roads under the government's five-year infrastructure plan. Better irrigation practices and pesticide usage can resolve the other two issues identified by GIZ. Accordingly there is considerable potential for additional crop production. As well, productivity in agriculture could be enhanced through increased commercial farm operations. Of the currently cultivated farmland, 14.4 million hectares or 95% of the total is held by smallholder farmers. Only 0.6 million hectares or 5% of the total has been brought into commercial farm cultivation (Exhibit A4).

Exhibit A4: Usage of Ethiopia's Arable Land (Millions of Hectares)

	Smallholder cultivation	Commercial farms
<b>Grain Crops</b>	13.0	0.5
<b>Vegetable &amp; Root Crops</b>	0.3	0
<b>Cash Crops</b>	0.8	0.1
<b>Permanent Crops</b>	0.3	0.1
<b>Total</b>	<b>14.4</b>	<b>0.6</b>

Source: Central Statistical Agency

Smallholder farming in Ethiopia faces significant challenges which are bound to grow in the future if no corrective measures are taken. According to the Gates Foundation's research, given the current population forecasts and without expanding the amount of land under cultivation, by 2020 the average landholding size will drop from just over 0.9 hectares in the Agriculture Sample Survey of 2007/08, to 0.7 hectares.

To counteract the inefficiencies of the fragmented farming structure, many smallholder farmers organize into co-operatives to work and transact collectively. The Government supports this through the Federal Cooperative Agency which encourages and promotes cooperatives in Ethiopia as a form of economic enterprise. Estimates suggest that there are over 40,000 cooperatives in Ethiopia, with over 25% of them in agriculture. These organizations enable their farmers to achieve higher prices for their crops and provide access to key goods and services such as fertilizer, seeds and credit.

Commercial scale agriculture, which has only recently been encouraged in Ethiopia, has significant advantages, especially with respect to productivity. As shown in Exhibit A5, based on the Central Statistical Agency production statistics, Ethiopia's experience with commercial

agriculture has been very positive. Commercial farms have been able to register strong improvements in productivity across both grain and permanent crops. The largest improvements were registered in vegetable and root crop production. The largest subcategory of improvement was in lettuce production which was 4.2 tons per hectare under smallholder farming and 24.1 tons per hectare under commercial scale agriculture, a 5.8 times increase.

Exhibit A5: Productivity of Commercial Farms versus Smallholder Farms

	Production Tons/Hectare	
	Peasant/ smallholder farms	Commercial farms
<b>Grain crops</b>	<b>1.72</b>	<b>2.06</b>
Cereals	1.83	3.36
Pulses	1.44	1.63
Oilseeds	0.82	1.17
Vegetables	5.33	19.2
Root crops	8.94	22.54
<b>Permanent crops</b>	<b>2.69</b>	<b>23.11*</b>
Fruit crops	8.9	13.41
Cash crops	2.37	23.15*
<i>Chat</i>	0.99	2.1
<i>Coffee</i>	0.74	1.21
<i>Tea</i>	0	8.13
<i>Hops / 'Gesho'</i>	1.2	-
<i>Enset</i>	2.3	2.78
<i>Sugar cane</i>	-	144.36
<i>Cotton</i>	-	2.04

Source: Central Statistical Agency

Third, a number of GTP initiatives aim to help increase food production in Ethiopia. In fact, the Government of Ethiopia is expecting to spend 15-17% of its budget to help grow the sector through a variety of measures aimed at strengthening drivers of supply (Exhibit A6).

Exhibit A6: GTP Goals for Drivers of Agricultural Productivity

	2009/2010	2014/2015
<b>Agricultural inputs supply</b>		
Supply of improved seeds (mln qts)	0.56	3.6
Supply of chemical fertilizers (mln tons)	0.83	1.66
<b>Agricultural extension</b>		
Number of beneficiaries of agricultural extension services (mln)	5.1	14.6
Of the beneficiaries of agricultural services proportion of women and youth (%)	n.a.	40
<b>Improving soil fertility</b>		
Areas under vertisol development( mln ha)	1	3
Acidic land treated with lime (ha)	2,210	37,850
<b>Small scale irrigation program</b>		
Land developed under small scale irrigation (mln ha)	0.853	1.85
<b>Cooperative development</b>		
Number of primary cooperatives	33,636	56,904
Number of cooperatives unions	212	546

Source: Government of Ethiopia, Growth and Transformation Plan

The Government's food production goals are ambitious.

The GTP calls for:

- Vegetable production to increase from 1.3 million tons in 2009/2010 to 4.1 million tons in 2014/2015, implying 26% average annual growth rate over the five years.
- Major food crop production to increase from 19.1 million tons in 2009/2010 to 26.8 million tons in 2014/2015, implying average annual growth of 7% over the period.
- Root crop production to rise from 1.8 million tons to 2.9 million tons over the same period, implying average annual growth of 10%.



The major emphasis in the plan to achieve these goals is to improve access to agricultural inputs:

- The state-owned Agriculture Input Supply Corporation is expected to contribute to the improved supply of seeds to smallholder farmers. Improved planning, production, and delivery/distribution will be key aspects in improved seed supply. According to research by the International Food Policy Research Institute (IFPRI), the commercial sector supplies 20,000–30,000 tons of seed per year across all crops, representing only 3–6% of farmers' actual seed need.
- Similarly, fertilizer supply is to be increased to farmers in Ethiopia. Fertilizer usage increased at 5% per year until 2008. Fertilizer inputs in Ethiopia have been competitively priced, but the timeliness of delivery can be improved.
- The large water resources that are available in the country are now beginning to be harnessed. Currently, Ethiopia harnesses the water resources on 250,000 hectares out of a potential of 2.5 million hectares of land. The Ethiopian government is investing heavily in this respect, including in irrigation projects, increased use of ground water in suitable areas, and draining water from Vertisols to permit double-cropping.
- Agricultural extension services to farmers are to be expanded to help increase their productivity through skills and technology transfer. These government-driven services are expected to almost triple in the five-year period to 2015.

## **GROWTH DRIVERS *DRIVERS OF DEMAND***

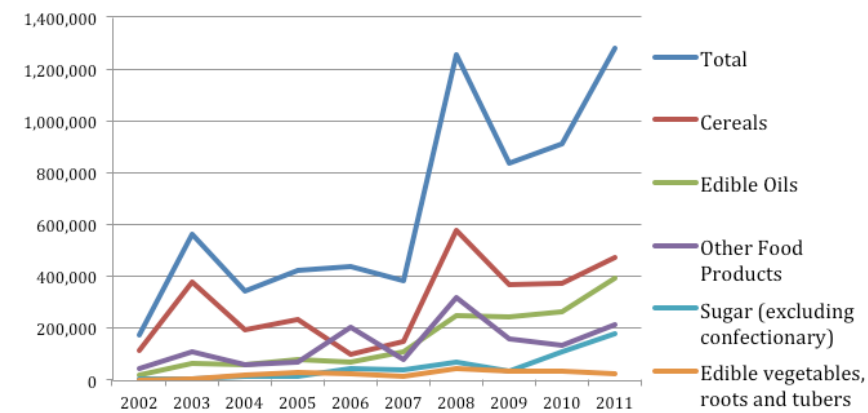
The agribusiness market is global in nature. It is estimated to be a USD 6 trillion market, with global imports on the order of USD 1.4 trillion in 2011. Since the late 1990s the world has experienced generally tight food supplies, higher prices, and increased price volatility. These developments reflect in part the agricultural reforms agreed in the Uruguay Round to reduce structural surpluses of agricultural products, but also energy price shocks, speculative activity in financial markets and unilateral export restrictions put in place by some countries (Food and Agriculture Organization). Accordingly global market developments are providing an opportunity for Ethiopia to develop its agricultural sector. The ability for Ethiopia's production to achieve marketability on the global marketplace is primarily predicated on pricing performance, regulatory regime and the logistics infrastructure.

It is also important to note that Ethiopia itself is a growing market for agribusiness products. Ethiopia has become a net importer of certain food and beverage products. In fact, over the period 2002-2011, food imports have grown from \$173 million to \$1.3 billion, or at an average annual growth rate of 25%. Cereals, edible oils and sugar recorded the strongest growth in this period (Exhibit A7).

*Ethiopia is a growing food importer*

It is also important to note that Ethiopia itself is a growing market for agribusiness products. Ethiopia has become a net importer of certain food and beverage products. In fact, over the period 2002-2011, food imports have grown from \$173 million to \$1.3 billion, or at an average annual growth rate of 25%. Cereals, edible oils and sugar recorded the strongest growth in this period (Exhibit A7).

Exhibit A7: Ethiopia Food Imports, 2006-2011, Thousands of US Dollars



Source: International Trade Centre, Trademap

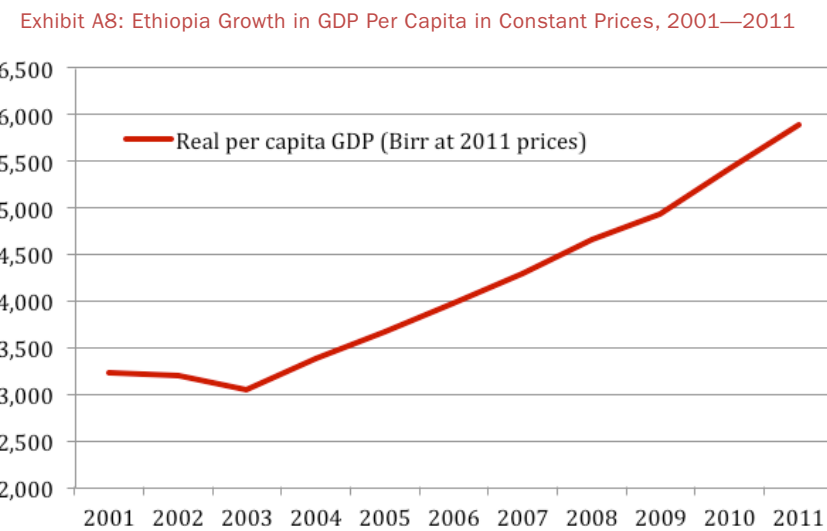
The drivers of this growth in domestic Ethiopian demand for food products have been favorable demographics, urbanization and rising incomes.

Ethiopia's demographics serve as a strong driver of domestic demand for food and beverages. With a population of over 80 million people, it is the second most populous country in Africa and fourteenth in the world. The population is still growing rapidly at over 2% per year, placing it in the top 10 fastest growing populations globally. Over 40% of Ethiopia's population is under 15 and over 70% is under 30.

Moreover, with Ethiopia's continuing urbanization trend, the shift of population out of subsistence farming will increase demand for commercial agricultural products.

Perhaps most importantly, Ethiopia has experienced strong and steady growth in real incomes, with real GDP per capita doubling between 2003 and 2011 (Exhibit A8). Access Capital estimates that around 50% of Ethiopia’s urban employed, or roughly 2.5 million individuals, earn the equivalent of at least USD 1,000 per year, a threshold beyond which demand for basic consumer goods jumps sharply based on international experience of consumer spending patterns. Although the bout of higher inflation, which peaked in August 2012 and was in part driven by high global food prices, impacted negatively on lower-income households, the more recent stabilization of prices for a range of non-staple foods, together with the authorities’ decision to import and distribute flour products and edible oils has alleviated the situation.

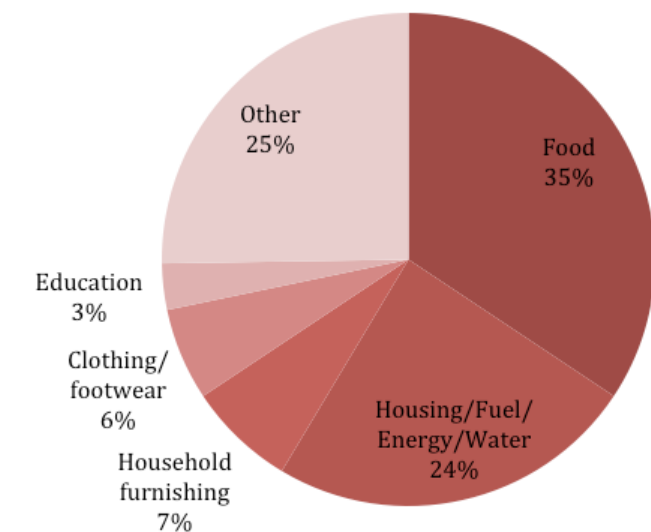
*Ethiopia’s per capita GDP doubled between 2003 and 2011 in real terms.*



Source: Central Statistical Agency (GDP); IMF (population); own calculations.

As well, a large share of household spending goes to food items. Using urban wage data, remittances, and rental and dividend income, Access Capital estimated urban consumer buying power at USD 6 billion, of which about USD 2 billion is spent on food (Exhibit A9).

Exhibit A9: Ethiopian Household Expenditure Patterns



Source: Access Capital

## REGULATORY ENVIRONMENT

Under the GTP, the Government of Ethiopia plans to maintain an organized land bank, which will be made available for lease for commercial scale agriculture. Efforts are being made to attract both foreign and domestic investors.

The policy intent is that the production of commercial farms be primarily for export or to provide raw materials for industries. The GTP identifies cotton, date palm, tea, rubber, and similar agricultural products as desirable, although production of food crops will be encouraged in a double cropping system.

In the coming five years, over 3 million hectares of land is to be identified and prepared for transfer to investors; the government has also indicated that it will provide tangible support to private investors to enhance their investment in commercial agriculture, including through public investment in irrigation and marketing infrastructure (GTP).

Ethiopia has been able to attract investment in its agriculture “upstream” production from diversified sources, including from China, India and Saudi Arabia (Exhibit A10).

Exhibit A10: Existing players in the Ethiopian Agribusiness sector

Investor	Year	Origin Country	Region	Activity	Hectares
Karuturi Agro Products Plc.	2008	India	Gambela	Palm, cereals & pulses	100,000
Shapoorji Pallonji	2010	India	Benishangul	Biofuel seeds, edible oil	50,000
BHO Bio Products PLC	2009	India	Gambela	Palm, cereals & pulses	27,000
Ruchi Soya Industries	2010	India	Gambela	Soya bean	25,000
CLC Spentex Industries Limited	2010	India	Benishangul & Amhara	Cotton	25,000
Huanan Dafengyuan Agriculture	2010	China	Gambela	Sugarcane	25,000
Adama	2010	Ethiopia	SNNPR	Cotton	18,516
White field	2010	India	SNNPR	Cotton	10,000
Saudi Star Agricultural Development	2008	Saudi Arabia	Gambela	Wheat, maize and rice	10,000
Sannati Agro Farm Enterprises	2011	India	Gambela	Rice and rotational pulses & cereal crops	10,000
Daniel Agricultural Development Enterprise	2010	Diaspora	SNNPR	Cotton and grains	5,000
Mela Agricultural Development PLC	2010	Ethiopia	SNNPR	Cotton	5,000
Access Capital Services	2011	Ethiopia	Benishangul	Sesame, cereals & pulses	5,000
Tracon Trading PLC	2011	Ethiopia	Benishangul	Cotton	5,000
Dr. Tamie Hadgu	2011	Diaspora	SNNPR	Cotton and seeds	5,000
Bruhoye	2011	Ethiopia	Benishangul	Cotton and soya bean	5,000

Source: Compiled by the project team

Given the proliferation of commercial scale investments in the agribusiness sector, the opportunity for ancillary and supporting service businesses is also becoming sizable. Entrepreneurs that may not have wanted to take revenue risk from a single company can now develop projects and companies based on a larger, more diversified pool of potential revenues.

Ethiopia has also been able to attract investment from a number of marquee international brands as well as a number of domestic players into the “downstream” food and beverage processing and marketing sectors (Exhibit A11). These players vary in size and geographic reach and could represent potential joint venture partners for international operators and/or investors.

In 2011, Heineken purchased two state-run breweries, Harar and Bedelle, for a total purchase price of \$163 million. SAB Miller also entered the market through a \$20 million investment in the partial privatization of the Ambo water company. In the non-beverage consumer goods space, South Africa’s Tiger Brands entered into a joint venture agreement with East Africa Group in Ethiopia, which operates a number of local brands including leading biscuit, flour and pasta brands. Singapore-based global agricultural and food company Olam, which is moving into a range of product areas across Africa, has established a foothold in Ethiopia’s coffee industry.

Exhibit A11: Players in the Ethiopian Food and Beverage Processing/Marketing Industry

Dairy	Dairy Development Enterprise (DDE), LEMA Milk, Sebeta Agro Industry, Family Milk, Dire Dawa Dairy Processing Enterprise.
Edible Oil	Dil Edible Oil PLC, Nazreth Edible Oil SC, Bahir Dar Edible Oil SC, Hamaressa Edible Oil SC, Addis Modjo Edible Oil SC.
Confectionary & Sweets	NAS Foods PLC, Nile Foods and Confectionary PLC, Redwan Denboba, Salwa PLC, Brothers Flour and Biscuit Factory, Wondmamachoch Flour
Food Manufacturers	Dire-Dawa Food Complex SC, Kokeb Flour and Pasta Factory, Anbessa Flour and Pasta Factory PLC, KOJJ Food Processing Complex PLC, Kaliti Food SC, Fafa Foods SC, Green Star Food Company LLC, Abay Pasta & Macaroni Factory, East Africa Industrial Park PLC, Misrak Flour & Bread Factory, Grand Bakery, Shewa Bakery
Beverages – Non-Alcoholic	Ambo Mineral Water Factory, MOHA Soft Drinks Industry SC, East African Bottling SC (Coca Cola), Babile Mineral Water Factory, Great Abissiniya PLC, Aqua Safe Natural Spring Water Factory, Piko Juice Factory PLC
Beverages – Alcoholic	DIAGEO/Meta Abo Brewery, HEINEKEN/Harar Brewing SC & Bedele Brewery SC, Awash Winery SC, BGI Ethiopia PLC, Dashen Brewery SC, National Alcohol & Liquor SC, Balezaf Alcohol and Liquor Factory PLC, Silvana Testa, Molla Maru Liquor Factory, Kokeb Liquor Factory
Meat Processing	ELFORA Agro-Industries PLC, Luna Export Slaughter House PLC, Modjo Modern Export Abattoir PLC, Genesis farms Ethiopia PLC, Ethio-LEE Livestock Enterprise SC, ALFOZ PLC
Coffee and Tea Processing	TO.MO.KA Coffee PLC, Abole Buna Enterprise PLC, Great Abyssinia PLC, Construction Works and Coffee Technology Development Enterprise, Olam International Limited

Source: Compiled by the project team.

Cut flowers: Karuturi's Entry  
into Cut Flowers & Crop  
Production

## AGRI-BUSINESS CLUSTER AND VALUE CHAIN OPPORTUNITIES

A vast number of value chain opportunities exist in the agri-business cluster. Two important ones are cut flowers and beverages.

Historically, the European Union and the United States dominated flower production. However, because greenhouses in the northern hemisphere require artificial heating during cold weather, these regions began losing competitiveness when fuel costs, which constitute 35-40% of total costs, started to increase. As a result, their production slowed and began shifting to more ideal climates for growing flowers such as Costa Rica and Kenya, and Ethiopia.

On the demand side, the European Union, Japan and the United States are the largest cut rose-consuming markets, accounting for two-thirds of the world market.

The industry has well-defined trade channels for growers including auctions, direct sales and third-party sales. The auction market is typically preferred as it tends to yield the highest price. Over 40% of sales in Europe occur through the auction process.

Karuturi Global was established in 1994 in India by Ramakrishna Karuturi in order to participate in the floriculture industry. It entered the Ethiopian market in 2004, attracted by a number of factors including:

- Ethiopia's proximity coupled with quota free and duty free access to the European market
- Favorable climate conditions
- Low cost land and low cost labor
- Various government incentives including exemption of custom duties on imports of equipment and inputs, and income tax exemption for 5 years.

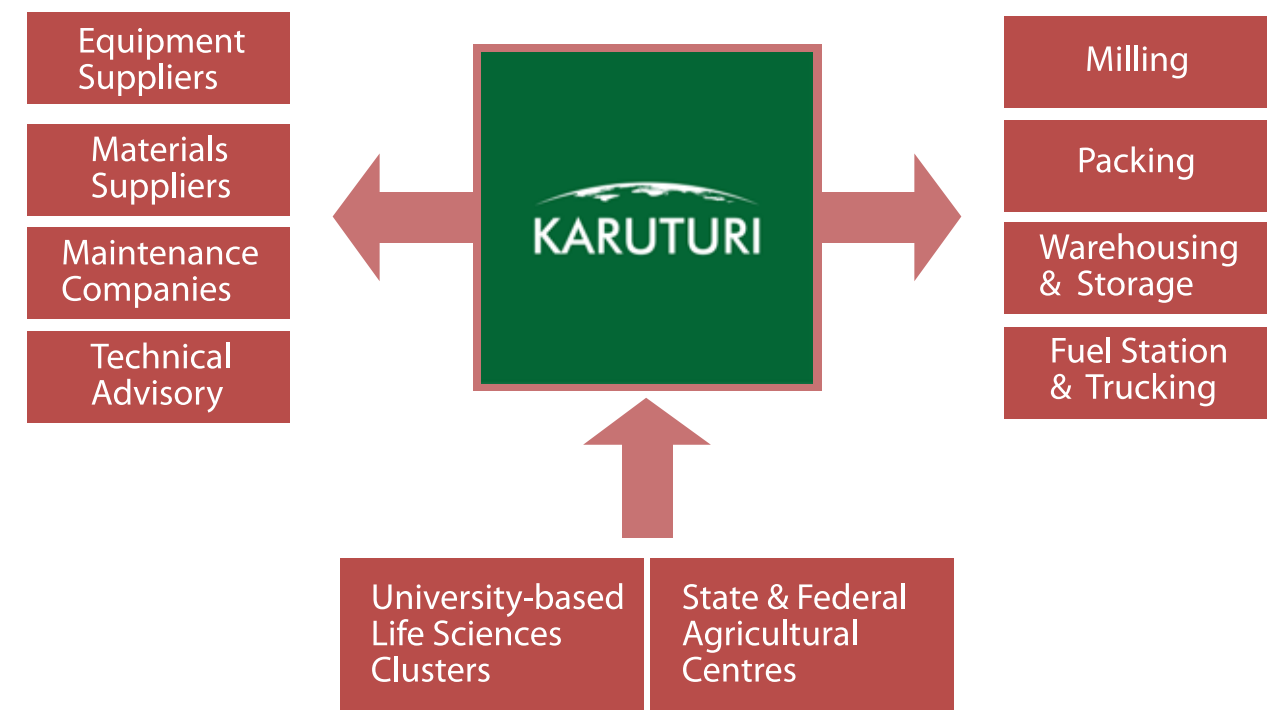
By 2007, Karuturi became the largest cut flower producer in the world. It currently has around 100 hectares of land in Holeta (40km from Addis Ababa) which is largely covered by green houses for flower production. It also has 300+ hectares of land in Woliso for expanding its rose cultivation. The company exports cut flowers to Europe, South East Asia, the Middle East, North America, Australia, Japan, and New Zealand, in addition to its sales in India. Exports constitute about 90% of the company's revenues.

Karuturi entered into agricultural crop production in 2008 with the acquisition of 11,000 hectares in Bako. The following year, Karuturi was awarded over 300,000 hectares in Gambela to produce palm, cereals, vegetables, and sugar. Initially, Karuturi plans to produce rice and maize on 70,000 hectares and palm oil on 20,000 hectares.

Nevertheless, the existing supply web for agribusiness in Ethiopia remains inadequate to meet all needs. For example, Karuturi, which started as a producer of cut roses, plans to participate in the entire agribusiness value chain, beginning with production, then processing, and finally marketing/distribution. However, it has expressed an interest in involving partners, especially local ones, in various parts of the value chain which it would like to outsource, including its fuel station and warehousing.

As well, the expanding agricultural operations generate business for input suppliers, equipment suppliers as well as technical services (e.g., biological, food engineering and sanitary) and business services (accounting, financial and other). There is accordingly a wide range of opportunities upstream and downstream of its core operations (Exhibit A12).

Exhibit A12: Opportunities in the Agribusiness Sector



Source: The Project Team

### Beverages: Diageo's Purchase of Meta Abo Brewery

Diageo is a major participant in the global beverage industry, producing and distributing a leading collection of branded premium spirits, beer and wine since 1759. Diageo's brands include Johnnie Walker, Crown Royal, J&B, Buchanan's, Windsor and Bushmills whiskies, Smirnoff, Cîroc and Ketel One vodkas, Baileys, Captain Morgan, Jose Cuervo, Tanqueray and Guinness. Diageo's products are sold in over 180 markets around the world. It has an aggressive emerging markets strategy, with the markets of Africa, Asia and Latin America currently making up one-third of its sales and it expects that to increase to 50% by 2015. The company is listed on both the New York Stock Exchange (DEO) and the London Stock Exchange (DGE).

Diageo entered Ethiopia through the purchase of the Meta Abo Brewery for USD 225 million at the end of 2011 when the company was privatized. Diageo views the Ethiopian market as having attractive long-term potential. The entry experience for Diageo has been smooth and the company has received significant support from the Ethiopian government. The experience with the local labor force has also been positive; the company found the existing management to be capable and the workers generally trainable.

Like Karuturi in the cut flowers cluster, Diageo has expressed a strong interest in purchasing more inputs locally. Currently, there is one malting plant that is shared among a few brewers. The plant is operating at capacity and can only provide 40% of the required amount of malt to the industry. Additional malting capacity would also allow Diageo to purchase more barley locally, instead of importing it. These all represent significant business opportunities for either local or international investors.

## CASE STUDIES

### Business Climate Case Study: Jacaranda Integrated Agro-industry

Jacaranda Integrated Agro-industry was established in 2008 with the vision of developing a modern agricultural business that produces quality outputs. It was established with an initial capital of 100 million birr and 219 shareholders. In line with its stated mission, it invests in agriculture to transform and modernize activities in the sector. Currently Jacaranda is operating with more than 300 employees.

According to the interview conducted with the firm's management, Jacaranda had to make large investments to address infrastructure issues in its start-up phase, including building roads, bridges and other facilities such as establishing connection to water facilities and telecommunications access. One of the major obstacles it faced was availability of electricity; this required the use of own power generating means. Despite a number of obstacles which the company currently faces (Exhibit A13), given Ethiopia's natural resources endowments and suitable geographical location, Jacaranda sees a bright future in development of modern agriculture and export of Ethiopia.



Exhibit A13: Business Climate Survey Report: Jacaranda Integrated Agro-industry

Jacaranda Integrated Agro-industry		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
	Courts					
<b>Labor</b>	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

Business Climate Case Study: Pikolo Juice Factory PLC

Pikolo Juice Factory was first established in 2007 by Access Capital and Prisma with 75 and 25 percent shares, respectively. The ownership of this company was transferred to a Lebanese investor. Under the new management, Pikolo Juice Factory produces Snap Juice for children's consumption and Pikolo Juice targeting adult consumers.

In the interviews conducted with the firm's management, Pikolo found most aspects of doing business in Ethiopia unproblematic. Concerning economic infrastructure, one of the areas in which it did encounter difficulties, these proved to be surmountable mainly because the area of production was laid around an already developed industrial area.



Exhibit A13: Business Climate Survey Report: Jacaranda Integrated Agro-industry

		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
	Courts					
<b>Labor</b>	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

Business Climate Case Study: Jacaranda Integrated Agro-industry

**OVERVIEW**

The mining/oil and gas sector is strategically important to Ethiopia's growth. The goal of the Government of Ethiopia is to facilitate the establishment of a large and diverse private-sector-based minerals industry to help underpin industrial development, generate foreign exchange earnings, provide employment opportunities, and help to alleviate poverty.

The optimism concerning mining sector potential is well-grounded—literally. Geologically, due to its location (at the beginning of the Great Rift Valley), Ethiopia has a wide variety of minerals (Geological Survey of Ethiopia). Precambrian, Mesozoic, and Cenozoic rock formations hold various precious and non-precious minerals. The oldest (Precambrian) rocks host various metallic mineral deposits, including gold, platinum and platinum group elements (PGE), tantalum, and other metals such as copper, iron, lead, nickel and zinc; gemstones such as ruby, emerald, sapphire, garnet, opal, etc.; and decorative and dimension stones such as marble and granite. The younger rocks host various industrial minerals such as potash, phosphorous, coal, marble, limestone, and soda ash. The sedimentary Mesozoic rocks hold significant potential in oil and gas. In addition, an enormous amount of geothermal energy is estimated to exist within the Rift. Pilot exploration drilling has proven the existence of steam capable of generating geothermal power in the Langano and Tendaho areas in the central and northern parts of the Rift respectively (Geological Survey of Ethiopia).

Ethiopia has a wealth of mineral resources only just now being mapped and prospected.

Despite the mineral potential suggested by its geology, Ethiopia was not a mining hub until very recently. Historically, small-scale artisanal mining provided employment for over 500,000 Ethiopians but formal employment in the sector was relatively small, standing at only about 6,000 people. A major reason for this lack of development is that Ethiopia was never colonized and so its mineral resources were never extensively mapped and exploited. Systematic mineral exploration in the country did not start until the 1970s, and only now is Ethiopia's mineral wealth finally being fully assessed.

The accelerating mining sector boom is being driven by several factors:

- The rich resource base that is now being brought to light.
- Strong global demand for resource products, in particular for gold and potash, reflecting, respectively, increased global financial risks and global food security challenges. Ethiopia has been a gold producer for millennia; as

well, it hosts a major evaporative basin, comparable to those of Canada and Russia which dominate global potash production. The presence of these resources in Ethiopia has prompted increasing investment going into prospecting and exploration, leading to new discoveries, which has contributed to the growth of the sector.

- Supportive government policies, including attractive terms and incentives for investment.
- Strong engagement by the private sector, including entry into Ethiopia's mining sector by major players in the global mining industry.

The positive private sector response to the opportunities and incentives in Ethiopia signal continued future growth: investment is increasing and the major exploration and prospecting efforts now underway promise to lay the base for future production increases.

Ethiopia's historically under-developed mining sector is starting to hit its stride.

## ROLE OF THE MINING SECTOR IN THE ECONOMY

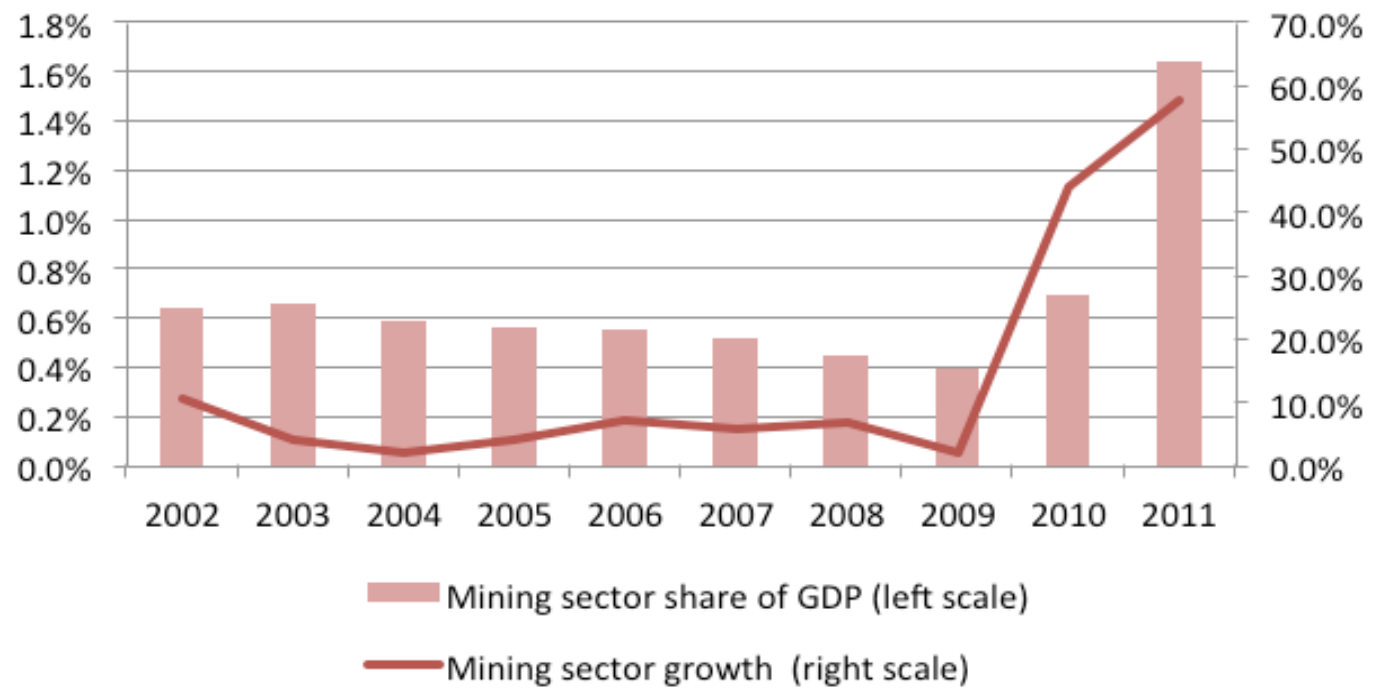
Ethiopia's mining sector remains under-developed compared to its potential. Indeed, as recently as 2007, the sector contributed only USD 95 million to Ethiopia's GDP, or about 0.5% of the total. However, the mining sector is starting to hit its stride. As of mid-2012, 261 licenses have been issued by the Ministry of Mines, of which 207 are exploration licenses and 54 are mining licenses. A total of 137 companies are now operating in the sector, including 66 foreign firms, 36 joint-venture partnerships and 35 local companies.

Reflecting these developments, in 2010 and 2011, mining was the fastest growing sector in the economy, averaging over 50% per year growth in real terms. By 2011, it contributed USD 487 million to national output, or 1.6% of GDP (Exhibit M1). The GTP aims for this figure to grow to no less than 10% by 2015. The sector is already the second largest foreign-exchange earner in the country after agriculture, and is projected to earn USD 2 billion by 2016.

The main mineral products currently being produced are gold, with the primary source being the Legadembi Gold Mine operated by Saudi-owned Midroc Gold; and tantalum, with the primary source being the Kenticha mine operated by state-owned Borena-Ethiopian Mineral Development SC (EMDSC). Industrial minerals being produced include kaolin, dolomite, quartz and feldspar, soda ash and dimension stones (Geological Survey of Ethiopia).

After lagging overall GDP growth for most of the 2000s, mining surged ahead to become Ethiopia's fastest growing sector in 2010 and 2011.

Exhibit M1: Mining Sector Output Growth and Share of GDP, 2002-2011.



Source: Central Statistical Agency

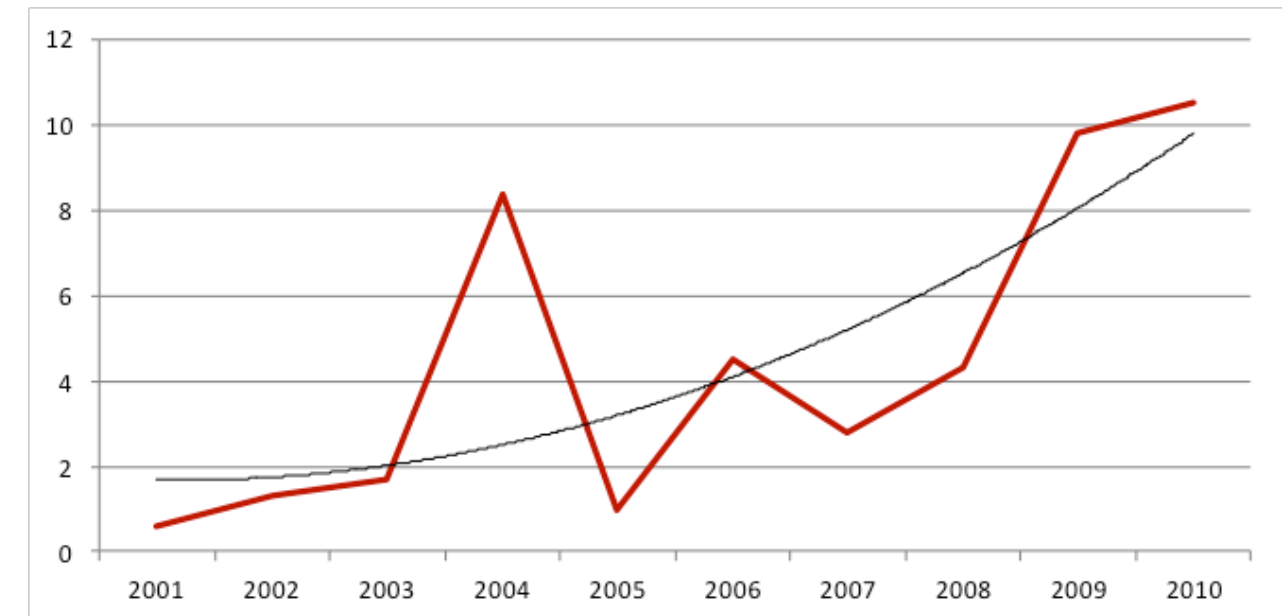
Ethiopia's historically under-developed mining sector is starting to hit its stride.

## GROWTH DRIVERS

*Investment in the mining sector is growing rapidly.*

An important driver of growth in the mining sector is rapidly accelerating investment. Investment levels in the past few years have been ten times greater than at the beginning of the 2000s (Exhibit M2).

Exhibit M2: Investment in Ethiopia's Mining Sector, 2001-2010, USD million

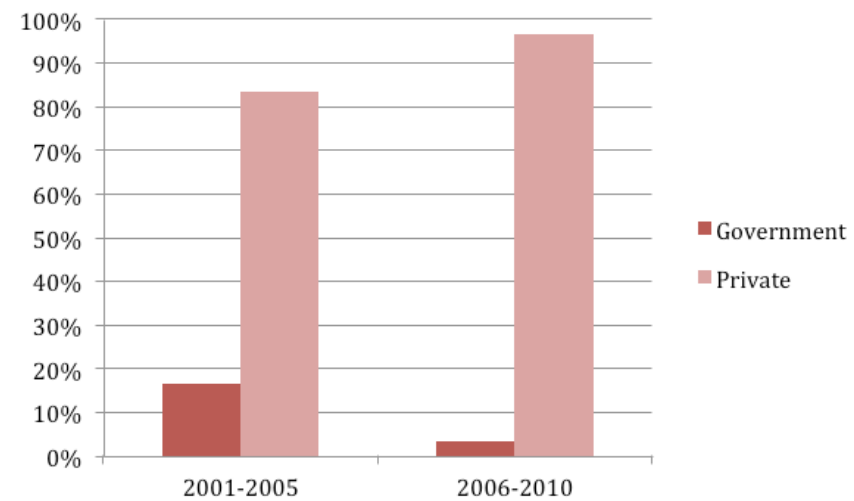


Source: Ethiopian Investment Agency and own calculations.

Virtually all of the recent investment has come from the private sector (Exhibit M3). This reflects the supportive government policies that have been put in place to encourage private sector engagement in this area which in turn allow the government to withdraw.

*Investment in the mining sector is growing rapidly.*

Exhibit M1: Mining Sector Output Growth and Share of GDP, 2002-2011.



Source: Ethiopian Investment Agency and own calculations.

*Prospecting has accounted for close to 60% of mining sector investment in recent years, pointing to strengthening output growth in the coming years.*

Drilling deeper into the investment activity, it is important to note the increased share of investment going into prospecting and exploration. Over the period 2006-2010, prospecting and exploration accounted for almost 60% of mining sector investment, compared to only about 30% in the first half of the decade (Exhibit M4).

Exhibit M4: Mining Sector Investment 2001-2010, by Type of Investment, Percentage Shares



Source: Ethiopian Investment Agency

The intensified exploration has resulted in a series of new discoveries, which will strengthen output growth over the coming years as production comes on stream. Some examples of the new finds and/or revised estimates include:

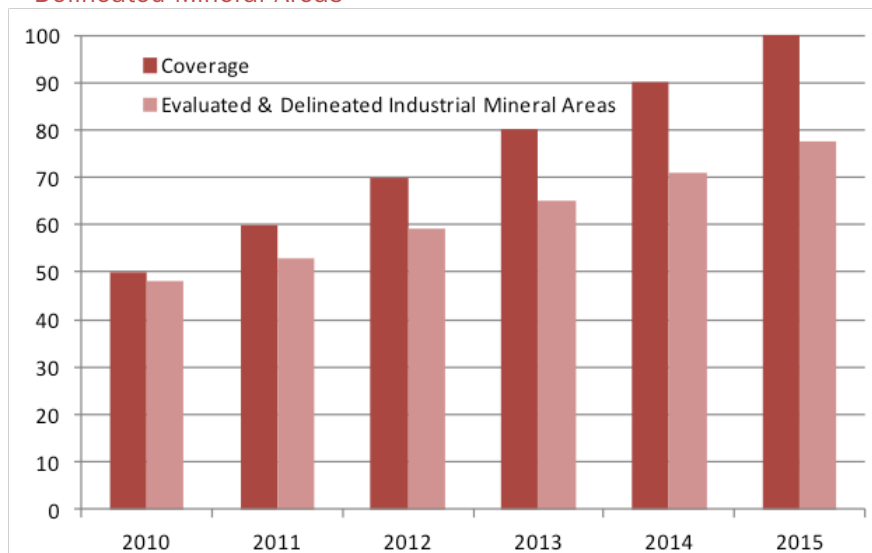
- 550,000 kg gold reserve at Dawa Okote, in Oromia Regional State, worth over USD 4 billion, announced by the Ethiopian National Mining Corporation (NMIc) in January 2012. An additional 18,000 kg gold reserve was discovered at Werri, Tigray Regional State, worth approximately USD 792 million; this project is being developed by Saudi-owned National Mining Corporation (also announced January 2012).
- About 41,000 kg (1.46 million ounces) gold reserves (indicated and inferred) were reported at the Tulu Kapi site in the western greenstone belt being developed by Australia-based Nyota (announced July 2011).
- 33,000 kg of gold deposits have been discovered by Midroc Gold at Jillay, in the western greenstone belt in the Metekel Zone of the Benishangul-Gumuz Regional State some 600km from Addis Ababa (announced July 2011).
- High grade gold reserves were proven by Australia-based Stratex at its Megenta hot spring epithermal gold site in the Afar Region of Ethiopia first identified in 2009. Stratex has identified additional reserves at the nearby Akehil gold prospect (announced January 2012) and the adjacent Blackrock project (announced April 2012).

- Gold and “high-grade” copper, silver, lead and zinc deposits have been identified at the Mayshehagne and Terakimti sites in the Harvest Project being developed by Canada-based Tigray Resources (announced December 2011 and March 2012). Tigray has launched a 1,500 line kilometer airborne electromagnetic, magnetic and radiometric (VTEM) survey of the 250 square kilometer area. The company has also acquired a definitive option on 650 adjacent square kilometers (announced April 2012).
- A newly identified deposit of 2.5 million kg of tantalum ore at the Kenticha mine has been reported by EMDSC (announced January 2012).
- Estimates of the potash (KCl) deposits in Allana’s site in the Danakil Depression have been recently expanded by 90% to 251 million tonnes of measured and indicated KCl and an additional 109 million tonnes of inferred KCl. This establishes Ethiopia as a major long-term source of potash. Other firms exploring or developing potash in the Danakil Depression include Canada-based Ethiopian Potash Corp., which has a site adjacent to Allana’s, Australia-based BHP Billiton, and India-based Sainink Potash.

Over the medium term, exploration for mineral deposits will be further facilitated by a new collaborative study between the Ethiopian Ministry of Mines and the Mines Bureau of Chongqing State, China, which is expected to increase coverage of geological mapping from 50% to 100%, as well as to expand evaluated and delineated areas of potential industrial exploration from 48% to 77%, of Ethiopia's land mass (Ministry of Mines). This will significantly reduce the amount of time and money required for initial prospecting and exploration for new entrants (Exhibit M5).

*Half of Ethiopia's land mass has yet to be evaluated for mineral deposits; substantial progress will be made in the next several years.*

Exhibit M5: Geological Mapping and Coverage of Evaluated and Delineated Mineral Areas



Source: Ethiopian Investment Agency

With regard to challenges in the mining sector, infrastructure remains a major constraint for the mining sector, especially for those firms operating in harsh environments, such as the Danakil Depression. To address these challenges, the government has begun road construction to alleviate the infrastructure problems.

Another major challenge is insufficient supply of human capital. Most mining companies have resorted to hiring expensive ex-pats and consultants to fill in the human resource gap. The recently formed Ethiopian Mining Association is expected to address this challenge by allocating resources to train local mining sector professionals.

The absence of upstream service and product providers, such as equipment & materials suppliers, and financial services providers has made it expensive and time costly to initiate and complete projects. However, companies are coping as demonstrated in the case studies reported below.

## REGULATORY ENVIRONMENT

The mineral sector was opened up to private investors in 1991. The Mineral Operations Regulations in 1994 further helped to create an environment conducive to private investment. Mining laws and regulations have addressed sector-specific topics such as environmental protection, community development, and worker health and safety. In addition, to foster competition, the law prevents companies from holding licenses for lengthy periods without demonstrable activities.

Mining licenses are broken down into six types: reconnaissance, exploration, retention, artisanal, small & large scale mining. The new mining law (the Mining Operation Proclamation No. 678/2010) provides a detailed statement of the rights and obligations of firms obtaining mining licenses. The main provisions may be summarized as follows:

1. License owners generally have the right to sell all the minerals locally or abroad.
2. Royalties for large-scale licenses vary by the nature of the resource being exploited; there are seven classes of mined products, with royalty rates ranging from 2% (geothermal) to 8% (precious minerals), based on the sales price of the products in the commercial transactions involving the minerals produced;
3. The income tax rate is 35% (as established in the Mining Income Tax Proclamation No. 53/1993, as amended);

4. Exemptions from custom duties and taxes are provided for equipment, machinery, vehicles and spare parts;
5. Security of tenure is guaranteed; and
6. The opening and operation of a foreign currency account in banks in Ethiopia is provided for, as is retention of a portion of foreign currency earnings and remittance of profits, dividends, principal and interest on a foreign loan etc. out of Ethiopia.



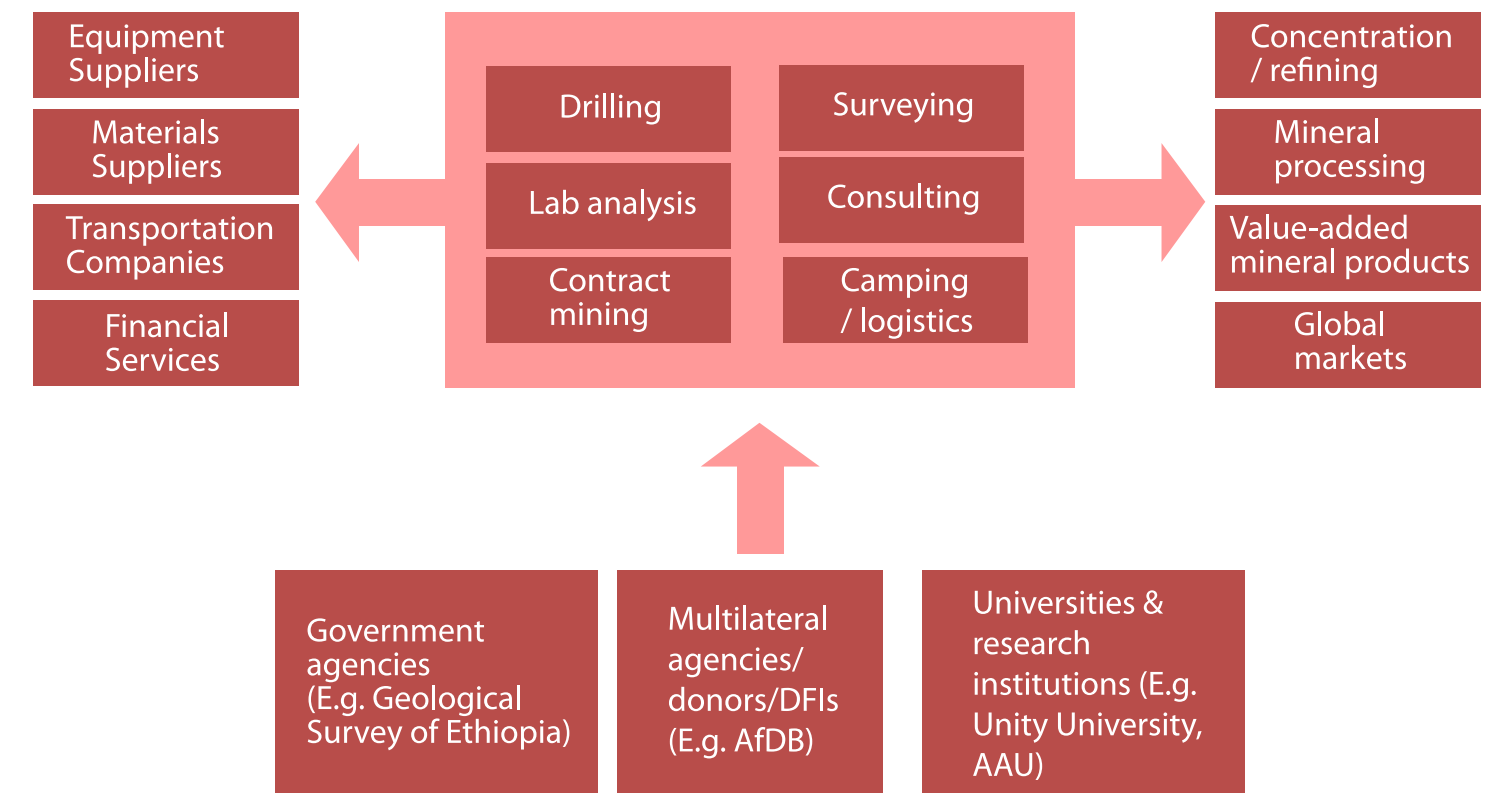
## MINING CLUSTER AND VALUE CHAIN OPPORTUNITIES

The emergence of a world class mining sector in Ethiopia spells opportunities not only for the extractive industries but also for the myriad suppliers and downstream users of mining resource products (Exhibit M6).

Mining generates demand for a wide range of supporting services, including water supply (including efficient water management through recirculation), energy supply (including renewable and geothermal), transportation, specialized financial services, maintenance of machinery and equipment, human resource training, information technology (including remote sensing), and so forth.

In addition, the infrastructure and logistics developed to serve the extractive industries directly also enables downstream processing and value-added activities. For example, Ethiopia's tantalum producer is aiming to engage in developing tantalum-based industrial products such as tantalum wire.

Exhibit M6: Mining Sector Cluster – Value Chain Opportunities



Source: The Project Team

### CASE STUDIES

Australia-based Nyota, a junior mining company listed on the London (AIM) and Australian (ASX) stock exchanges, is focused on the exploration and concurrent development of Tulu Kapi, its flagship project in Oromia Regional State in Western Ethiopia, in respect of which it acquired the exploration rights in 2009. In total, Nyota holds six exploration licenses (EPLs) in Ethiopia, covering a territory of more than 3,400 km<sup>2</sup> and has other applications pending. Four EPLs are located in the Tulu Kapi area (281 km<sup>2</sup>) and a further two are located approximately 100 km north of Tulu Kapi.

Nyota has reported 1.46 million ounces of gold (combined indicated and inferred) at its Tulu Kapi site. Nyota is in the process of acquiring a large-scale mining license for gold and associated minerals based on these results and has secured financing from the International Financial Corporation (IFC), a member of the World Bank Group. Nyota is also actively exploring several priority targets proximal to Tulu Kapi and neighboring sites which it believes have the potential to become future standalone projects.

Interviews with Nyota’s executive team indicate that, overall, the company is satisfied with its operations in Ethiopia and has found it relatively easy to buy/rent land facilities, obtain business licenses and permits, and to secure financing to support its operations (Exhibit M7). On the other hand, it has faced transportation/logistical and skilled labor challenges. For example, the non-availability of core drilling machines in Ethiopia forced Nyota to drive a drilling machine from South Africa to Ethiopia for a three-week rental.

Exhibit M7: Business Climate Survey Report: Nyota

NYOTA MINERALS LIMITED		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
<b>Labor</b>	Courts					
	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

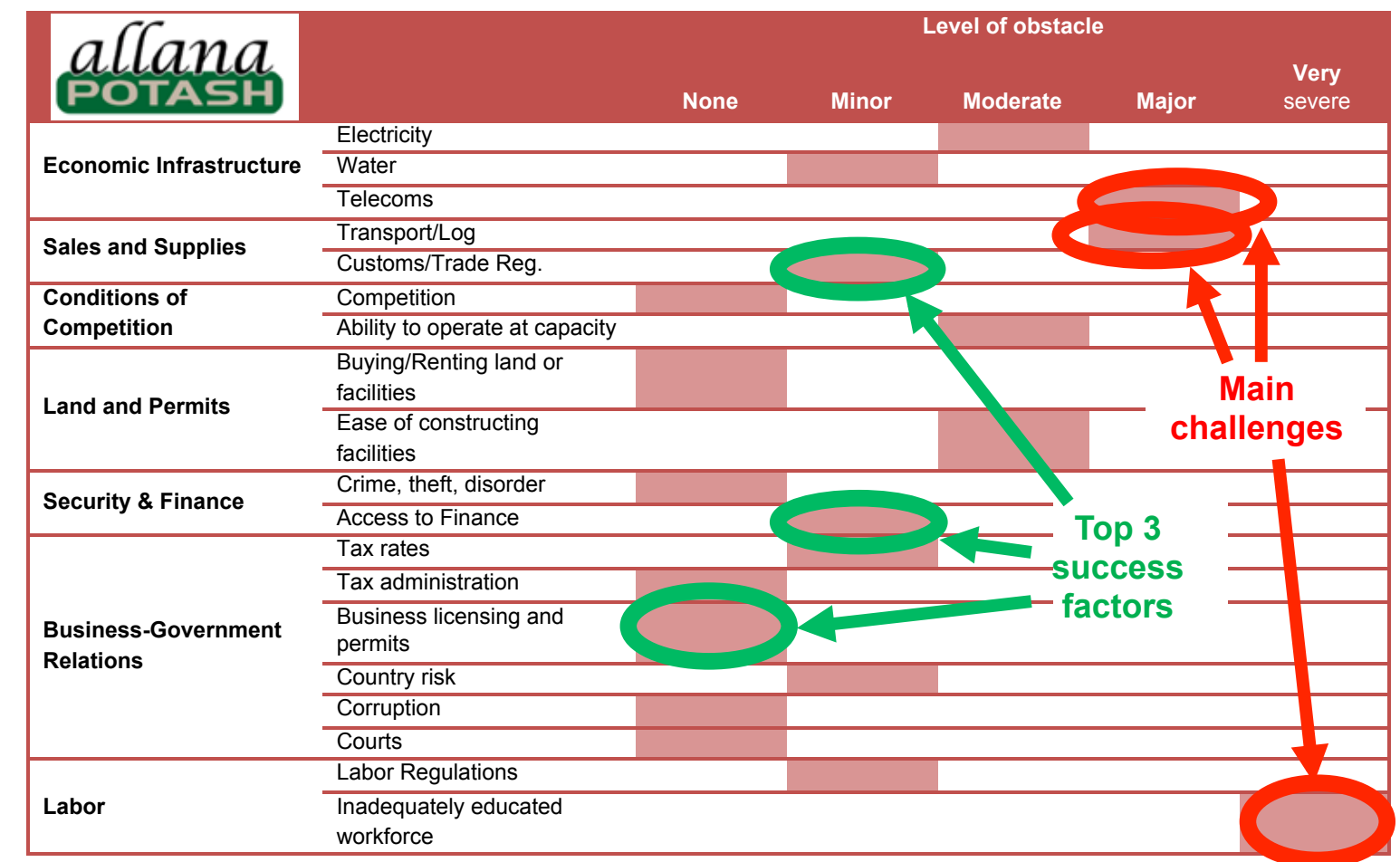
Business Climate Case Study: Allana Potash

Allana Potash is a Canadian publicly traded corporation with a focus on the international acquisition and development of potash assets. It is currently developing a previously explored potash property in Ethiopia, the Dallol Potash Project. Allana has secured financing from two investors: IFC and Liberty Metals and Mining Holdings, LLC, a subsidiary of Liberty Mutual Group.

Allana has measured and indicated deposits containing 251 million tonnes of potash and additional inferred deposits of 109 million tonnes. These results are based on exploration of only 60% of the total area under license; moreover, additional possibilities include the production of muriate of potash (MOP) and sulphate of potash (SOP). Advantages for this project include near-surface (within 100 meters) mineralization, the possibility of using low-cost, solution-mining techniques to extract the potash, the possibility of using low-cost geothermal energy sources in the area, and proximity to a major market for potash, India, the world's second largest importer of the resource.

Interviews with the executive team of Allana Potash indicate that, overall, the company is satisfied with its operations in Ethiopia and has found it relatively easy to obtain business licenses and permits, secure financing, and operate within the customs/trade regulations (Exhibit M8). However, it has faced logistical, telecommunications and skilled human labor challenges. The infrastructure challenges faced by Allana can be mainly attributed to the location of its operations in the Danakil Depression.

Exhibit M8: Business Climate Survey Report: Allana



Source: Interview by the Project Team.

Business Climate Case Study: Midroc Gold

Midroc Gold produces, on average, about 4,500 kg of gold per year at the large-scale modern Lega Dembi gold mine, which is located in the Adola greenstone belt in southern Ethiopia, a region known to host significant mineral deposits. The mine was privatized in 1997 as Midroc Gold, which commenced production in August 1998. While the Lega Dembi mine is facing depletion, Midroc is developing a second production site at its nearby Sakaro site with an estimated reserve of 20,483 kg of gold (announced November 2009). In addition, the company has discovered 33,000 kg of gold deposits at Jillay in the Metekel Zone of the Benishangul-Gumuz Regional State; feasibility studies are underway to determine the technical, economic and environmental viability of starting mining operations at this latter site.

Interviews with the executive team of Midroc Gold indicate that, overall, the company is satisfied with its operations in Ethiopia and has found it easy to obtain business licenses and permits and buy/rent land facilities; it has also found the conditions of competition favourable. However, like Nyota and Allana, it has faced human capital challenges. To help meet the growing demand for mining experts, a mining engineering program has been launched at MIDROC's other subsidiary, Unity University, to expand local capacity in mining. The program received accreditation at the beginning of 2012.

Exhibit M9: Business Climate Survey Report: Midroc Gold

		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
	Courts					
<b>Labor</b>	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team



## INFRASTRUCTURE

### CONCLUSION

Ethiopia's mining sector, in both precious and non-precious minerals, is poised to enjoy significant growth driven by the private sector. Costs of operation are expected to decline due to expected increased coverage of geological related mapping, reducing exploration and prospecting expenses, and development of infrastructure, mainly roads but also rail, reducing the amount of time and money related to procurement of equipment and shipment of minerals.

However, in order for the sector to realize its full potential, heavy investment in upstream service and product providers is needed, particularly equipment & materials suppliers as well as lab service providers. In addition, the development of value-added processes, such as the processing of minerals would significantly increase the value generated within the sector. While the shortage of skilled workers represents a short-term issue for companies seeking to exploit these opportunities, the recent accreditation of new advanced programs in mining will serve to alleviate constraints in this area progressively over the medium term.

Ethiopia's progress in developing its infrastructure has been significant—its ambition is even greater.

### Power

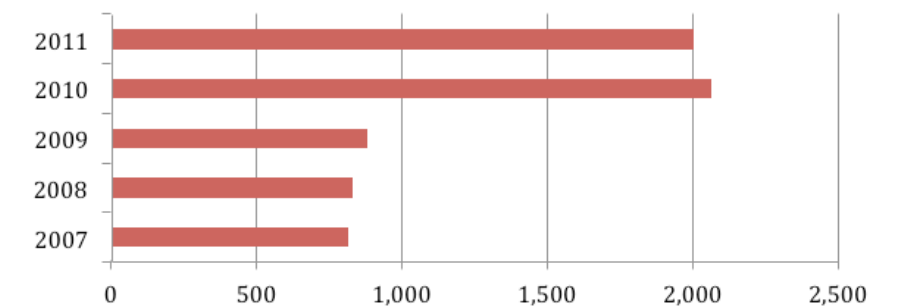
*Installed generating capacity has more than doubled in recent years*

### OVERVIEW

High quality economic infrastructure is critical to competitiveness since it lowers business operating costs for all sectors. Ethiopia has made significant progress in developing its economic infrastructure in recent years—in particular power, transportation and telecommunications. Its infrastructure indicators now compare relatively well in some areas with low-income country peers. As well, it is starting to develop its infrastructure connections to neighboring countries, including transportation and power links.

Installed electricity capacity more than doubled over the period 2007-2011 (Exhibit I1) and distribution experienced a major expansion (Exhibit I2). The number of electrified towns and rural villages increased substantially in the past five years. In 2011 a total number of 5,866 communities were served, which brought the electric energy access to 46% of the population.

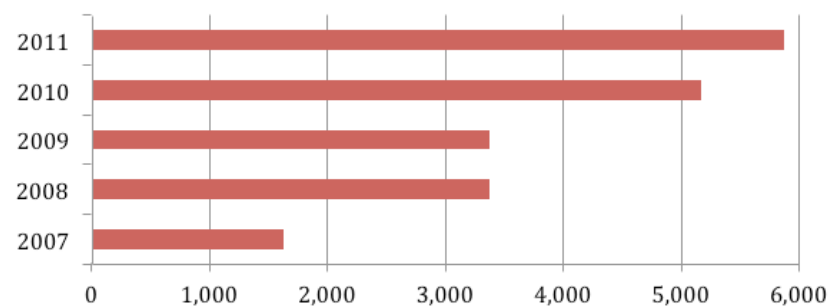
Exhibit I1: Installed Electricity Generating Capacity, 2007-2011, Megawatts



Source: Ethiopian Electric Power Corporation

*With a massive expansion in the last several years, over 4,000 communities gained access to electricity.*

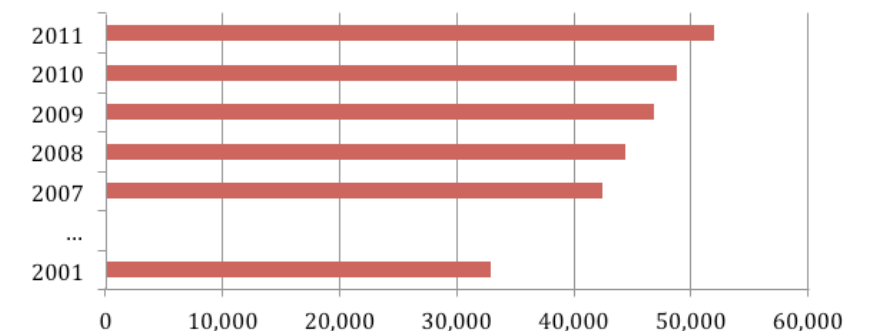
**Exhibit I2: Number of Communities Serviced by Electricity, 2007-2011**



Source: Ethiopian Electric Power Corporation

*Ethiopia's road network continues to expand – the 2011 network was 65% larger than a decade earlier*

**Exhibit I3: Road Network (km), 2001 and Expansion over 2007-2011**



Source: Ethiopian Roads Authority

**Transportation**

Total road length (municipal and rural) increased from 42,429 kilometers in 2007 to 52,042 kilometers in 2011 (Exhibit I3). Compared to a decade earlier, the network is 65% longer and road density has increased from 29.88 km/1,000km<sup>2</sup> to 43.11 km/1,000km<sup>2</sup>. Although this is obviously a major improvement, it still leaves Ethiopia well below African peers, especially if paved roads are considered.

As regards air transport, Ethiopia has become the main cargo hub for Africa: Ethiopian Airlines transports a full two thirds of all African air cargo. With the expansion of its fleet through the addition of four Boeing 777s, Ethiopia's flagship carrier has significantly extended its cargo capacity and range.

As regards shipping, Ethiopia Shipping and Logistics (ESL) Service is a major integrated shipper serving the Gulf, India and the Asia Pacific. It operates two dry ports in Ethiopia and is starting to provide seamless multi-modal links for business.

The one major transportation sector that has been neglected is rail. Ethiopia has a 781 km single direction railway built 100 years ago, owned jointly by Ethiopia and Djibouti. Due to its age, deterioration and malfunction the railway line fell into complete disuse in 2011. Recognizing the importance of having a good railway network, Ethiopia has made railway development one of the seven strategic pillars of the GTP. Key developments will include a new heavy-duty, high-speed rail link to Djibouti, a link to Lamu Port in Kenya and the development of an internal rail network, as discussed more fully below.

### Telecommunications

Ethiopia has expanded its telecommunications network massively in the past decade or so, albeit from a very low base. This included the establishment of a fiber-optic backbone, completion of the core domestic network and establishment of fixed line and mobile links to about 10,000 rural villages. The government invested about USD 14 billion over the past ten years in this effort. However, this rapid expansion was accompanied by a sharp decline in the quality of service. To rectify matters, Ethiopia's monopoly provider has been re-organized as Ethio Telecom, which has been put under the management of French Telecom. The early returns appear to be strongly positive: the number of mobile subscribers and telecom density for mobile lines increased from 6.52 million and 8.7% in 2010 to 10.7 million and 12.85% in 2011. Similarly, the coverage of wireless telephone service increased from 50% in 2010 to 90% in 2011. Internet subscription, however, still remains very low at only 129,000.

### Water and Sanitation

Access to water and sanitation expanded rapidly in the 2000s but from a very low base. Successes in the past have been attributed mainly to concentration of efforts on feasible options such as wells and traditional latrines and on an intensive education process to improve sanitary practice.

### Going Forward

The Growth and Transformation Plan sets out further, very ambitious objectives for infrastructure development, including:

- A quintupling of power generation capacity.
- A major upgrade to the network of trunk roads, and the establishment of a modern funding mechanism for road maintenance.
- Substantial expansion of the rail corridors, including a new heavy-duty, high-speed rail link to Djibouti, Ethiopia's main export port.
- A further major expansion of telecommunications capacity.
- Further major expansion of water supply.

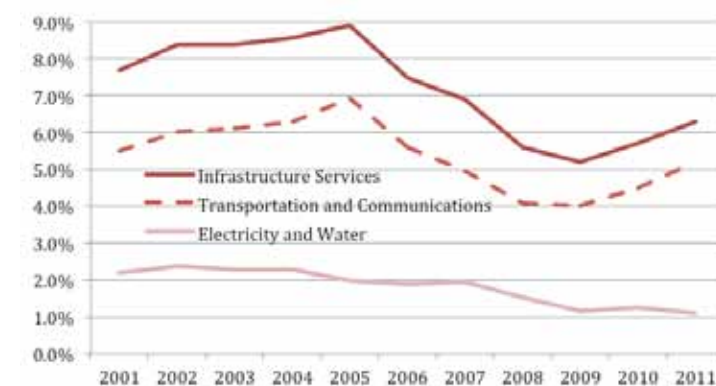
In addition, the Ethiopian customs is working with the country's two main carriers, Ethiopian Airlines and ESL, to deliver a major leap in the efficiency of its trade logistics, in particular the implementation of the modern Authorized Economic Operator (AEO) system to all of its export-oriented industrial parks.

## ROLE OF INFRASTRUCTURE IN THE ECONOMY

Notwithstanding the major expansion of infrastructure in Ethiopia, the contribution of the major infrastructure services to GDP has actually trended downwards over the past decade (Exhibit I4). This may reflect problems of pricing of services. Improvements in Ethiopia's infrastructure platform contributed up to 0.6 percentage points to per capita income growth in the 2000s. Further simulations suggest that if Ethiopia's infrastructure platform could be improved to the level of the African leader, Mauritius, annual per capita growth rates could increase by as much as 3.8%. Further evidence suggests that infrastructure constraints are responsible for about 50% of the productivity handicap faced by Ethiopian firms in competing globally. In view of this, the Ethiopian Government is investing heavily in infrastructure development in almost every part of the country.

*The contribution of infrastructure services to Ethiopia's economy has only recently started to recover...*

Exhibit I4: Contribution of Infrastructure Services to Ethiopia's GDP, 2001-2011, US\$ billions



Source: Central Statistical Agency; calculations by the Project Team.

## GROWTH DRIVERS

The major driver of growth in the infrastructure sector over the medium term will be public sector investment, as planned under the GTP (Exhibit I5).

Exhibit I5: Infrastructure Development Goals under the GTP

Infrastructure Development	Baseline 2010	Plan Target 2015
<b>Roads:</b>		
Road network	49,000	136,000
Average Time taken to access all-weather road (hours)	3.7	1.7
Road density (km/1000 km <sup>2</sup> )	44.5	123.7
Road density (km/1000 population)	0.64	1.54
Roads in acceptable condition (%)	81	86.7
Proportion of area further than 5 km from all-weather road (%)	64	29
<b>Railway:</b>		
Railway network (km)	-	2000
<b>Power:</b>		
Electricity coverage (%)	41	75
Power generating capacity (MW)	2000	8000
<b>Water:</b>		
Potable water coverage (%)	68.5	98.5
Urban potable water coverage (within 0.5km)	91.5	100
Rural potable water coverage (within 1.5km)	65.8	98
Developed irrigable land (%)	2.5	15.6
<b>Telecom:</b>		
Mobile density (per 100)	1.5	8.5
Telephone service coverage within 5km (%)	49.3	90
Fixed telephone subscribers (in millions)	1.2	8.6
Mobile Telephone Subscribers (In Millions)	7.6	64.4
Internet Service Subscriber (In Millions)	0.2	7.17

Source: Government of Ethiopia



## REGULATORY ENVIRONMENT

The Government is the sole direct player in the infrastructure sector. The focus of investors thus must be largely on the supply chains that feed into infrastructure development. At the same time, as shown by the example of France Telecom being brought in to manage Ethio Telecom, modalities for private sector engagement can be developed, notwithstanding the primary role of the government in this sector.

## INVESTMENT & SUPPLY CHAIN OPPORTUNITIES

Power

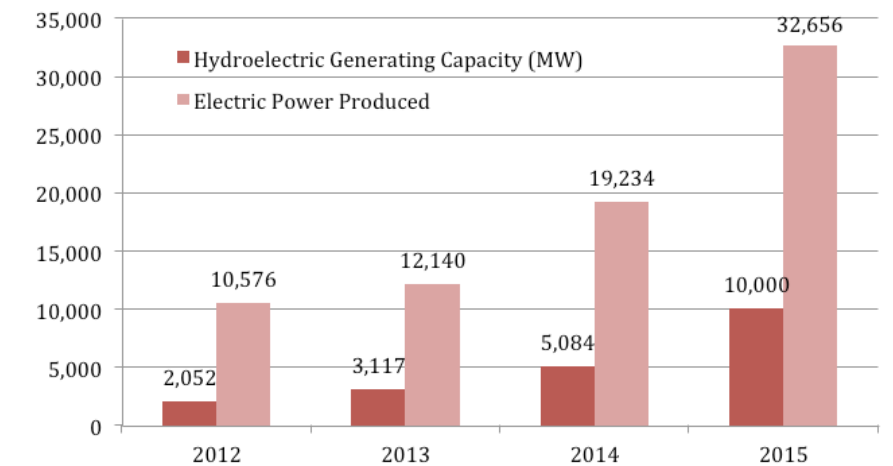
Ethiopia is endowed with energy resource potentials that can be harnessed to generate electric power. Hydro power potential is estimated to be more than 45,000MW while wind and geothermal power potentials are estimated to be more than 10,000MW and 5,000MW respectively.

The development of these power resources will both underpin Ethiopia's industrialization program and also earn foreign currency by exporting electric power to neighboring countries such as Kenya, Sudan and Djibouti.

The GTP calls for this potential to be tapped to a significant extent by 2015 (Exhibit I6). One good example is the Renaissance Dam which is being developed by the Ethiopian Electric Power Corporation (EEPCO) drawing on the Government's own resources.

*Energy supply will be increased in quantum leaps in the GTP period according to plans.*

Exhibit I6: GTP Projected Increase in Electricity Generation, 2012-2015, Megawatts.



Source: Government of Ethiopia

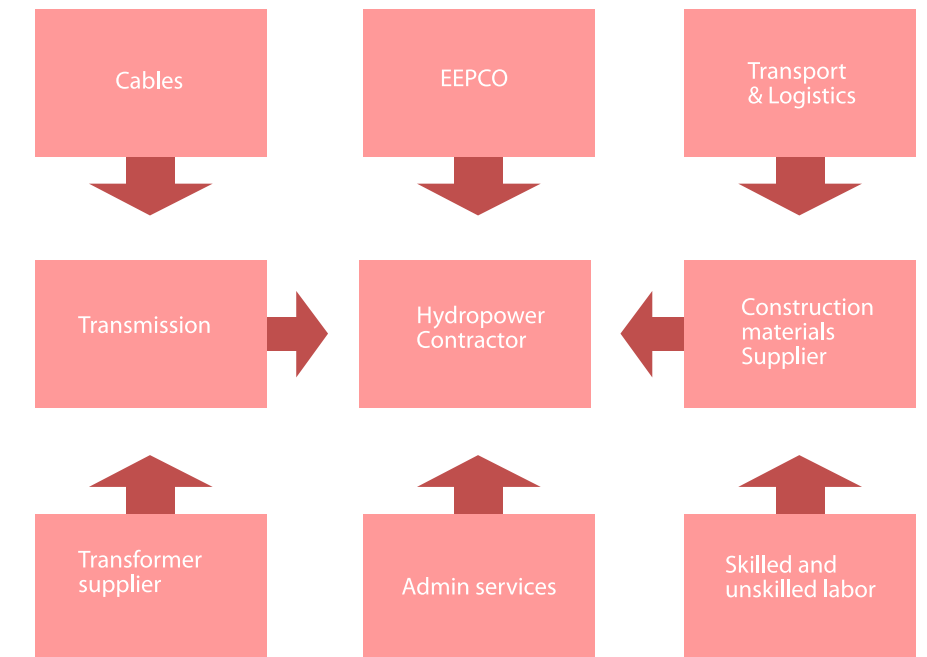
Construction of major hydroelectric facilities generates large and diverse requirements for supplies and supporting services, including construction of the power plants, transmission lines, cable manufacturers, construction materials manufacturers, transformers manufacturers and suppliers, and so forth. Given the scale of the proposed construction, firms that set up manufacturing facilities to supply more basic products used intensively in the power sector may gain competitive edge in bidding for part of the action, particularly given the intent of the Government to leverage its activities to promote industrial development more generally. For instance, only two cable manufacturers are currently complementing imports of this product.

Key player: Salini  
Costruttori.

Italy's Salini has been involved with the construction of several major Ethiopian dams such as Gibe II, Tana Beles and Tekeze, and is presently developing the Renaissance Dam project as well as Gibe III. The Salini group is one of Italy's largest general contractors, specialized in the construction of hydro power plants. With annual turnover of EUR 1.4 billion, works in hand of EUR 10 billion, and about 15,500 employees world-wide, it is ranked as one of the foremost players in the construction of hydro-electric power plants.

With major projects such as these, the main competitive business opportunities lie in the first and second tier of the supply chains of the main producers. Some examples are identified below (Exhibit I7).

Exhibit I7: Stylized Hydropower Development Supply Chain.



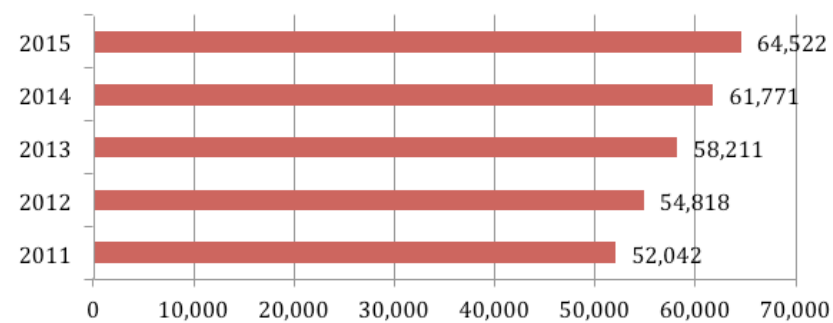
Source: Project Team

**Road**

The Growth & Transformation Plan calls for a net extension of Ethiopia’s federal and regional road network by some 12,500 km (Exhibit I8). In addition, plans call for rehabilitation of 728 km of trunk roads, upgrading of 5,023 km of trunk and link roads and, construction of 4,331 km of new trunk and link roads, in addition to regular or periodic maintenance of the existing road network. Plans also call for construction of 71,522 km of new all-weather roads to connect all rural woredas. The regional authorities also plan to construct 11,212 km of rural roads in the five-year period.

*A significant extension of the road network is planned for the coming five-year period.*

**Exhibit I8: GTP Projected Increase, Federal & Regional Road Network, 2012-2015, km.**



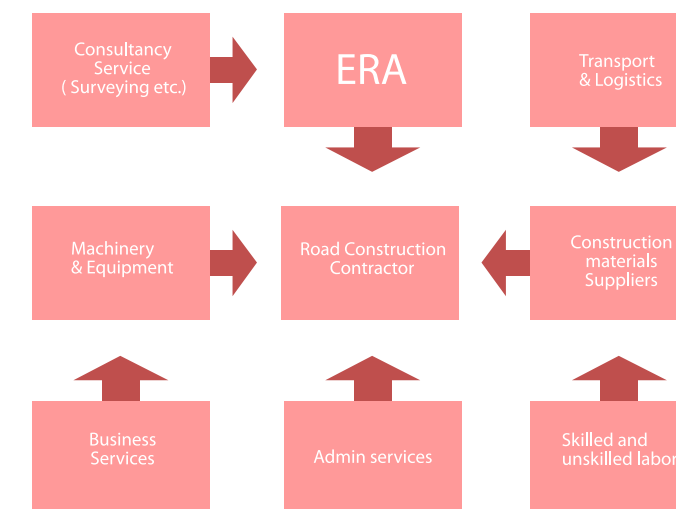
Source: Government of Ethiopia

*Business opportunities generated by Ethiopia’s plans to substantially expand and upgrade its road network.*

The road sector development plan is an opportunity for investors that can participate in the supply chain of road construction. The Ethiopian Road Authority (ERA), the Government department that executes the road sector program, requires consultancy services from international consultants for the design of the roads to be constructed. Consultants are attracted through bids. Once the design is completed, the ERA invites potential local and international road contractors to submit bids for road construction.

During the construction phase, opportunities are created for construction materials manufacturers and suppliers, as well as skilled and unskilled labor. Trainers that educate students for such purpose will have demand. Some examples are provided below for illustrative purposes (Exhibit I9).

**Exhibit I9: Stylized Road Development Supply Chain.**



Source: Project Team

Key player: China Road & Bridge Corporation (CRBC).

CRBC is a large-scale, state-owned enterprise that focuses on construction of road, bridge, tunnel and port and other transport infrastructure. It carries out the overseas operations of China Communications Construction Company Ltd. (CCCC), China's largest construction company and a member of the Top 500 Global Corporations list. In Addis Ababa alone, CRBC completed 25 projects worth ETB 2.5 billion.

#### Rail

Ethiopia at present has no functioning rail service. Its sole railway, which runs from Addis Ababa to Dire Dawa and then on to the port of Djibouti, suffered from slow speeds and lengthy transit times as well as frequent derailments. Efforts to rehabilitate it failed and it has lapsed into dysfunction.

The GTP however plans to revive and substantially extend Ethiopia's rail infrastructure. The entire railway network will have eight main routes that will connect to more than 49 urban centers by 2015. Of the planned 2,395 km railway network nationwide, 1,808km is expected to be completed by 2015.

The most important route will be the replacement line from Addis Ababa to Djibouti, Ethiopia's main export-import corridor. This line, which will cost an estimated USD 1.2 billion is already under construction.

Key Player: China Railway Construction Corp

The primary construction contracts have been let to China Railway Construction Corp which is arranging much of the financing. Nonetheless, as in the case of road construction, a wide range of ancillary support and supply functions will be called for as the construction proceeds. There will be ample business opportunities for engineering consultants, railway contractors, locomotive suppliers, construction materials suppliers and the firms that supply these first tier suppliers. Some international companies such as General Electric (GE) are showing an interest to supply locomotives once the new lines have been built.

**Telecoms** Ethiopia has set ambitious goals to improve its telecommunications connectivity from one of the lowest levels in the world today. Progress has been rapid in some areas, although Ethiopia still lags in coverage and quality of service. In its statement of operational and financial results for its fiscal year ended 30 June 2012, Ethio-Telecom announced that its subscriber base had reached 18.28 million subscribers, up 59% year-on-year, with mobile subscriber base standing at 17.26 million users and growing on average by about 450,000 per month in the preceding twelve months. It also reported 805,000 fixed lines in service and 221,000 internet/data connections. These numbers generally compare favorably with the base year data reported in Exhibit I10, except for the pace of expansion of internet connections which remains very low.

*Ethiopia plans to substantially expand and upgrade its telecommunications connectivity.*

**Exhibit I10: GTP Telecommunications objectives**

	<b>2010</b>	<b>2015</b>
<b>Number of fixed line subscribers (millions)</b>	1.00	3.05
<b>Fixed line telephone density (%)</b>	1.36	3.4
<b>Number of mobile telephone subscribers (millions)</b>	6.52	40
<b>Mobile telephone coverage (%)</b>	8.7	45
<b>Number of internet service subscribers</b>	0.187	3.69
<b>Rural telecom access within 5 km radius of services (%)</b>	62.14	100
<b>Wireless telecom service coverage (%)</b>	<50	90
<b>Global link capacity (Gb's)</b>	3.255	20

Source: Government of Ethiopia

**Key Player** Ethio-Telecom: As discussed above, state-owned Ethio-Telecom is a monopoly provider of telecommunications services. However, over the period 2010-2012, the company was managed by France Telecom. The main objective of the management contract with France Telecom (FT) was to transfer knowledge to help Ethio-Telecom develop into a world-class telecommunications service provider within the two-year contract period. France Telecom deployed its own workforce and introduced its own systems. With the expiration of the contract on 13 December 2012, Ethio-Telecom reverted to self-management, although the recently appointed CEO Bruno Duthoit will continue to lead the company under a separate arrangement from the management contract with France Telecom. The success of the management contract is now under evaluation.

**Key Player: ZTE.** ZTE Corporation is a leading global provider of telecommunications equipment and network solutions. It has been implementing Ethiopia's Next Generation Network (NGN) projects. Telecommunications requires a stable power supply, which is lacking in Ethiopia's remote areas. To resolve this problem ZTE uses solar power. Around 800 sites with a capacity of more than 6,000kW are to be deployed over the country for this purpose. This will be the largest scaled solar telecom network in the world.



## MANUFACTURING

Ethiopia:

The emerging workshop of Africa?

### OVERVIEW

Manufacturing is under-developed in Ethiopia – even by African standards. Several mutually reinforcing factors have conspired to prevent the emergence of a stronger manufacturing base in the country historically:

- An industrial structure dominated by a small number of large state-owned firms.
- High administrative barriers to entry for small business, including burdensome and costly procedures, resulting in a very small base of established businesses.
- Missing markets – both in terms of industrial inputs, most of which have to be imported, and in terms of downstream local markets, which reflects the under-developed industrial sector (hence the vicious circle).
- High administrative costs of trade and poor trade logistics, making it difficult for manufactures to penetrate export markets as a springboard to developing capabilities and “learning by exporting”.
- Comparative disadvantage in manufacturing.

What limited success Ethiopia has had in establishing a foothold in manufacturing has been in basic production where emerging markets have traditionally had success. This is best demonstrated by manufacturing exports, which are a good indicator of an industry’s prospects in a global economy. The strongest manufacturing sectors in Ethiopia on this basis have been:

- leather and leather products,
- textiles and garments, and
- agro-processing.

However, Ethiopia has the means to change that. First, it has the basic tools – a large, young, trainable, increasingly better educated, and low-cost labor force. Second, it has locational advantage. Addis Ababa is already the air cargo hub of Africa, within non-stop reach of all the major G7 and BRICSA economies. Moreover, with new high-speed road and rail corridors being built to connect Ethiopia to the Red Sea, the sense of landlocked isolation that has historically characterized Ethiopia will be transformed—Ethiopia will be seen as perched on the main trade route from Asia to Europe and the Americas. Third, Ethiopia is implementing what will amount to a quantum improvement in trade logistics: its new industrial parks will give their tenants, as authorized economic operators, seamless multimodal links to the global economy. With duty-free, quota-free access to the US and EU markets already in hand, Ethiopia’s manufacturing sector is poised to take off.

As well, the policy framework is conducive to manufacturing development as it proposes to drive manufacturing growth through vertical and horizontal links to the rich resource base, both agricultural and mineral, both of which have solid growth prospects in their own right.

Finally, as one silver lining to the under-developed state of manufacturing, Ethiopia also has no hangover of legacy technology. Fueled by foreign direct investment, Ethiopia's first generation of broad-based manufacturing activity will in fact feature and be linked to next generation technologies, not past generation approaches.

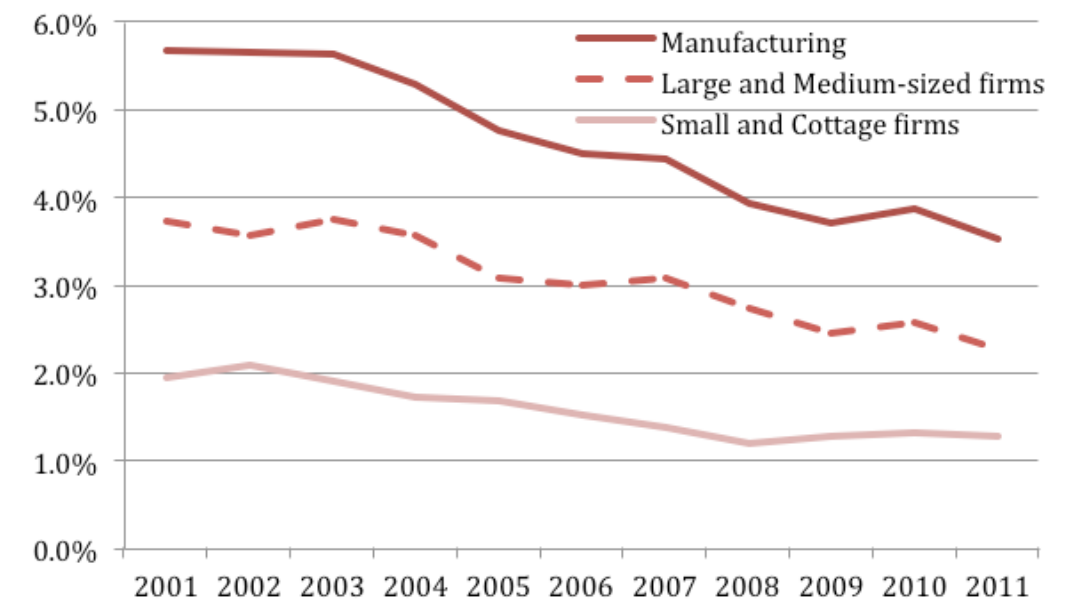
In recent years, manufacturing has started to show some dynamism. However, this has barely scratched the surface of the actual potential. More indicative of the potential are the plans being announced by foreign investors to bring light manufacturing to Ethiopia.

Exhibit MFG1:  
Manufacturing share of  
GDP, 2001-2011.

*Manufacturing has  
been growing but losing  
ground as a share of  
GDP.*

## MANUFACTURING'S ROLE IN THE ECONOMY

Manufacturing value-added grew at an annual average rate of 8.3% between 2001 and 2011; however, its share of GDP fell (Exhibit MFG1).



Source: Central Statistical Agency; calculations by the Project Team.

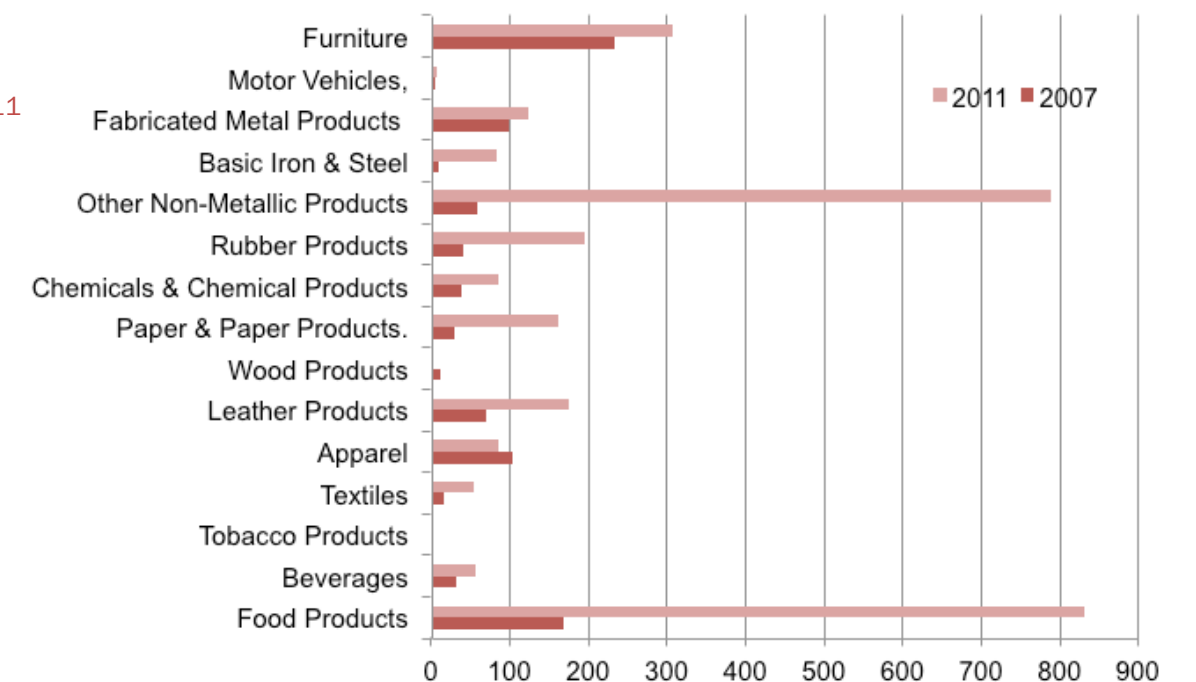
Consistent with the growth in value-added in the manufacturing sector in recent years, there has been a significant expansion in the number of establishments, albeit from a very, very low base. Between 2007 and 2011, the number of manufacturing establishments captured by the Central Statistical Agency's survey of manufacturing rose from 910 to 2,949. At the same time, employment rose from 96,074 to 215,619, and sales measured in constant Birr terms also more than doubled. Sales per establishment, however, actually declined, measured in constant 2011 prices, from ETB 8.7 million to ETB 5.65 million. All figures are based on a comparison of the Ethiopian year's July-Oct quarter of 2007 and 2011.

An encouraging sign of industrial development in Ethiopia is the fact that green shoots of manufacturing activity emerged in many sub-sectors (Exhibit MFG2). Particularly large increases in the number of establishments were recorded in the food products and "other non-metallic products" sectors. Only in apparel and wood products was there a decline in the number of active establishments.

Many of the manufacturing subsectors did not record any exports and only the traditional leather, textiles and food products groups had export sales of any significance. And in the case of food products, the percentage that was exported was minuscule. Overall, only 10% of manufacturing sales in 2011 were on export markets (Exhibit MFG3). This latter figure was however double the share registered in 2007. The increase in export orientation was entirely due to the leather and textiles sectors.

Exhibit MFG2: Number of Manufacturing Establishments 2007-2011

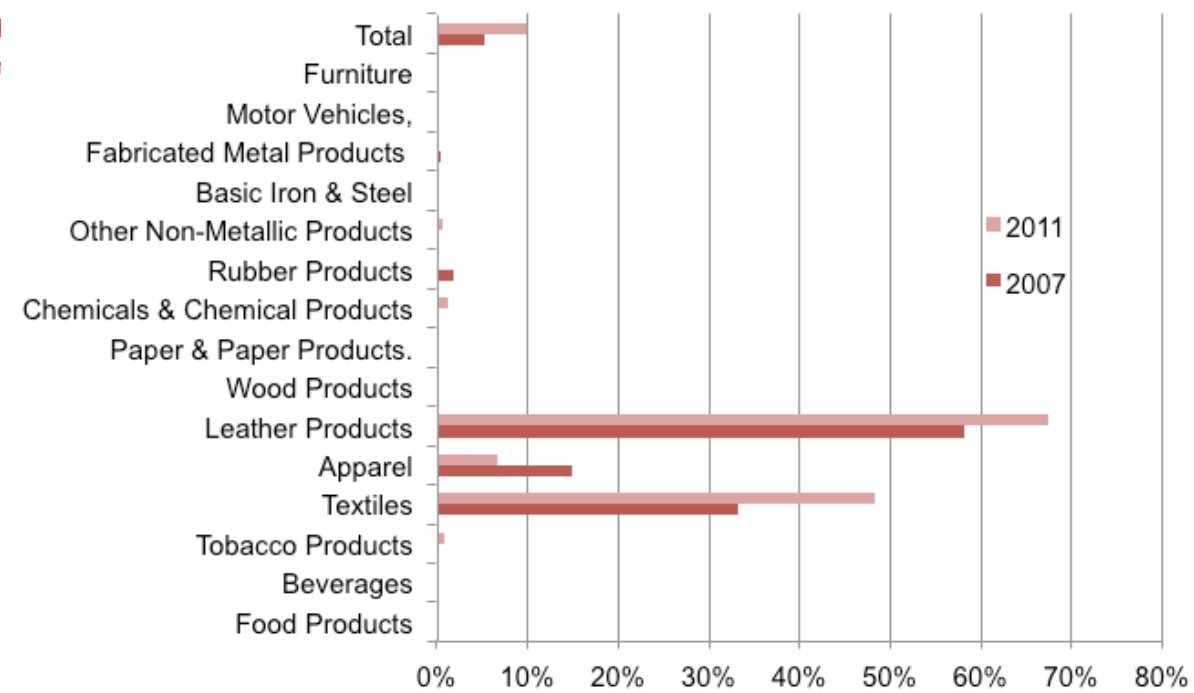
*Green shoots have emerged in many manufacturing sub-sectors in recent years.*



Source: Central Statistical Agency; calculations by the Project Team



Exhibit MFG3: Export SI of Sales, by Manufactur Sub-Sector, 2007-2011



Source: Central Statistical Agency; calculations by the Project Team

In summary, Ethiopia's manufacturing sector, as it has developed to date, plays a limited and sectorally narrow role in the economy, both in terms of share of domestic output and employment generation, and in terms of contribution to export earnings.

## GROWTH DRIVERS

Manufacturing activity in Ethiopia in the future will be driven by a combination of factors coming together at the same time:

- The supply of inexpensive but young and trainable labor.
- An advantageous position globally
- An imminent major improvement in logistics that will pave the way for excellent access to global trade routes.
- The shedding of large numbers of basic manufacturing jobs in East Asia.
- The sharp increase in the supply of energy in Ethiopia.
- The rapid growth in the exploitation of Ethiopia's agricultural and mineral resource base, which will provide the feedstock for downstream manufacturing activity.
- The inflow of foreign direct investment which is now being encouraged by the evidence that firms that have entered the Ethiopian market have succeeded.

Policy reforms can be an important growth driver for Ethiopia's manufacturing sector. According to the World Bank, Ethiopia has significant potential in several light manufacturing subsectors: apparel, leather products, agribusiness, wood products, and metal products (Exhibit MFG4). The World Bank proposes policy reforms to exploit this potential based on the successes of other countries.

Ethiopia's advantages lie in the combination of natural resources that serve as inputs for light manufacturing industries (e.g., cattle for the leather industry, forests for the furniture industry, cotton for the garment industry and a large agricultural base for the agro-processing industry), abundant low-cost labor, which gives it a comparative advantage in less-skilled, labor-intensive light manufacturing, and cheap hydroelectric power.

**APPAREL:** the main constraints are poor trade logistics and access to trade finance. Proven solutions are a green channel for apparel at customs, providing free and immediate access to foreign exchange, reducing the cost of letters of credit, and setting up an industrial zone close to the main port of export (Djibouti). Competitiveness could be reinforced by developing a competitive textiles industry based on its high-quality cotton and cheap hydro-energy.

- *Potential impact:* while Ethiopia's apparel sector currently generates only about USD 8 million in exports and 9,000 jobs, Vietnam has—with policies similar to those recommended above—achieved USD 8 billion in exports and created 1 million jobs.

**LEATHER PRODUCTS:** the main constraint is input shortages. Ethiopian leather is highly regarded. With modest, targeted reforms Ethiopia's large animal herds could produce vast amounts of some of the best leather in the world to feed downstream leather products industries. The immediate binding constraints on input supply could be lifted by allowing the import of processed leather, while straightforward reforms to cattle herding practices and allowing the export of raw hides would stimulate investment in hide production, providing a longer-term solution to the input problem.

- *Potential Impact:* With similar policies, Vietnam, which has a similar sized population to Ethiopia's, created 600,000 jobs in the leather products industry.

**AGRIBUSINESS:** Ethiopia's coffee and cut flower successes demonstrate the potential for agribusiness based on low wages, varied soil and climatic conditions, opportunities to increase yields on cultivated land, and large tracts of unused arable land. The main constraints are identified as high input prices. The relevant reforms are to improve the supply and reduce the cost of agricultural inputs, including by facilitating investment (e.g., removing trade restrictions and allowing use of cattle as collateral).

- *Potential Impact:* The World Bank observes that Ethiopia has the second largest dairy herd in Africa, offering the potential for large-scale downstream processing.

Exhibit MFG4: World Bank Assessment of Light Manufacturing Potential in Ethiopia

**WOOD AND METAL PRODUCTS:** Ethiopian wood and metal products manufacturers rely on expensive imports of wood and steel, made more expensive by high tariffs and poor trade logistics. The sector is dominated by smaller, mostly informal, firms with no large or exporting firms. For wood the government should facilitate access to rural land and financing for private wood plantations. For metals the cost of inputs could be reduced by cutting the 10% import tariff on steel and exploiting Ethiopia's proven reserves of iron ore. For both subsectors the government could support the most deserving enterprises by facilitating their access to skills, finance, and industrial land as part of "plug-and-play" industrial parks.

- *Potential Impact:* The potential lies not in exports (at least initially) but in the growing domestic market given the high weight-to-value ratio of finished wood and metal imports

Source: World Bank

As one example of the potential for major discontinuous change through foreign direct investment, Chinese shoe manufacturer Huajian has announced its intention to develop a major shoe manufacturing operation in Ethiopia to serve the European and North American markets. Huajian Group, is based in Dongguan, Gaungdong province. According to Huajian Vice President Helen Hai, the company produces about 20 million pairs of shoes a year in its global operations for major brands such as Calvin Klein and Guess. Huajian has already entered Ethiopia on a smaller scale at the Chinese-constructed Dukem industrial park, which also hosts several other Chinese manufacturers including a plastic materials factory and a car assembly. Huajian's Dukem-based plant started operations in January 2012 and is currently producing 1,000 pairs of shoes a day. This operation is to be shifted to and consolidated with the new plant to be built on a 320 hectare site as part of the new Ethio-China Light Manufacturing Industrial Special Economic Zone in Lebu on the outskirts of Addis Ababa. The planned shoe factory would generate exports of up to USD 4 billion a year. To put this figure into perspective, Ethiopia's total exports of all products in 2011 amounted to only USD 2.6 billion.

Factors cited by Huajian include the inexpensive labor, the supply of domestic leather inputs, and the market access that Ethiopia enjoys in the industrialized west.

An example of the impact of effective trade facilitation is provided by the Turkish firm Ayka, which operates export processing manufacturing in Ethiopia. Ayka imports production inputs from Djibouti. Ethiopia Shipping Lines (ESL) takes the sealed containers from ship onto truck and straight to Ayka's premises. They are unsealed in the presence of a customs official and go straight into production. From dockside to factory, this process takes 2-3 days at present. The major current bottleneck, slow, sometimes uncertain, and costly trucking from Djibouti, will be relieved in the near future with the completion of the new rail link to Djibouti. According to ESL and companies, time will be cut to hours, uncertainty eliminated and cost sharply reduced.

However, in addition to gains in these areas, Ethiopia's manufacturing can benefit from the same advantages in many other sectors that feature processing trade. For example, several multinational firms are already assembling cellphones in Ethiopia for the local and regional market. In that sense, in Ethiopia's case, the past is not necessarily going to be prologue to the future.

## GROWTH DRIVERS

The regulatory environment for manufacturing is still far from ideal in Ethiopia. However, Ethiopia has learned how to export time-sensitive products like cut flowers and fresh vegetables. It is about to apply those lessons to goods manufactured in specified “free zones” or industrial parks with a primary focus on export markets. The Government has plans to construct industrial zones in five locations across the country as part of the bid to increase foreign investment, in addition to the Chinese-built industrial park at Dukem.

To offset the frictions that firms may experience while the full package of reforms is being implemented, the Government of Ethiopia offers attractive terms to foreign investors, as described earlier in the macroeconomic scan.

## CASE STUDIES

The Project Team discussed the challenges of operating in Ethiopia with the manufacturing industry with the greatest export success to day, the leather industry.

As a priority industry, leather manufacturers have not experienced problems with economic infrastructure. Power supply issues have not presented themselves because of separate sources of power. As for telecommunications, most members of the association have websites and use electronic commerce in their business operations. Mobile phone access is not a problem.

The leather industry exports directly and has no need for export intermediaries. Use of shipping for export is somewhat of a problem given the length of time (30 to 45 days may be needed between the taking of orders and the goods reaching port in Djibouti). Most shippers use air freight as a result. While it is more expensive, it is very easy.

Export procedures generally are not a problem. The paper work for export orders is executed expeditiously. Obtaining the necessary letters of credit and teletransfers of money are also unproblematic. Dealing with customs for export is also easy.

The experience with exporting contrasts sharply with that when it comes to importing. Dealing with customs bureaucracy for import is also not easy even though the leather industry is exempted from duties and taxes when importing inputs. For example, the duty drawback and voucher schemes to encourage exports are difficult to use. Because of the difficulties that firms run into, intermediaries are sometimes used to facilitate imports from Djibouti to the dryport and from the dryport to the factory gate and to deal with the duties.

Overall, it may take 45 days to 2 months to import for irregular shipments by sea. The length of time and uncertainty about timing of deliveries forces firms to import in bulk

and maintain large stocks of key inputs for a minimum of 6 months. This raises costs and is an issue for the industry.

As regards the security of the logistics system, this used to be one of the biggest problems for firms on the export corridor – some firms lost heavily. However, over the past year and a half, improved security has resolved the problems. Domestic shipments do not face security risks.

Conditions of competition are good. The industry features a large number of firms (47 current domestic members – tanners, footwear, leather goods) and foreign companies from 7 different countries, including China (4), India (2), Turkey (1), Germany (1), UK (3), Italy (1), and Sudan (1). All firms are private; there is no state involvement and little competition from the informal sector.

One area of difficulty is keeping factories running at high capacity. Tannery capacity is large in Ethiopia – 40 million skins a year – but the supply is not more than 20 million. Many companies have entered the business and there is tough competition for skins. By the same token, the price of skins has risen. The government has taken action to allow imports of other production inputs when serious gaps occur, but not of raw hides themselves.

As well, up to 95% of the chemicals used in tanning are imported. Some foreign firms are studying entering to produce these products locally and the expectation is that there will be international investment in the upstream sector, but it has not yet materialized.

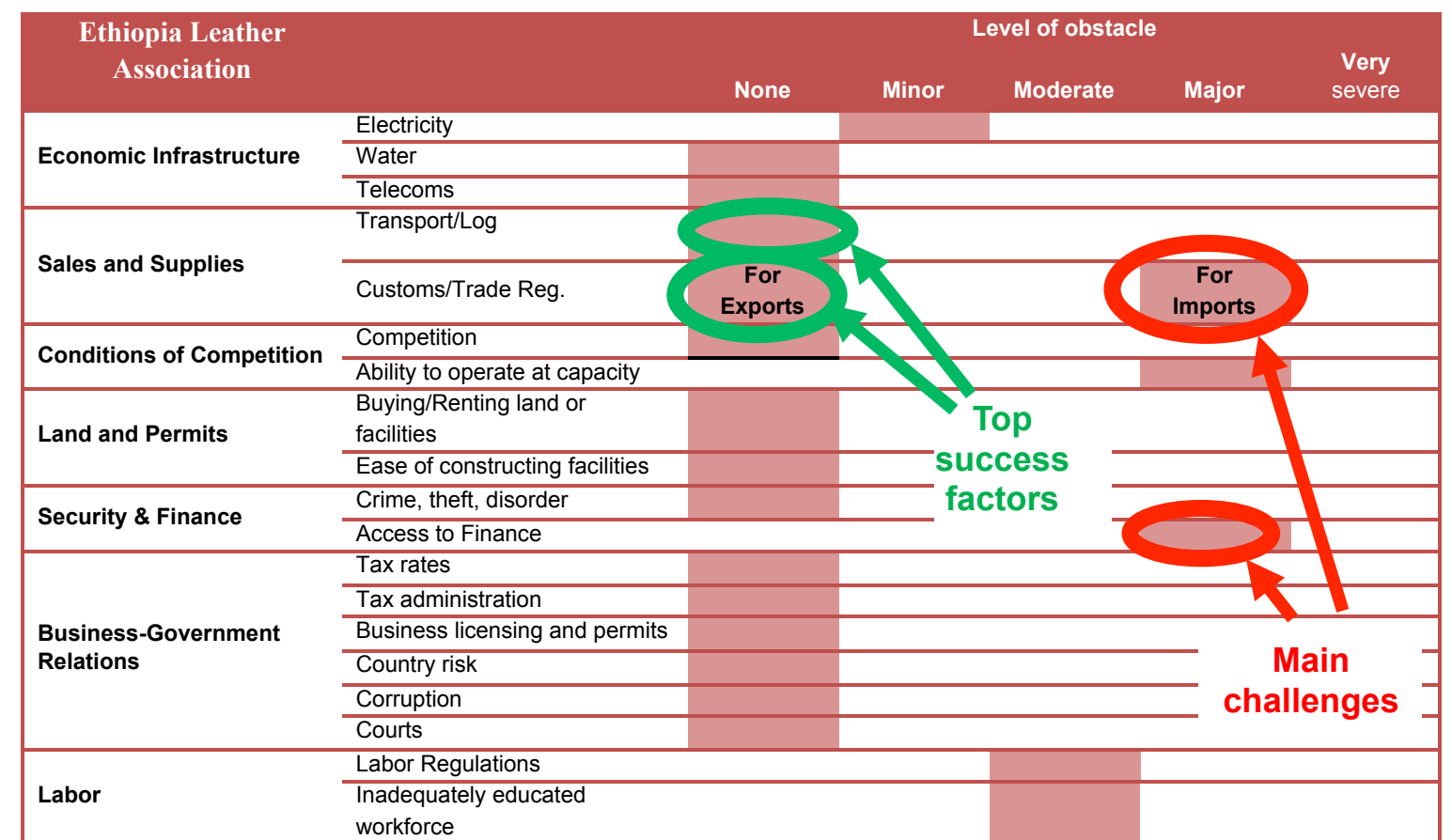
Acquiring land and constructing facilities is not an issue. The land is owned by the Government which provides leases easily and cheaply. Security is cheap and not an issue in Addis Ababa.

Working capital is considered to be a big problem. The leather industry's raw material—raw hides—is expensive and firms must maintain large inventories of imported inputs. Firms rely on bank loans but banks impose onerous collateral requirements which sometimes deter borrowing. As well, the full amount of loan is often not made available,

so firms lose sales because of lack of working capital. Supplier credit can be used but this results in a loss of bargaining power and the price of the finished product goes down. The industry has regular meetings with the banks but the issues have not been resolved.

Finally, relations with Government are smooth and pose no obstacle at all. However, labor regulations are a moderate obstacle as regards leather and shoe technology, and access to skilled labor is also a moderate obstacle, although an institute has been established which is now training personnel.

Exhibit MFG5: Business Climate Survey Report: Ethiopia's Leather Industry



Source: Interview by the Project Team.

Business Climate Case Study: KK Textile

KK private limited company was established in 1992. The company started its business with just one person acting as both the company manager and operator, and expanded in to diversified businesses in short period of time. The company is currently engaged in blanket factories; acrylic yarn dyeing plant; import and distribution of heavy duty machineries and equipment for mining, construction, road making, quarrying, stone crushing, and export of coffee, oilseeds, pulses, cereals and spices.

KK PLC represents a number of manufacturers and suppliers from different countries, especially from Asia, namely Hanil Fiber Corporation of Korea, Geetangali Woolen of India, and Sany Heavy Industry of China.

According to the interview conducted with the management of KK textile, the Ethiopian business climate presents only few obstacles, all of which are minor or moderate (Exhibit MFG6).

Exhibit MFG6: Business Climate Survey Report: KK Textile

KK Textile		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
<b>Labor</b>	Courts					
	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

Business Climate Case Study: Abyssinnia Cement

Abyssinia Cement is a subsidiary of Abyssinia Steel Reinforcement Bars. The manufacturing plant is located in Chancho, Oromia Region. Branded as Tenkara cement, Abyssinia Cement supplies 50 kg bags of cement. The factory has the capacity to produce 45,000 tonnes of cement annually.

Due to the high demand for cement, Government has been supporting investment in this business. Hence, getting land was not difficult. However, the availability and persistence of economic infrastructure weaknesses such as in electric power has been an obstacle. The degree of capacity utilization is claimed to be satisfactory even if it is not close to target. Exhibit MFG7 shows the findings from the interview conducted with Abyssinia Cement.

Exhibit MFG7: Business Climate Survey Report: Abyssinia Cement

abyssinia Cement		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
<b>Labor</b>	Courts					
	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.



Ethiopia has great potential for tourism: the source of the Blue Nile, the land of the Queen of Sheba, the legendary home of the Ark of the Covenant, the birthplace of Coffee, and the playground of Lucy, the world's oldest hominid skeleton.

### OVERVIEW

Ethiopia has great, and largely unexploited, tourism potential. Its tourist attractions are many and varied. In terms of cultural tourism, Ethiopia features the richest archeological heritage of any country in Sub-Saharan Africa. It is the home of Lucy, the world's oldest hominid skeleton, has a claim to being the land of the legendary Queen of Sheba and the even more legendary Ark of the Covenant, but also is the beneficiary of the rich heritage of the Axumite Kingdom, the medieval castles of Gondar, the rock hewn churches of Lalibela (the 8th wonder of the world); and the birthplace of coffee with its rich traditions. In fact, Ethiopia has the most World Heritage sites of any country in Africa (9). Ethiopia's natural attractions are equally varied: the source of the Blue Nile; the Rift Valley with its volcanoes, lakes and exotic wildlife; and a topography that ranges from rugged mountains to lowland savannas for the adventure tourist. Although situated close to the equator, the country's climate is tempered by altitude, which makes it suitable for year-round tourism.

Tourist arrivals are growing rapidly; however, by global standards, Ethiopia is relatively under-explored, a reflection of limited historical accessibility. Accessibility is increasing as Addis Ababa expands its role as an air transport hub for the African continent.

The chief mode of travel to Ethiopia for tourists is air. The main carrier is Ethiopian Airlines, which links the country with 69 destinations across Africa, Asia, the Middle East, Europe and the United States. One of the few profitable African airlines, Ethiopian Airlines has a strong safety record, a modern fleet, and was voted African airline of the year several times. It joined the Star Alliance in December 2011 and has code share agreements with several Star Alliance member airlines. Other carriers serving Ethiopia include British Airways, Emirates, Lufthansa, Alitalia and Saudi; several other airlines are planning to add service to Ethiopia. Meanwhile, domestic air travel has also seen increased competition with the introduction of two new, privately operated firms.

Ethiopia's tourism sector is poised to benefit from an upgrade program that includes constructing airports, road and communication networks, and upgrading the country's electric power generation and water works. Airport improvements are underway at Lalibela, Axum, Gondar, Bahir Dar, Mekelle, Arba Minich and Dire Dawa, while the international airport at Addis Ababa is being modernized and expanded. Road rehabilitation, upgrades and new construction projects are in progress across Ethiopia. And the Government is providing attractive conditions for investors to develop tourism infrastructure, including hotels and other amenities.



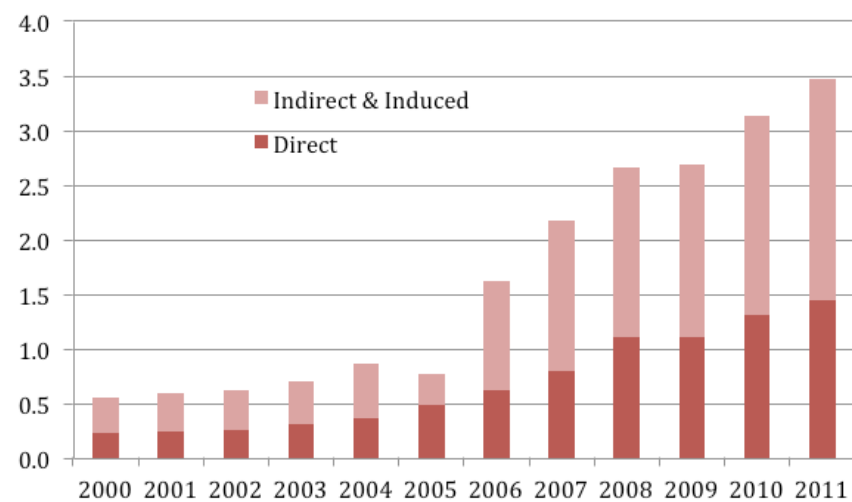
Travel and tourism accounted for 10.8% of GDP in 2011

## ROLE OF TOURISM IN THE ECONOMY

The direct contribution of travel and tourism to GDP in Ethiopia has risen six-fold over the past decade to reach USD 1.4 billion in 2011, based on calculations by the World Travel and Tourism Council (WTTC). The total contribution (including indirect and induced spending, based on WTTC calculations) has risen by a similar ratio to reach USD 3.5 billion in 2011, or 10.8% of Ethiopia's GDP (Exhibit T1). The share of employment accounted for by the sector is similar to its GDP share.

Tourism's contribution to GDP is forecast by the WTTC to rise to 2.9% in 2012 and to grow substantially by 2022.

Exhibit T1: Contribution of Travel & Tourism to Ethiopia's GDP, 2000-2011, USD billions



Source: WTTC, Report on Ethiopia, 2012

*Travel & Tourism's contribution to Ethiopia's economy has only recently started to grow.*

Travel and tourism spending reached USD 2.4 billion in 2011.

Total spending on tourism and travel in Ethiopia reached USD 2.4 billion in 2011. Leisure travel spending (inbound and domestic) accounted for 81.2% of this figure, compared with 18.8% for business travel spending. Leisure travel spending is expected to grow by 6.7% in 2012 to reach USD 2.1 billion, while business travel spending is projected to grow by 5.5% to reach USD 473 million (WTTC).

Domestic travel and tourism spending quadrupled over the past decade to reach USD 844 million in 2011. However, its growth has been outpaced by visitor exports which grew to USD 1.5 billion in 2011 (Exhibit T2), raising its share of total travel and tourism spending from 52% in 2001 to over 64% in 2011. This constitutes an important source of export earnings for Ethiopia and the Government is seeking to expand it, including by tapping into the growing conference spending market. Recently, the Ethiopian government opened a dedicated office specifically for conference tourism. A major advantage for Ethiopia is that Addis Ababa hosts both the African Union headquarters and the UN Economic Commission of Africa and is thus considered to be the political capital of Africa. By the same token, it is host to a disproportionate number of international events which can be leveraged for tourism purposes.

Tourism arrivals are growing rapidly.

The total number of international entries into the country has doubled since the early 2000s (Exhibit T2) and is projected by the WTTC to grow by an additional 40% over the period to 2022. This projection appears to be very conservative. For 2012, the WTTC projects 429,000 visitors to enter the country; however, according to the Ministry of Culture and Tourism, the number of tourists visiting the country is expected to reach 700,000 in fiscal year 2011/2012.

The average length of stay for tourists to Ethiopia has also shown an increase from 4 days to 6 days, which has contributed to a faster increase in spending compared to arrivals.

Exhibit T2: Ethiopia Visitor Exports and International Tourist Arrivals, 2002-2011

Visitor arrivals have more than doubled since the early 2000s, and spending is up six-fold.



Source: WTTC, Report on Ethiopia, 2012; and Ministry of Culture and Tourism

Ethiopia offers a rich and varied cultural experience.

## GROWTH DRIVERS CULTURAL HERITAGE

For cultural tourists, Ethiopia also has one of the richest histories on the African continent, which has bequeathed a wealth of historical, cultural, archaeological and anthropological sites which provide the basis for a rewarding visit.

Lucy, one of the oldest hominid skeletons found to-date, more than three million years old (and ironically named after the Beatles song, Lucy in the Sky with Diamonds, which was popular when the skeleton was unearthed), was discovered in the Afar region of Ethiopia.

Ethiopia is also the origin of coffee and continues to have a rich and varied coffee culture to this day, including special cultural ceremonies related to coffee.

Ethiopia is the land of the legendary Queen of Sheba and the even more legendary Ark of the Covenant. In February 2012, an ancient gold mine, guarded by a human skull embedded in the entrance shaft, which features ancient inscriptions in the Sabaeen

language, was discovered by a team led by British archaeologist Louise Schofield. The trek to the Gheralta Plateau where the find was made offers spectacular scenery not to mention opportunities en route to explore the rich archaeological legacy associated with the Axumite Kingdom, famous for its obelisks and tombs, Lalibela, which has been labeled the “Eighth Wonder of the World” and other monolithic churches carved out of the living rock such as the Gheralta and Wukro church clusters in Tigray.

In short, Ethiopia has a large number of exotic attractions for the cultural tourist which are being made accessible just at a time when generations that have “been there and done that” are looking for new destinations.

Ethiopia also features numerous exotic ethnic groups in villages in remote areas which have been little explored by tourists in general.

Ethiopia offers a rich and varied cultural experience.

## AN ASTONISHING VARIETY OF LANDSCAPES

Ethiopia has much to offer the eco-tourist. More than one third of Africa's highest mountains are to be found within Ethiopia (hence the country's nickname, "The Roof of Africa"), including peaks ranging up to 4,624 meters. At the same time, it hosts a good portion of the Great Rift Valley, including the Danakil Depression situated 120 meters below sea level, one of the lowest points on earth. Its landscapes include the Blue Nile gorge, Afro-Alpine highlands, the largest cave in Africa (Sof Omar), the Rift Valley lakes, tropical forests, white-water rivers, savannah, giant waterfalls and volcanic hot springs.

*An ideal place for trekkers seeking extreme highland wilderness experience...*

Bale Mountains National Park, some 420 kilometers southeast of Addis Ababa, includes Ethiopia's second highest peak, Mount Tullu Dimtu, and features Africa's highest alpine moorland habitat with a vast area of Afro alpine wild flowering vegetation, lakes, dense forest, woodland and moorland

with abundant endemic birds and mammals. The park is an ideal place for trekkers seeking extreme highland wilderness experience.

*And unique volcanic vistas in the officially hottest place on Earth – the Danakil Depression.*

Meanwhile, the Danakil Depression, at 120 meters below sea level, is remarkable in another way: "In the north of Africa's Great Rift Valley lies an extraordinary desert, unlike anywhere else on Earth. The cradle of mankind and home to our earliest ancestors, the Danakil Desert in Ethiopia is one of the most geologically active places on the planet. Volcanoes and earthquakes rip apart the ground in front of your very eyes. And it's officially the hottest place on Earth. Within this remote furnace temperatures can hit 60 degrees Celsius (145 degrees Fahrenheit), and there is almost no water. It should be

devoid of life, but it's not. Somehow people live here - a legendarily tough, nomadic warrior tribe called the Afar." (BBC Documentary).

Within the Danakil Depression lies the Dallol explosion crater and several other smaller ones that dot the area. These are the lowest known subaerial volcanic vents on land in the world, at about 45 meters below sea level. This area features colorful vistas of volcanic salt rocks, geysers, and acidic ponds, resembling in this regard the hot springs region of Yellowstone Park. Nearby, the Afar people mine bricks of salt that are loaded caravans of camels for their long trek to markets in the highlands. Also nearby along the river Hadar in the Afar triangle, is the Rift Valley archeological study site of

human evolution, where the "Lucy" skeleton was unearthed in 1974.

Also within the Danakil Depression is Erta Ale ("smoking mountain"), which rises 613 meters from the Depression.

*The lava lakes of Erta Ale*

This is one of only five volcanoes on Earth with active lava lakes, and indeed the longest known active lava lake. The temperature sometimes reaches 50 degrees Celsius. At night, the lake lights up the sky. This also is a place for extreme adventure tourists.

Bird-watching has become an important niche tourist market

### ***BIRD WATCHING***

Ethiopia is rich in bird life, being home to more than 862 species of birds of which 17 are endemic and another 13 are semi-endemic to the local wilderness. The Bale Mountains National Park, the Awash Park, the Rift Valley lakes, the lowlands and the Simien Mountains National Park are gifted with most endemic avifauna. This rich natural asset has made bird-watching an important niche market in Ethiopia's travel and tourism portfolio.

### ***CONFERENCE AND MEDICAL TOURISM***

Many of Ethiopia's attractions, such as the Blue Nile gorge and closest Rift Valley lakes, are close enough to Addis Ababa to allow day visits. While these attractions are being exploited to a reasonable degree, much of Ethiopia's cultural heritage lies further afield and awaits development. In the age of the Internet and Youtube, there is a growing body of highly effective, "word of mouth" (so to speak) advertising of Ethiopia's more far-flung attractions. Ethiopia's internal infrastructure development offers potential synergies to tourism operators targeting visitors arriving in Ethiopia for conferences, or perhaps in the future for medical treatments, to provide convenient short-term tourism options to the less-visited sites.

### **THE REGULATORY ENVIRONMENT**

The tourism industry is fairly liberalized with most subsectors open to all investors and 100% foreign ownership allowed. The government also offers tax holidays and 100% duty exemptions on all imports of investment capital goods. The licensing and registration process is not difficult and can be done in a few days.

There are some areas of investment relevant to travel and tourism that are reserved for Ethiopian nationals. These include: air transport services; travel agency services, hotels (excluding star-designated hotels); restaurants and bars (excluding international and specialized restaurants); ticket selling services; and museums, theaters and cinema hall operations. However, foreign firms are not excluded from supplying goods and services to Ethiopian firms in these closed sectors.

The Ethiopian Government has removed constraints relating to visa and customs regulations, which will liberalize and facilitate growth in Ethiopia's tourism trade. Ethiopia's Ministry for Culture and Tourism works closely with the regional bureaus, tour operator associations and hotel associations. It has a pivotal role in bringing together the private sector and regulatory authorities, and is eager to work with private investors to position Ethiopia as a top-notch African tourist destination.

## OPPORTUNITIES FOR INVESTMENT AND DEVELOPMENT

Tourism requires a wide range of supporting services, engages a wide range of other services as part of the delivery of the tourism product, and drives activity in a wide range of downstream and ancillary industries (Exhibit T3).

Exhibit T3: Supply Chain Opportunities in the Travel and Tourism Sector



Source: The Project Team

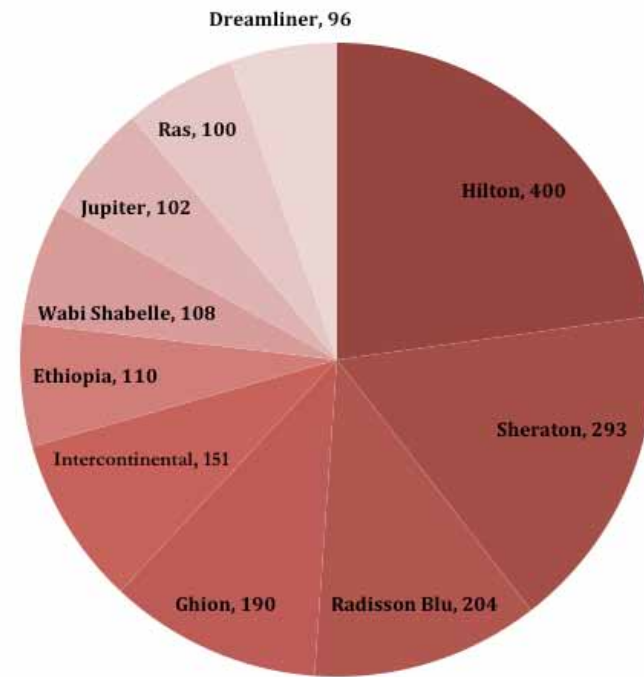
**HOTELS:** There are approximately 110 hotels in the capital of Addis Ababa with an additional 350 hotels and 8,889 rooms available outside of the capital. A majority of the hotels located at the attraction sites are not of adequate standards for international tourists. Also, tour operators complain that there are not enough hotels at these sites to accommodate their guests. Accordingly, there are ample opportunities for hotel operators to open at and near the major and more accessible attraction sites.

Foreign direct investment is particularly evident in the hotel sector. Key Players who have entered the Ethiopian market include: Sheraton, Hilton and the Radisson Blu; the Marriott International chain will also soon have a presence. They supply the Ethiopian market alongside domestic firms such as Kuriftu Resorts and Haile Resorts (Exhibit T4).

**TOUR OPERATORS:** There are approximately 310 tour operators working in Ethiopia today. Considering the vast array of attractions and sites the country has to offer, this is not a crowded marketplace, especially for independent/specialist tour companies offering novel vacation packages. Key players in the Ethiopian market currently include: ABC/NTO Tours, Green Land Tours, Travel Ethiopia, Dinknesh Travel, and Kibran Tours.

**HOSPITALITY MANAGEMENT TRAINING INSTITUTES:** The Ministry of Culture and Tourism reports that there are 19 hospitality training institutions in Ethiopia. However, most have limited capacity and lack accreditation to provide the required training for the sector. Interviews conducted with hotel operators confirmed that there is a significant shortage of professionals in the sector and high employee turnover rates as existing and new hotels siphon off each other's staff to operate their businesses. There are accordingly market opportunities in hospitality management training in Addis Ababa. The market is hungry for such a business to emerge to increase the quality of hotel services.

Exhibit T4: Ethiopia: Top Ten Hotels by Room Availability



Source: Ministry of Culture & Tourism 2012.

Business Climate Case Study:  
Dinknesh Ethiopia Tour

## CASE STUDIES

Dinknesh Ethiopia Tour, a privately owned business, joined the tour and travel market twelve years ago. Operating with more than 70 employees, the company has marketing representatives in different regions of the country.

Dinknesh bases its competitive strategy on delivering high quality service and maintaining good customer relations. The company believes that competition pushes it to improve its services and thus enhances its general business performance as well as its customer satisfaction.

Dinknesh reports that most factors affecting ease of doing business in Ethiopia represent either no problem or at most a minor problem. Only “country risk” was highlighted as representing a major problem.

Exhibit T5: Business Climate Survey Report: Dinknesh Ethiopia Tour

Dinknesh Ethiopia Tour		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
	Courts					
<b>Labor</b>	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

Business Climate Case Study: Harmony Hotel

Harmony Hotel was established in December 2008 by a local investor with an initial investment of over 10 million USD. Located within 5 minutes drive from Bole International Airport, the hotel is near to outside amenities like a multiplex cinema, shopping malls, supermarket, church and etc. The hotel is graded a four-star hotel and features a coffee lounge, business center, restaurants and meeting halls. More than 90% of its customers are international guests. The hotel started its operation with a total of 67 rooms but following an expansion in October 2012 now has 150 rooms and operates with more than 180 staff.

Harmony Hotel management reports that most factors affecting ease of doing business in Ethiopia represent either no problem or at most a minor problem. Only “telecoms” was highlighted as representing a major problem (Exhibit T6).

Source: Interview by the Project Team.

Harmony Hotel		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities	No Information				
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
	Courts					
<b>Labor</b>	Labor Regulations	No information				
	Inadequately educated workforce					

Source: Interview by the Project Team.



## SERVICES: HEALTH

Ethiopia is significantly under-served in terms of health care.

### OVERVIEW

As is typical of developing economies, Ethiopia has an inadequate supply of health care services and service delivery is highly uneven across the country. Ethiopia's population faces a high rate of morbidity and mortality and the health status remains relatively poor in terms of low life expectancy (59 years), high infant mortality rate (68/1000), high under-five mortality rate (106/1000), and high maternal mortality ratio (470/100,000) (all figures, World Development Indicators, 2012). Moreover, for every woman who dies in pregnancy, between 20 and 30 develop short- and long-term disabilities.

The major health problems of the country remain largely preventable communicable diseases and nutritional disorders. In particular, there is high un-met demand for family planning, skilled birth attendants are in short supply (including skilled midwives at health centers), referral systems are weak, availability of emergency obstetric and newborn care equipment is inadequate, and HIV prevalence is high.

Significant progress has been made to improve health care through a series of five-year sector-wide Health Sector Development Programs (HSDPs). The fourth of these, HSDP IV, covers the period 2011-2015. Under these programs, the total number of health facilities (hospitals, clinics, and health stations) increased from 575 in 1997 to 17,300 in 2010. However, the expansion has not kept pace with the growing demand for health care. Ethiopia, with an estimated population size of

over 80 million, only has 2 hospital beds for every 10,000 people, 131 hospitals (1 for 410,256 people), 2,152 doctors (1 for 34,986 people), and 20,195 nurses (1 for 4,895 people).

Private health service providers are perceived to be an important part of the HSDP to supplement the coverage provided by public facilities. The growth of private hospitals has been significant during the past 5 years, triggered by factors such as the rapid influx of medical technology, rising middle class income, and the government's supportive policy. However, private hospitals are also facing challenges, including shortages of trained professionals in specialty areas, maintenance of bio-medical equipment, availability of quality drugs, and high turnover of employees.



## ROLE OF THE HEALTH CARE SECTOR IN THE ECONOMY

The contribution of the health care sector to GDP and employment is small. The health and social services sector combined accounted for only 0.7% of GDP in 2011. A total of 69,865 professionals are employed in the health sector.

Total health expenditure is larger, on the order of 4 to 5% of GDP. Health care spending has risen steeply in recent years, more than doubling between 2005 and 2008 alone, rising from USD 522 million in 2005 to USD 1.2 billion in 2008, as documented in the fourth round of the National Health Accounts (NHA). In per capita terms, spending grew from USD 7.1 to USD 16.1. As a share of GDP, however, total expenditure on health care has grown only modestly since 2005 in trend terms (Exhibit H1).

Exhibit H1: Ethiopia: Expenditure on Health Care, as % of GDP, 2005-2010

*Health care expenditures have grown only slightly faster than GDP.*



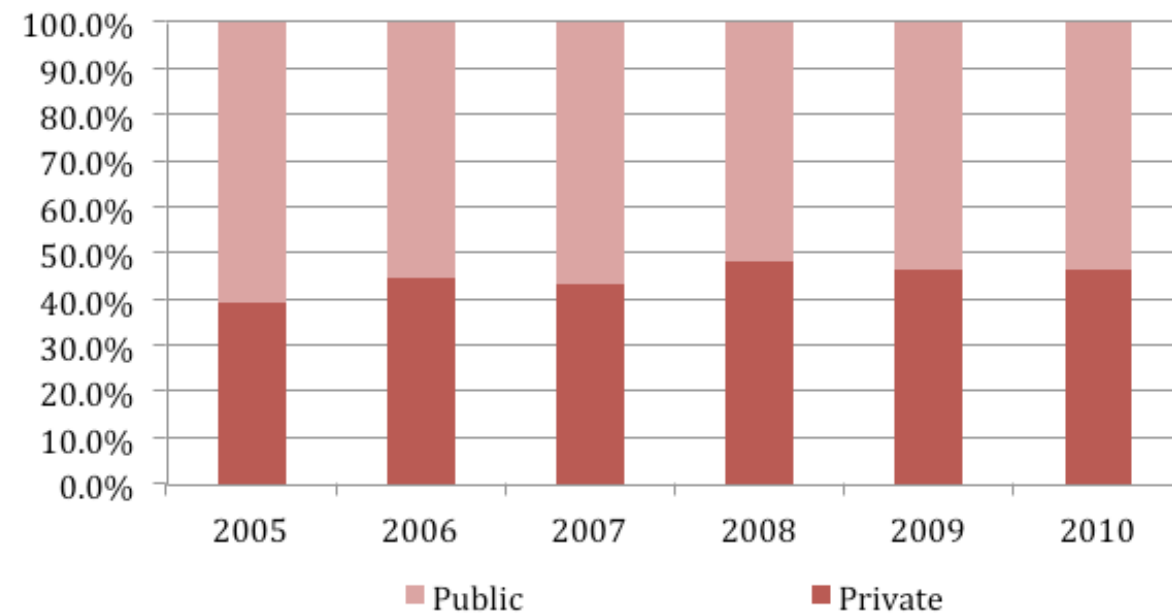
Source: World Health Organization, IMF.

According to the World Health Organization (WHO), 47% of spending on health care in Ethiopia was financed privately (out of pocket) in 2010, up from less than 40% in 2005 (Exhibit H2). Those who can afford the fees of private clinics prefer to use them as they are found to be cleaner, closer, and more efficient.

Rising incomes, increased educational attainment, and urbanization are driving demand.

Exhibit H2: Public versus Private Financing of Health Care, 2005-2010

Almost half of expenditure on health care in Ethiopia is privately funded.



Source: World Health Organization.

## GROWTH DRIVERS

The growth drivers for the health sector are threefold: rising demand stimulated by various socio-economic trends, including growth in literacy, improvements in the road network, and rapid urbanization which brings more people into proximity of health care facilities; and increased accessibility of services, such as 24-hour care and strategic locations of health facilities, as well as the increased availability of specialized skills and technology. At the same time, the sector faces a number of constraints.

The HSDP's five-year program will also play a crucial role as a growth driver. As an example, the fourth HSDP calls for the following selected improvements:

Increase per capita public expenditure on health from USD 16.1 to USD 32.2

Increase the health share of the total budget from 5.6% to 15%

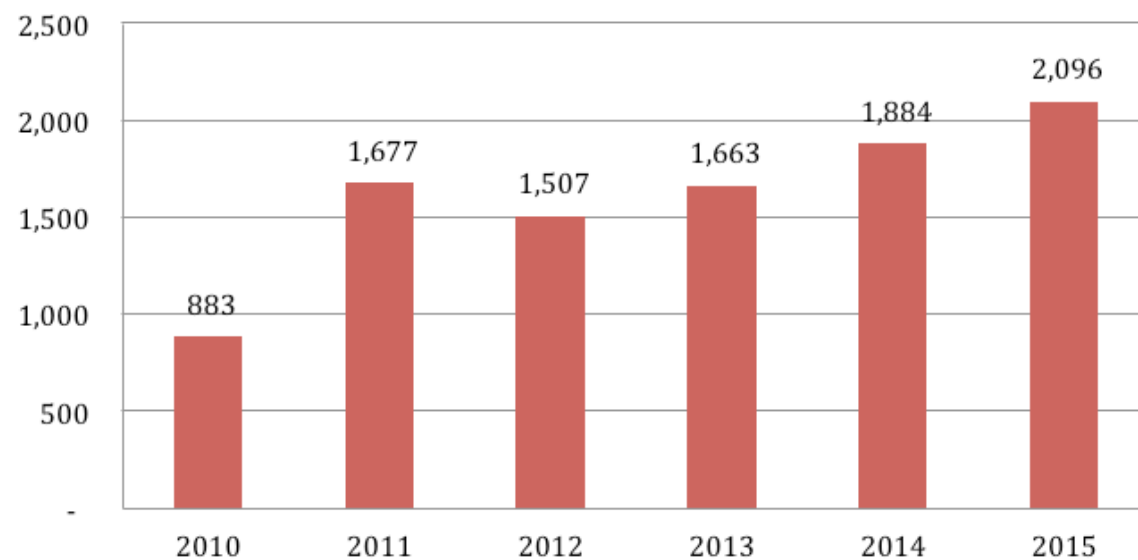
Increase the proportion of people enrolled in Health Insurance from 1% to 50%

- Increase bed occupancy rate from 50.8% to 85%
- Maintain Health Post to population ratio at 1 : 5,000
- Maintain Health Center to population ratio at 1 : 25,000
- Increase Primary Hospital to population ratio to 1 : 100,000
- Increase General Hospital to population ratio to 1 : 1,000,000
- Increase Specialized Hospital to population ratio to 1 : 5,000,000
- 100% of health facilities fully equipped and furnished as per the standard

Health care expenditure for the five-year period from 2011 – 2015 is estimated at USD 8.8 billion representing an average yearly increase of public health spending of 18.9% over the coming five years from the 2010 base of USD 883 million (Exhibit H3; note that these figures consolidate all resources from government and development partners on- and off-budget). Under the “best case” scenario, the total expenditure would be 23% higher over the period.

Exhibit H3: Projected Health Care Expenditures to 2015, USD millions.

Health care expenditures are projected to grow rapidly over the medium term.



Source: World Health Organization.

The expenditure is focused on four types of services: family-oriented community-based services, population-oriented schedulable services, individual-oriented clinical services, and district, provincial, national governance and management (Exhibit H4).

Exhibit H4: Allocation of Expenditure on Health Care, 2011-2015 (USD millions)

Planned Expenditures	Baseline	2011	2012	2013	2014	2015	Total
Family oriented community based services	181.8	527.2	568.6	567.4	615.0	655.7	2,933.9
Capital investment	73.5	65.6	32.9	12.7	7.8	3.8	122.8
Recurrent	181.8	461.6	535.7	554.7	607.2	651.9	2,811.1
Population oriented schedulable services	63.4	351.1	125.3	137.3	152.5	167.5	933.6
Capital investment	25.6	129.5	26.3	30.2	30.5	30.6	247.1
Recurrent	63.4	221.6	99.0	107.1	122.0	136.9	686.6
Individual oriented clinical services	419.0	603.7	619.3	742.1	868.3	993.7	3,827.3
Capital investment	298.3	265.7	231.4	225.0	222.8	220.0	1,164.9
Recurrent	120.7	338.1	388.0	517.1	645.5	773.7	2,662.4
Governance & management	119.8	195.0	193.9	215.7	247.7	279.5	1,131.7
Capital investment	85.3	120.2	92.1	79.9	76.7	73.0	442.0
Recurrent	34.5	74.8	101.8	135.8	170.9	206.5	689.7
<b>Total</b>	<b>883.1</b>	<b>1,677.0</b>	<b>1,507.1</b>	<b>1,662.5</b>	<b>1,883.5</b>	<b>2,096.4</b>	<b>8,826.5</b>
Capital investment	628.7	581.0	382.7	347.8	337.8	327.4	1,976.8
Recurrent	254.3	1,096.0	1,124.4	1,314.7	1,545.7	1,769.0	6,849.7

Source: Government of Ethiopia

As regards the constraints, health services quality has been compromised by inadequate and poorly maintained infrastructure and equipment, scarcity of trained health personnel, low density and high disparity in distribution and skill mix of health personnel across the country, and the limited availability of drugs and pharmaceutical supplies.

The shortage of health professionals is partly attributable to the high number of doctors who have left the country. Not only are the ratios of health personnel to population substantially lower than the average for Sub-Saharan Africa, but the situation is worsened by the fact that a considerable number of staff, one-third of doctors and one-sixth of nurses, work in Addis Ababa where only about 4% of the country's population live. Recent efforts to relocate centrally located staff to the regions have started to redress this imbalance.

Exhibit H5: Summary of Demand and Supply Drivers of the Health Care Sector, and of Constraints

### DEMAND DRIVERS

- Rising household incomes
- Growth in literacy / education
- Urbanization
- Increased affordability due to spread of provider payment schemes and insurance mechanisms
- Growing confidence of people in the quality of providers through experience
- Improved access to specialized skills/ technology because of infrastructure (roads etc.) development

### SUPPLY DRIVERS

- Increased public sector health spending
- Subsidized medical and paramedical education supplying steady stream of professionals in the market
- Freedom for recruitment of professionals, including of government professionals for part-time work in private facilities
- Low barriers to private sector entry into health care services
- Favorable rules and regulations for private sector investment, including facilitated access to funds for investment
- Tax exemptions for medical equipment

### CONSTRAINTS

- Shortage and uneven distribution of medical facilities
- Shortage, uneven distribution, and high turnover of trained professionals, particularly in specialty areas
- Limited availability and rising cost of quality pharmaceutical supplies
- Inadequate payments and financial mechanisms
- Seasonal fluctuations of patient flow
- Maintenance of bio-medical equipment

## THE REGULATORY ENVIRONMENT

The health sector is a priority sector for Ethiopia. Moreover, the Government has sought to increase the involvement of the private sector (both for-profit and non-profit enterprises) in the delivery of health services. The role of private health clinics and medical services is growing in importance, particularly in urban areas. Today, practically all drug vendors and drug stores are privately owned, as are more than 70% of pharmacies. There are also just under 200 non-governmental organization (NGO) health clinics and 8 NGO hospitals operating throughout the country, particularly in rural areas. The Government has recognized the complementarities between the public and private (particularly NGO) sectors, and is considering improved regulation in a number of areas, including hospital autonomy, pharmaceutical distribution, and licensing.

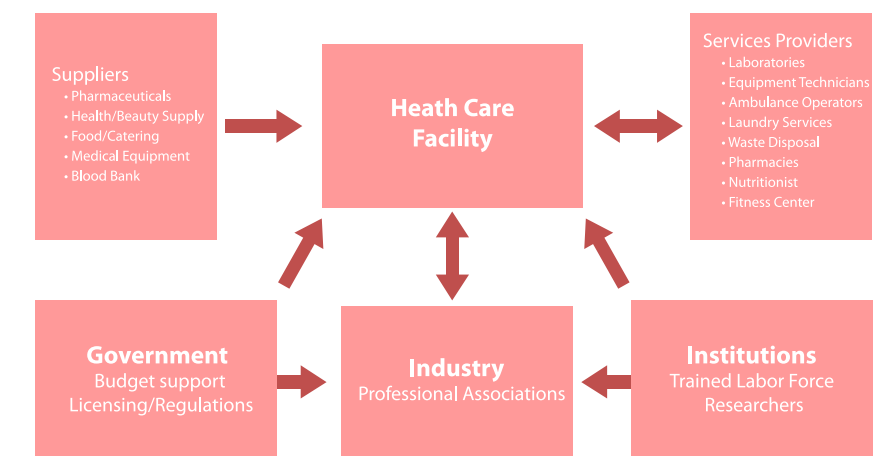
Investment provisions for private investment in health care facilities are generous. Land for construction of hospitals and related services may be obtained on a lease basis; the terms are liberal. Investments can be facilitated through the state-owned bank with a minimum of 30% of equity provided by the investor. The government also offers tax holidays, duty free privileges on biomedical instruments and equipment, minimal or zero tariffs on raw materials (where relevant such as in the pharmaceutical industries) with a 20% margin advantage granted to domestic suppliers over imports on public procurement tenders.

*Growing health care expenditures open up a range of supply chain opportunities.*

## INVESTMENT OPPORTUNITIES

Long-term investment in Ethiopia's health care system will focus on increasing the number of health facilities available (which includes hospitals, clinics, laboratories, and diagnostic centers) in both the rural and urban areas and establishing adequate training institutions for health professionals to meet the mass shortage of doctors, nurses, and other professionals. These programs will create a wide variety of opportunities for private sector engagement (Exhibit H6).

Exhibit H6: Supply Chain Opportunities in Health Care.



Source: Project Team

## HEALTH CARE RELATED SERVICES

**LABORATORIES:** Laboratory services, networks, and systems are indispensable to effective health systems, in terms of disease diagnosis, surveillance, outbreak investigation, initiation and monitoring of therapy, and research and development. In Ethiopia, as elsewhere in Sub-Saharan Africa, health care systems are seldom adequately resourced in terms of laboratory facilities or services. Laboratories often lack the appropriate resources to provide the scope and quality of service required by the community. Inadequately resourced diagnostic services compromise the quality of patient care due to misdiagnosis and consequent under/over treatment of disease. This presents significant economic and public health challenges locally, nationally, and internationally. The private sector can play a role by expanding the number of laboratories, but also by providing training for technicians to operate and maintain laboratory equipment.

**AMBULANCE SERVICES:** The Ministry of Health (MoH) has made improved access to ambulance services part of its program to reduce mortality during maternal delivery and emergencies. The Government has signed agreements with regional governments to provide ambulance services in all woredas of the nation; as part of this effort, the Government has already purchased 840 ambulances at a cost of USD 33 million.

The private sector can play a role in operating ambulance services, providing the vehicles (local assembly or import), and in maintenance services of the vehicles.

**PHARMACEUTICALS:** There is a wide gap between the demand and supply of drugs in Ethiopia. Private hospitals face shortages of essential drugs especially in cardiology and neurology, which is adversely affecting the quality of care in critical care units. As the number of health facilities increases, there will be a commensurate further increase in demand for pharmacies to distribute prescribed medicines.

The total market size of the pharmaceutical industry in 2009 was estimated to be USD 200 million with approximately 85% of all medication imported. The production, distribution and importing of drugs is controlled by DACA (Drug Administration and Controlling Authority). While the number of pharmaceutical industry players is limited, the Government heavily supports local manufacturing. A private sector manufacturer can take advantage of various incentives for local manufacturers

include; zero or low tariffs on imports of raw materials (a gross shortage on the country), financing up to 70% through the state-owned bank, a 20% margin advantage granted to domestic suppliers over imports on public procurement tenders, 30% advance payments on tenders which can provide significant working capital, and potential tax breaks. The export market to regional countries is also attractive.

**MEDICAL/NURSING SCHOOLS:** One of Ethiopia's biggest challenges in its health care industry is the lack of trained professionals, particularly specialized doctors. This has made retaining doctors in hospitals a challenge for private providers. However, the need for more qualified personnel is felt in a wide range of health care areas (Exhibit H7).

Exhibit H7: Investment Opportunities in Health Care – Training

Human Resource Category	Available	Ratio to Population
<b>All Physicians</b>	2,152	1: 34,986
<b>Specialist</b>	1,151	1: 62,783
<b>General Practitioners</b>	1,001	1: 76,302
<b>Public Health Officers</b>	3,760	1: 20,638
<b>Nurses</b>	20,109	1: 4,895
<b>Midwives (Senior)</b>	1,379	1: 57,354
<b>Pharmacists</b>	661	1: 117,397
<b>Pharmacy Technicians</b>	3,013	1: 25,755
<b>Environmental Health Workers</b>	1,819	1: 42,660
<b>Lab Technicians/Technologists</b>	2,989	1: 25,961
<b>Health Extension Workers</b>	31,831	1: 2,437

Source: Ministry of Health 2011

A number of private and public institutions provide training and certifications for the industry but these fall short of meeting the existing demand; specialized training is not available in Ethiopia and must be sourced from abroad. Interviews conducted with hospitals in Addis Ababa reveal that they are ready and willing to pay much higher salaries for doctors and nurses. Additionally, several hospitals have even considered opening a training institute to train and recruit professionals for their facilities. The market therefore exists for the private sector to open several additional health care training institutions in the country.

## KEY PLAYERS

### Hospitals

The following facilities highlight the fact that there are multiple types of investors in the private hospital sector, including local, foreign, and diaspora (Exhibit H8).

Exhibit H8: Investment in Health Care – Hospitals

Hospitals	Year Established	Scale	Investment Source
<b>Korea Hospital</b>	2004	100 beds	Private foreign
<b>St. Yared Hospital</b>	2008	30 beds*	Private diaspora
<b>Kadisco Hospital</b>	2007	60 beds	Private local

Source: Project Team. \*Reduced number of beds to 30 due to space shortage and to also focus on outpatient services.

### Pharmaceutical Companies

Restrictions on foreign investors engaging in the import and retail distribution sector have served as constraints on the engagement of pharmaceutical firms in Ethiopia. However, several major pharmaceutical companies that have invested in Ethiopia through a JV partnership, Sinio-Ethiop, Cadila, and East Africa Pharmaceuticals. Combined, these three companies invested in excess of USD 20 million, and reportedly earn somewhere between USD 3.3 million and USD 3.7 million per annum (Exhibit H9).

Exhibit H9: Investment in Health Care – Pharmaceutical Supply

	East Africa	Cadila	Sinio-Ethiop
<b>Source Country</b>	UK & Sudan	India & Ethiopia	China & Ethiopia
<b>Year Established</b>	2000	2008	2004
<b>Investment Cost</b>	USD 4.3 million	USD 10 million	USD 6 million
<b>Product</b>	Human & animal medicine	Capsules, tablets, injectables	Hard gelatin capsules
<b>Annual Turnover</b>	USD 1.3-1.7 million	USD 370 thousand	USD 1.5-1.7 million
<b>Market</b>	Export to Sudan	Export to Djibouti, Kenya, Rwanda, Tanzania	30% export / 70% local with GoE as major client

Source: Project Team

### CASE STUDIES

#### An Ethiopian “Center of Excellence” (CoE) Hospital

Many Ethiopians with the ability to pay for medical services currently travel to Thailand and India among other destinations for advanced medical procedures. In 2010 alone, 6,000 Ethiopians traveled to Bangkok for medical treatment spending approximately USD 36 million. The same is true of citizens of many other Sub-Saharan African countries.

The use of foreign facilities for medical treatment is part of a broader global trend towards so-called “medical tourism”. In countries where generally lower costs make many medical procedures less expensive, individuals can obtain needed procedures and bundle this with a tourism experience for the price that would have been paid in his or her home country for the procedures alone.

Ethiopia is well placed to apply this concept. First, it has an advantageous geographical location. Secondly, Ethiopia serves as a major air hub for Africa. And, as discussed in the tourism chapter, Ethiopia also has a multitude of attractions for tourists.

Currently a group of diaspora doctors is organizing to open such a medical facility with funds from private sources as well as from development finance institutions. The Global Ethiopian Diaspora Healthcare Foundation (GEDHF) was established in Silver Spring, Maryland, in 2012. The goal is to establish a Center of Excellence Hospital in Ethiopia to improve the quality of care, build sustainable models of health delivery, and improve medical education and research.

The organization was started by seven Ethiopian physicians in the United States who recognized this gap. Today GEDHF has 25 physicians on its Board of Governors, 10 physicians on its Executive Committee and several other physicians serving as members of different committees. The organization has regional representatives in 30 states across the United States as well as in Europe, Canada, and Australia.



**Business Climate  
Case Study: Kadisco  
General Hospital**

Established in 2007, Kadisco General Hospital is one of the prominent private health care services providers in Ethiopia. Kadisco General Hospital is one of the four sister companies under Kadco Group. With more than 100 employees, Kadisco General Hospital is currently operating at 60-70% of its capacity.

According to the interview conducted with Kadisco General Hospital management, the limited availability of educated workers has made cost of salary very high (Exhibit H10). The hospital is working in joint ventures with hospitals in Korea and Germany to minimize skilled manpower shortages.

The hospital evaluated obstacles with regard to economic infrastructures as ranging from minor to moderate. The hospital has installed a backup power generator and water tanks in case of supply interruptions. Medical care services that are provided by the hospital are highly dependent on imported equipment and medicines; hence a significant level of

importance is attached to factors related to difficulty of importing. Since one of the sister companies works in logistics and transport, the hospital does not face obstacle regarding logistics and transport services. However, the company faces moderate obstacles on issues related to customs and trade regulations.

According to the hospital management, competition in commercial health care is growing which is genuinely welcomed by the hospital with the idea in mind that competition enhances the quality of services provided in Ethiopia.

**Exhibit H10: Business Climate Survey Report: Kadisco General Hospital**

Kadisco General Hospital		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
<b>Labor</b>	Courts					
	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

Business Climate  
Case Study: Alem  
International Hospital  
(real name withheld  
at the request of the  
owners)

Alem International Hospital has been in business for the last 16 years. Operating with around 400 employees, Alem provides a range of high standard health care services. According to the interview conducted with Alem International Hospital management, competition is very limited (Exhibit H10). Since power interruption in the middle of operation or any other medical procedures cannot be risked, the firm has its own generator as a backup. The current labor regulations are not seen as posing an obstacle but turnover of practitioners, specialists, and

Exhibit H11: Business Climate Survey Report: Alem International Hospital

Alem International Hospital	Level of obstacle				
	None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity				
	Water				
	Telecoms				
<b>Sales and Supplies</b>	Transport/Log				
	Customs/Trade Reg.				
<b>Conditions of Competition</b>	Competition				
	Ability to operate at capacity				
<b>Land and Permits</b>	Buying/Renting land or facilities				
	Ease of constructing facilities				
<b>Security &amp; Finance</b>	Crime, theft, disorder				
	Access to Finance				
<b>Business-Government Relations</b>	Tax rates				
	Tax administration				
	Business licensing and permits				
	Country risk				
	Corruption				
	Courts				
<b>Labor</b>	Labor Regulations				
	Inadequately educated workforce				

Source: Interview by the Project Team.

Business Climate Case Study: East African Pharmaceuticals PLC

East African Pharmaceuticals was previously owned by a British/Sudanese investment company engaged in the production of veterinary and human medicines for the past 10 years. Ownership was recently transferred to five shareholders, bringing major developments to the company.

According to East African Pharmaceuticals PLC, given the limited local production, the competition in the market is very limited (Exhibit H12). A significant share of pharmaceuticals demand is currently met through imports, but the Ethiopian government plans to meet at least 50% of market demand through local production. Hence, the government has lined up incentives to investors in this business.

The company has found economic infrastructure such as electricity, water and telecoms as minor obstacles while, it identified customs and trade regulations as representing a moderate obstacle. Currently, it is facing the challenge of attaining its full production capacity. Despite the high cost, availability of skilled manpower is not an obstacle to the company's operation.

Exhibit H12: Business Climate Survey Report: East African Pharmaceuticals PLC

East African Pharmaceuticals PLC		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities			No information		
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
<b>Labor</b>	Courts					
	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.

Business Climate  
Case Study: Rx Africa  
(Ethiopia) PLC

Rx Africa (Ethiopia) PLC, formerly known as Sunshine Pharmaceutical, is engaged in the manufacturing of medicines. In 2007 Rx Africa (Ethiopia) PLC merged with Rx for Africa Inc. The plant was established to manufacture AIDS/HIV, malaria, tuberculosis and other generic drugs. Rx Africa (Ethiopia) PLC is currently producing six generic products for distribution in Ethiopia and plans to increase its product lines and market throughout Ethiopia as well as the rest of Africa.

According to the interview conducted with Rx Africa (Ethiopia) PLC, the company has developed its own means of dealing with economic infrastructure problems like water and electricity. Phone and internet connections are still a concern to the company and have necessitated a reliance on cell phones. Also, the length of time that is required to import raw materials (notably to get imported goods through customs) is considered as a moderate obstacle for the company. Further findings of survey conducted with Rx Africa (Ethiopia) PLC are depicted as follow.

Exhibit H13: Business Climate Survey Report: Rx Africa (Ethiopia) PLC

Rx Africa (Ethiopia) PLC		Level of obstacle				
		None	Minor	Moderate	Major	Very severe
<b>Economic Infrastructure</b>	Electricity					
	Water					
	Telecoms					
<b>Sales and Supplies</b>	Transport/Log					
	Customs/Trade Reg.					
<b>Conditions of Competition</b>	Competition					
	Ability to operate at capacity					
<b>Land and Permits</b>	Buying/Renting land or facilities					
	Ease of constructing facilities					
<b>Security &amp; Finance</b>	Crime, theft, disorder					
	Access to Finance					
<b>Business-Government Relations</b>	Tax rates					
	Tax administration					
	Business licensing and permits					
	Country risk					
	Corruption					
	Courts					
<b>Labor</b>	Labor Regulations					
	Inadequately educated workforce					

Source: Interview by the Project Team.



## CONCLUSION

Ethiopia is significantly under-served in terms of health care.

This Business Landscape Survey of Ethiopia has examined the statistical record, and drawn on interviews with companies with on-the-ground experience of doing business in Ethiopia to compile a picture of investment prospects in this emerging market.

The macroeconomic scan in Part 1 identifies a number of positive features in Ethiopia's macroeconomic performance:

- Strong growth based on an increasingly diversified economy
- Stable non-food price inflation
- More competitive exchange rate
- Increasing exports to a diversified range of markets
- Improved trade balance and balance of payments position
- Stable economic policies and investor protection framework

Indeed, by some metrics, Ethiopia's performance has moved it into the league of major emerging markets.

At the same time, this assessment agrees with the mainstream view concerning two key challenges that Ethiopia must address to sustain its economic performance, namely the high and volatile headline inflation rate, and the negative real interest rates, which generate a broad range of macroeconomic management challenges for the authorities and constrain the growth of the savings needed to fuel Ethiopia's investment. The importance for Ethiopia of reducing the costs of domestic business entry is also highlighted.

The sectoral scan in Part 2 drills deeper into the underlying structural changes that are going on in Ethiopia which are generating the observed bottom-line growth performance. Based on an in-depth assessment of investment prospects in agribusiness, mining/oil & gas, infrastructure, manufacturing, tourism and health services, allows several major conclusions:

- The assessment of the drivers of growth at the sectoral level supports the optimistic sense of economic prospects for Ethiopia based on the macroeconomic scan. Most importantly, Ethiopia's connectivity with the global economy is about to get significantly better, which will create new opportunities across the entire spectrum of economic activity.
- The supply chain opportunities surrounding the core sectoral activities – agricultural processing, mining, infrastructure, tourism, and health also serve to drive the development of manufacturing and an increasingly diverse business services sector.

- The simultaneous development of new opportunities in these various areas also creates synergies for business attracted by opportunities in any one of these sectors.
- The scale of change could well involve production and exports of particular products leaping by orders of magnitude, as the experience of other countries that have successfully gained footholds in global manufacturing attests, and as the specific plans of companies
- The pace of change appears to be accelerating.

While each company must assess the value proposition that Ethiopia poses in light of its own business models and strategic plans, the overall assessment in this scan is that this value proposition is solid and soundly based. Ethiopia's emergence from land-locked isolation and integration into the global economy is deepening and accelerating, a legitimate basis on which to label it Africa's newest "Lion Economy".

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