

# Ethiopia: An Appealing Investment Destination in Africa

By ABDIRASHID Dulane

Since the turn of the 21st century, Africa has achieved robust economic growth, unlike in the period of economic stagnation that affected much of the continent in the 1980s and early 1990s. Although the global economic crisis has had a negative impact on the economies of Africa, the continent has proved resilient and it is expected to grow by 4.5% in 2010 and 5.2% in 2011, slowly returning to its pre-crisis growth pattern, according to the “*African Economic Outlook 2010*” report jointly published by the African Development Bank (AfDB), OECD and UN Economic Commission for Africa (UNECA).

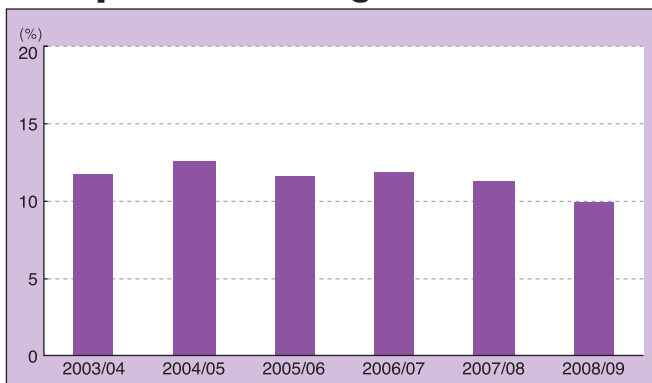
It has therefore become increasingly apparent that Africa will be the next growth pole offering substantial business opportunities. This has also been clearly indicated by a McKinsey Global Institute report, which came out in June 2010 highlighting the progress and potential of African economies. It is because of this fact that the continent is attracting widespread attention from many parts of the world.

## Rapid, Sustainable Economic Growth

Ethiopia is one of the fastest growing non-oil economies in Africa. The country has registered on average 11.5% economic growth for the last six consecutive years. Although the global economic crisis has had an effect on its economy in terms of exports, flow of remittances, food and oil price hikes and so on, the country was able to withstand the crisis and maintain strong growth of 9.9% in 2008/2009. *The Economist* in its world economic forecast for 2010 has listed Ethiopia as the fifth fastest growing economy in the world.

Since the downfall of the Derg dictatorial regime, Ethiopia’s leadership under the Ethiopian People’s Revolutionary Democratic Front (EPRDF) has widely recognized that good governance and democracy are a *sine qua non* for sustainable development. Thus the driving force behind the above-mentioned fast economic growth is a democratic

## Ethiopia’s real GDP growth



Source: Ethiopian Ministry of Finance & Economic Development

Photo: Ethiopian Embassy of Tokyo



*Hidase (Renaissance) Bridge on the Nile River: “a living monument and a symbol of Ethio-Japanese friendship” as called by Prime Minister Meles Zenawi during its inauguration in 2008.*

developmental government seriously committed to defeating poverty by ensuring rapid, sustainable economic growth and development.

The fourth national and regional elections, which were successfully conducted on May 23, 2010, in a peaceful, free, fair and credible manner, clearly attest to that and would undoubtedly give an added impetus to the vision set by the government for the country to march towards its ambitious journey of achieving the UN Millennium Development Goals (MDGs) by 2015 and joining the ranks of middle-income countries by 2020.

Moreover, the Ethiopian government, cognizant of the importance of the role infrastructure plays in spurring the development and expansion of the activities of other crucial sectors in an integrated manner, has undertaken massive investment in building infrastructure to speed up the country’s socioeconomic development. It has also exerted enormous efforts to expand access to social services such as education and health as well as other services with a view to improving the people’s livelihood.

All these measures have resulted in a significant transformation in the development of the country in the last two decades. Ethiopia’s economy has significantly expanded and its GDP at current market prices reached \$35.2 billion in 2008/09. In purchasing power parity (PPP) terms, its GDP has reached \$70 billion, according to Ernst and Young, thus becoming the fifth largest economy in sub-Saharan Africa after South Africa, Nigeria, Angola and Sudan.

It is imperative to also note that Ethiopia is one of the 20 developing countries in the world that are making absolute progress towards meeting the MDGs as has been revealed in a progress report recently published by the Overseas Development Institute (ODI) of Britain.

Ethiopia is an attractive venue for business. The country is endowed with immense natural resources, which undoubtedly offer huge potential for investment in different sectors including agriculture, manufacturing, mining and energy, tourism and other services.



Large-scale commercial farm

## Agricultural Potential

Agriculture is the sector contributing most to the livelihood of the predominant majority of Ethiopia's people. In this connection, the Ethiopian government has put a lot of emphasis in transforming smallholder agricultural production through the provision of appropriate technologies, which has shown remarkable progress in recent years. In addition, to supplement the efforts of smallholder farmers in the lowlands where vast arable land and plentiful water resources are available, the government has been encouraging private investors to participate in large-scale development and commercialization of agriculture by using their capital and technology. Coffee, cereals, oil crops such as sesame, horticultural crops, rice and other food commodities, crops for biofuel production, and cotton production for use in the textile and garment industries, among others, are enticing investment areas for production and value addition (agro-processing) in the sector. Ethiopia, being home to one of the largest livestock populations in the world, also enjoys a comparative advantage in the sector, especially in large-scale animal breeding and meat and meat processing. The government's prioritization of the aforementioned gives an added advantage to investors who venture in these sectors.

## Manufacturing

The industrial sector in Ethiopia is still in its infancy, but it is a sector whose growth is assured by the vast resource base available in the country. With one of the largest livestock concentrations in the world, Ethiopia is fast becoming an attractive hub for the leather and leather-product industries. Finished leather products such as shoes, garments and bags are manufactured by factories while tanneries process finished and semi-processed leather for the domestic and export markets. Ethiopia's Bati and Sellalie types of famed sheepskin are highly sought products in the international market for their high quality. Vast land

Photos: Ethiopian Embassy of Tokyo



Corrugated iron sheet-manufacturing plant

Ethiopian processed leather goods



Gold mining at Lega Dembi, Ethiopia

Tekeze hydroelectric dam, inaugurated in 2009, is one of Ethiopia's several hydropower projects completed recently.

suitable for cotton production and the large trainable and cheap labor force make the garment and textile industries a priority area of investment. Steel/metals, cement, food/beverages and chemicals/chemical products, among others, are important industries for investment.

## Mining & Energy Resources

Ethiopia is rich in mining and energy resources. In mining, geological studies indicate proven deposits of industrial and precious minerals such as tantalum, platinum, gold, quartz, silica sand and iron ore among others and construction materials, including limestone, granite and marble. Among the above, for instance, gold production has been progressing well over the years with a proven reserve estimated at more than 500 tons. Oil and gas exploration has been going on for sometime and natural gas from the fields of Calub in eastern Ethiopia, which have a large proven reserve of natural gas, will hit the market by 2015, according to the Ministry of Mines and Energy of Ethiopia. Enormous opportunities greatly abound for foreign companies to engage in oil, gas and mineral exploration and production activities either individually or in joint ventures.

According to Ethiopian Electric Power Corporation (EEPCo), the country has enormous potential for hydroelectric, geothermal, wind and solar power and has the capacity to generate more than 45,000 MW, 5,000 MW and 10,000 MW of renewable energy from these sources, respectively. With the current installed capacity of 2,000 MW, the country's judicious investment in the various power sources mentioned above will enable it to meet its growing domestic requirement besides satisfying the surging demand of its neighboring countries for power by quintupling the current capacity to 10,000 MW in the next five to 10 years. In this regard, numerous power projects worth billions of dollars are being implemented. Ethiopia has already signed bilateral agreements with Djibouti, Kenya and Sudan to supply electricity to this effect and transmission lines between these countries and Ethiopia are progressing well. Ethiopia's investment policy allows independent power producers to invest in the sector and sell bulk generation to EEPCo. With the country's rich energy resource potential from diverse sources, it is an area worth investing in.

## Tourism

With its historic civilization, eight UNESCO-recognized World Heritage sites, robust archeological locations and awe-inspiring natural beauty with wide varieties of flora and fauna as well as rich and diverse culture, Ethiopia is uniquely placed as an important travel destination in Africa. In addition, its distinct honor and privilege in

Photos: Ethiopian Embassy of Tokyo



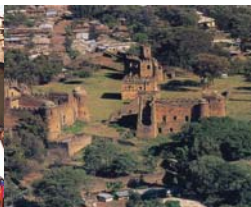
*Axum, the center of 2,000-year-old ancient civilization*



*Lalibela, 12th-century rock-hewn church*



*Harar, the fourth most holiest site of Islam*



*Gondar, home to 17th-century Castle of Fasilades*



*Tis Issat, the source of the Blue Nile*



*Sof Omar Caves, one of the largest cave systems in the world*



*Mt. Arteale, a breath-taking active volcano*



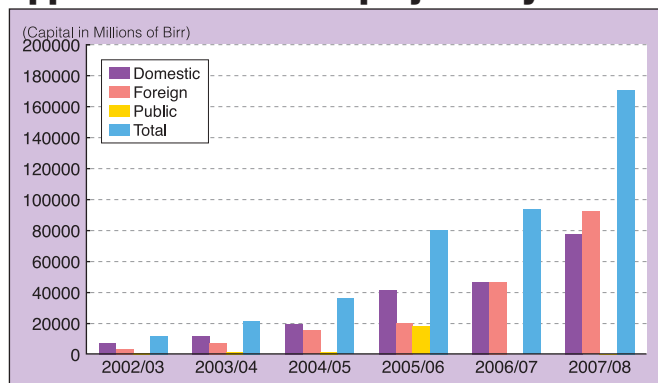
*Lucy, one of our early ancestors making Ethiopia a cradle of humankind*

...serving as the headquarters of the African Union and UNECA, among others, make it an attractive location to establish world-class hotels, restaurants and resorts. In this relation, there are many possibilities for foreign investors to engage in this service sector.

According to the Ethiopian Investment Agency (EIA), the country's investment code provides a multitude of attractive incentives for foreign investors, including tax holidays, duty exemption for capital goods and construction material for establishing new businesses and expanding existing enterprises, and free remittance of funds as well as retention of foreign exchange earnings. Foreign investors are allowed to invest in a broad range of economic activities either in the form of 100% equity ownership or teaming up in joint ventures with domestic partners. The government has also been exerting huge efforts to improve the business environment in the country. In this regard, a number of reform measures have been implemented, with the EIA providing services under a one-stop-shop arrangement and investors getting their investment permit in a matter of few hours.

The surge of both domestic and foreign investment in the country clearly indicates the existence of a favorable business environment. According to data from the National Bank of Ethiopia obtained from the EIA, a total 29,796 domestic investment projects worth 257,535 million

## Capital outlay of approved investment projects by source



Source: Ethiopian Investment Agency

birr (the Ethiopian currency) and a total 4,918 foreign investment projects worth 200,545 million birr were approved by the EIA during the 1992/93-2007/08 period.

Investors in Ethiopia enjoy a variety of opportunities regarding market access for their products. Being a member of the Common Market for Eastern and Southern Africa (COMESA), a regional economic grouping with a total population of around 430 million and exports to and imports from its member states receiving preferential tariff rates, Ethiopia is no doubt a prime investment destination in

Africa. In addition, the country enjoys geographical proximity to the Middle Eastern, Asian and European markets, providing ample opportunities for exports. It also benefits from market access opportunities given through the African Growth and Opportunity Act (AGOA) by the United States, the Everything But Arms (EBA) initiative by the European Union and a generalized system of preferences (GSP) offered by many other countries, including Japan, as well as the aforementioned abundant natural resources and favorable investment environment.

Therefore, it is high time for Japanese businesspeople and entrepreneurs, especially small and medium enterprises and large trading houses interested in the above-mentioned sectors, to benefit from the attractive investment climate and incentives by investing in Ethiopia. The Ethiopian Embassy in Tokyo will be more than happy to respond to any queries by prospective Japanese investors. It is also ready and willing to provide further information to them in their areas of interest.

In conclusion, I would like to express my sincere thanks to the chairman and CEO of the Japan Economic Foundation (JEF), Mr. Noboru Hatakeyama, and the editor-in-chief of *Japan SPOTLIGHT*, Mr. Naoyuki Haraoka, for giving me the opportunity to introduce Ethiopia and highlight the investment potential in the country to the readers of this esteemed magazine. \* **J.S**

\* It is important to note that the executive director of the Ethiopian International Institute for Peace and Development (EIIPD), Hon. Ato Sebhat Nega, made a productive visit on May 23-28, 2010, at the invitation of Mr. Noboru Hatakeyama, JEF chairman and CEO.

During his visit, Hon. Ato Sebhat held discussions with Mr. Hatakeyama on the possibilities of future cooperation between EIIPD and JEF and they agreed to work together on joint research programs and training projects and, to this effect, a memorandum of understanding (MOU) was signed by the two principals on May 26, 2010. The signing of the MOU has been indeed a successful outcome of the visit and laid the basis for the two institutions to cooperate in areas of their mutual interest.

The implementation of the MOU is crucial for further opening up of opportunities not only for close exchanges and cooperation between the two think tanks, but also for enhancing the overall relationship between the two sisterly countries. The posting of today's article introducing my country's investment potentials in *Japan SPOTLIGHT*, a bimonthly publication of JEF, serves as a notable example in this noble undertaking.

*Abdirashid Dulane is Ethiopian ambassador to Japan, also accredited to the Republic of Korea, the Philippines and Indonesia.*