ETHIOPIA: AN OVERVIEW

The Federal Democratic Republic of Ethiopia is one of Africa’s most stable countries, with the lowest levels of crime and corruption among African countries. Adopted in 1995, the country’s constitution delivers a multiparty political system. In the capital city, Addis Ababa, there are a number of global organizations such as the United States Agency for International Development (USAID), the Economic Commission for Africa (ECA), the African Union (AU), a United Nations Development Programme (UNDP) office, and German Agency for Technical Cooperation (GTZ), etc.

Key facts

| Capital city: | Addis Ababa |
| Area: | 1.14 mm km² |
| Population: | 96.96 mm (2014) |
| 0–14 years: | 42.1% |
| 15–64 years: | 54.5% |
| Youth literacy rate (15–24 years): |
| Male: | 63% (2008–2012) |
| Female: | 47% (2008–2012) |
| GDP (nominal): | US$ 55.61 bn (2014) |
| GDP growth: | 10.3% (2014) |
| FDI inflow: | US$ 1.2 bn (2014) |
| Exports: | 11.6% of GDP (2014) |
| Imports: | 29.1% of GDP (2014) |
| Govt. expenditure: | US$ 11 bn (2015 est.) |
| Govt. revenue: | US$ 9.11 bn (2015 est.) |
| Currency: | Ethiopian birr (ETB) |
| Language: | Amharic, Oromiffa, Tigrigna, English (major) |

*Source: EIC, 2015; World Bank, 2015; UN, 2013; CIA, 2016

Ethiopia is the 3rd largest East African and 6th largest Sub-Saharan economy

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP in US$ billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigeria</td>
<td>568.51</td>
</tr>
<tr>
<td>South Africa</td>
<td>350.09</td>
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<tr>
<td>Angola</td>
<td>138.36</td>
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<tr>
<td>Sudan</td>
<td>73.81</td>
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<tr>
<td>Kenya</td>
<td>60.94</td>
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<tr>
<td>Ethiopia</td>
<td>55.61</td>
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<tr>
<td>Tanzania</td>
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<tr>
<td>Ghana</td>
<td>38.62</td>
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<tr>
<td>Côte d’Ivoire</td>
<td>34.25</td>
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<tr>
<td>D R Congo</td>
<td>33.12</td>
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</tbody>
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WHY ETHIOPIA?

Key reasons for and advantages of investing in Ethiopia

- Stable political and economic environment;
- Liberalized economy and security of investment;
- Fertile land and favourable weather conditions;
- Conducive tax environment;
- Trainable labour force;
- Strong natural resource base and good infrastructure standards;
- Strong market with excellent market access;
- An excellent investment policy and government support;
- Huge and increasing global and local demand for spices;
- Sustainable and organic products.

Spices subsector overview

- With 18 major agroecological zones and various agroecological subzones, Ethiopia has a suitable climate for growing more than 146 types of crops and has been producing a number of spices for some time.
- Out of 109 spices, herbs and aromatic plants shortlisted by International Organizations for the Standardization (ISO), the country produces as many as 50, out of which 23 are trading as export items.
- Ethiopia mainly produces ginger, turmeric, cumin, rosemary, cardamom, capsicum, fenugreek, coriander, korarima, Timiz, black pepper, hot pepper, rue, celery and thyme.

Macroeconomy

- For the last 11 years (2004–2014), Ethiopia has registered a significant economic growth of 10.9% on average per year. This economic growth has also been remarkable compared to 5.4% growth estimated for Sub-Saharan African countries in 2014. The growth was mainly attributed to the service sector (51.7%), agricultural sector (21.9%) and industrial sector (26.4%). In 2013/14, per capita GDP (PPP) reached US$ 1500, the inflation rate was 7.4%.

Financial institutions

Ethiopia’s main financial institutions are microfinance institutions, banks and insurance companies.

- There are 17 insurance companies operating in Ethiopia and their branch network reached 332 in 2013/14.
- In 2013/14, the total microfinance institutions in Ethiopia reached 31, their total capital and total assets increased by 24.6% and 38.6%, and reached 5.6 billion birr and 24.5 billion birr, respectively.

Resources and logistics

In Ethiopia, 39% of the total population is educated and the average monthly salary ranges from US$ 85 to US$ 135. With the prior consent of the Ethiopian Investment Commission and under certain conditions, expatriate employees are allowed to hold senior positions. Expatriate specialists are also allowed, provided that the replacement is trained by the investor within a specified period of time. Standard labour disputes are settled by means of the application of the law.

Land

- Ethiopia has 74.3 million hectares of land that can be used for agriculture, and 3.7 million hectares of this land is identified by the government for foreign and local investors to invest.
- Almost 122,700 hectares of land are used for spice farming and spices production is 244,000 tons a year.
- The total capacity for lowland spice farming is estimated to be 200,000 hectares (2014).
- Government provides spices farming land to investors based on the regions’ lease prices.

Air transport

- There are 17 domestic and four international airports in Ethiopia.
- Ethiopian Airlines (EA), a world-class African airline and a Star Alliance member, connects the country to more than 63 destinations worldwide, including 20 destinations in Africa and 26 domestic destinations. EA has an outstanding safety record and it has earned a good international reputation during its 68 years of operation. It is also able to handle perishable products thanks to its modern air cargo terminal complete with cold storage.
Road transport
- Investment in road infrastructure is prioritized.
- Ethiopia’s total road length reached more than 100,000 km of all-weather roads and connected 70% of the rural areas.

Railways and ports
- Ethiopia’s second Growth and Transformation Plan will set up a railway network of 5000 km in total (including the lines already completed and those under construction).
- Ethiopia has access to the Port of Mombasa in the south, Port Sudan in the north-west and the Port of Berbera in the east. Other export and import cargo hubs include the inland dry ports at Semara and Mojo.

Telecommunication
- Satellite, microwave, ultra-high frequency (UHF), very small aperture terminal (VSAT) and digital radio multi-access system (DMAS) link all local cities and there are automatic telephone services in several smaller towns.
- International communications links are maintained through two satellite Earth stations, providing telephone, Internet, telex, fax and TV services, digital data transmission, pre- and post-paid cellular phones and coin booth services.

Electricity supply
- Ethiopia has promising geothermal and enormous hydropower energy resources.
- Electricity generation is anticipated to reach as much as 10,000 MW by 2017 from the current 2000 MW.
- Ethiopia has more than 45,000 MW of hydropower, 5000 MW of geothermal energy and 10,000 MW of wind energy potential.

Water availability
- Ethiopia has a great ground water and run-off potential.
- Ethiopia has 2.6 billion cubic metres of ground water and 122 billion cubic metres of surface water, which can easily be used for irrigation.

Conducive tax environment
- Tax on profit (corporate income tax) is 30%.
- A minimum of 10% excise tax is imposed on certain imported or local products.
- Priority sectors’ turnover tax is 2% and for other sectors it is 10%.
- Customs duty on unexempted imports varies between 0% and 35%.
- Income tax varies between 10% and 35% on monthly earnings of US$ 8.57/180 birr and more.
- Withholding tax is applied to imports at 3% of cost, freight and insurance.
- 15% VAT is applicable to companies with a turnover of more than US$ 54,000.
- Dividend tax is 10%.
- Royalty tax is 5%.
- Capital gains tax – business, buildings and factory, 15%; share of companies, 30%.

Major market access
- Ethiopia’s nearness and strategic location to Europe, Africa, Asia and the Middle East creates a wide global market opportunity for the country.
- Ethiopia’s large population (96.96 million) creates a strong and sustainable internal market.
- Ethiopia has access to global markets under the Everything But Arms (EBA) initiative, the Africa Growth and Opportunity Act (AGOA), the East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA).

Government support for spices subsector
- To promote private investment, the Government of Ethiopia has created an incentives package under Regulations No. 84/2003 for investors involved in expansions and new endeavours in various sectors, including the spices subsector.
- Incentives are offered to domestic and foreign investors alike and the regulations do not show prejudice between a domestic and foreign investor or between the different nationalities of foreign investors.
- Incentives that both domestic and foreign investors can benefit from are a one-stop shop service, income tax exemption, customs duty exemption, remittance of funds, loss carry forward, investment guarantee and protection, cost of land, and utilities and taxation.

Legal and regulatory framework
- The 1960 Commercial Code (under amendment) offers the legal framework for commencing business endeavours in Ethiopia. In compliance with article 40, the constitution guarantees every citizen’s entitlement to own private property, with the right to purchase, utilize and transfer such property (Ethiopian Investment Commission, 2015).
- The investment proclamation (769/2012) allows foreign investors to purchase a dwelling house and other fixed property needed for this investment. Through this investment proclamation, investors are guaranteed against nationalization or expropriation, and the proclamation details advance payment of compensation “corresponding to the prevailing market value” of a private property reserved for nationalization or expropriation for the benefit of the public.
INVESTMENT OPPORTUNITIES

There are several avenues open for investment in the Ethiopian spices sector, as its population of 96.96 million constitutes one of Africa’s biggest markets for spices, apart from the international market requirements. Accordingly, an increasing number of market participants (buyers, traders, oleoresin extraction companies and pharmaceutical manufacturers, etc.) are finding it attractive to operate in Ethiopia. Given the domestic consumption and export potential, investors might consider the following investment options.

Primary production

There is opportunity to expand spices production in Ethiopia. While there are 122,700 hectares of land currently under spice cultivation, the potential for lowland spices farming can reach up to 200,000 hectares. Ethiopian conditions are suitable to grow 6,000 vascular plant species, out of which 12% are endemic. The government is keen to promote FDI-initiated commercial farming, with spices farming land provided to investors based on the regions’ lease prices, and foreign investors are encouraged to invest in the spices sector sole proprietors with total equity ownership.

Contract farming and outgrower schemes

Investors could also consider participating in production through contract farming or an outgrower scheme. There are about five million smallholder farmers already involved in spice production, and some companies, such as Nati Coffee and Spices PLC and Bebeka Coffee Estate S.C. are practicing both direct farming and contract farming. The government is also keen to promote contract farming to link smallholder farmers with markets. Investors who work with outgrowers are provided with different types of support from the government, such as awareness creation training for farmers, technical support by the agricultural extension workers, introducing to the farmers new varieties of crops and technologies that are produced by local research centres, and political support in terms of guarantee for investment and local market access.

Value –added processing

While there are few spices processing companies operating in the country, there is ample scope for absorbing new entrants. Investors may consider engaging in spices milling, extracting and packing, which are still underinvested in the country. Processed spices products could be further used in the food industry and pharmaceutical industry. Some companies, such as ZAF Pharmaceuticals PLC, Faffa Food Share Company, and Bale Green Spice and Grain Development PLC, are operating in the country, but the untapped potential is still very high.

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