



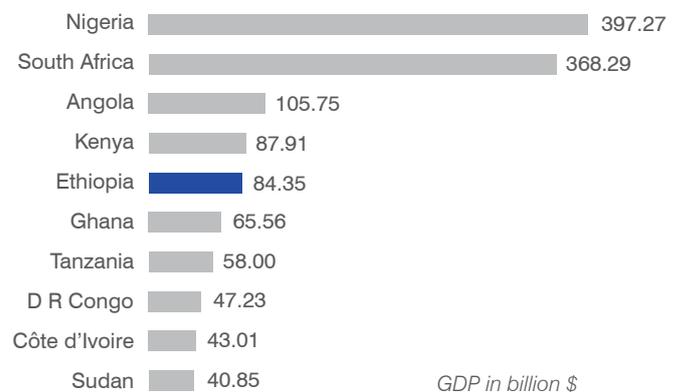
## ETHIOPIA: AN OVERVIEW

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 km <sup>2</sup>
Population:	109.22 million (2019)
	0-14 years: 40%
	15-64 years: 56%
Literacy rate (age 15 and over)	
	Male: 59% (2017)
	Female: 44% (2017)
GDP (current USD)	US\$ 84.35 bn (2018)
GDP growth:	9% (2018/19)
FDI inflow:	US\$ 3 billion (2018/19)
Exports:	2.8% of GDP (2018/19)
Imports:	15.8% of GDP (2018/19)
Govt. expenditure:	US\$ 16.5 billion (2018/19 revised)
Govt. revenue:	US\$ 11.8 billion (2018/19 revised)
Currency:	Ethiopian birr (ETB)
Language:	Amharic, Oromiffa, Tigrigna, English (major)

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

### Ethiopia is the 2<sup>nd</sup> largest East African and 5<sup>th</sup> largest Sub-Saharan economy



Source: World Bank, 2018



## 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

- Ethiopia is now among the fastest growing economies in the world, experiencing rapid and sustainable economic growth. Ethiopia's economy experienced strong, broad-based growth averaging 10.3% a year from 2006/07 to 2016/17, compared to a regional average of 5.4%. Mainly driven by public investments in agriculture and infrastructure, the Ethiopian economy has more than tripled in size since 2003. The Ethiopian economy has recorded 9% growth in 2018/19, faster than the 7.7% expansion in the previous year. This growth was attributed to 12.6% growth in industrial output, 11% increase in service sector and 3.3% expansion in agriculture..

### Financial institutions

The major financial institutions operating in Ethiopia are banks, insurance companies and microfinance institutions.

- Ethiopia has 18 commercial banks (two of them government-owned), 17 insurance companies, and 38 microfinance institutions. There are 17 insurance companies operating in Ethiopia and their branch network reached 332 in 2013/14.

- Access to financial services improved substantially in the last years. In 2018/19, banks opened 807 new branches thereby raising the total number of branches to 5564 (roughly 35% are in Addis Ababa) from 4757 a year earlier. As a result, one bank branch serves about 17 thousand people. Total capital of the banking industry increased by 18.4% and reached ETB 101.5 billion by the end of June 2019 (NBE, 2019).

### Resources and logistics

Ethiopia's demographic feature can be characterized by a young boom population, which indicates the existence of a huge labour force opportunity in the country, which was measured at 51.45 million in 2017

Monthly average wage (2018): Unskilled: US\$40;  
Semi-Skilled: US\$150; Skilled: US\$300

### 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..
- 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.
- In the 2017/18 fiscal year, Ethiopian Airlines transported 10.6 million passengers, 400,339 tons of cargo, and generated a US\$3.2 billion revenue with a total net profit of about US \$233 million (6.8 billion Birr). Further, Ethiopian Airlines opened eight new international and two local destinations, increasing its total flight destinations to 115 (Ethiopian Airlines, 2018).



## Road transport

- Investment in road infrastructure is prioritized.
- Major public investments led to a steady improvement of the road network over the last years. During 2018/19, total road network reached 138,127 Km, depicting 9% annual growth.

## Railways and ports

- As a landlocked country, Ethiopia has no direct access to seaports and the port of Djibouti serves as the primary gateway for 90% to 95% of its internationally traded goods.
- Under the National Logistics Development (NLD) strategy, which was incorporated into GTP II, the government plans to expand its railway network to roughly 1,545 kilometres to link all major dry ports and towns of the country. A 656 kilometres railway network construction project linking the capital Addis Ababa to the port of Djibouti began commercial operations in mid- 2018.

## 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.
- During 2018/19, total telecom subscribers reached 43.6 million depicting 5.6% growth over last year as the number of mobile voice subscribers rose by 5.3% while that of internet and data subscribers and fixed voice service subscribers surged by 26.4% and 8.4%, respectively. Of the total subscribers, mobile voice constituted 42 million (96.1%) followed by fixed voice service (1 million or 2.8%) and internet and data (502 thousand or 1.2%) (NBE, 2019).

## Electricity supply

- The country has an estimated hydro-power potential of 45,000 MW, geothermal 10,000 MW and wind farm 1.3 million MW.
- The country's generating capacity is largely based on hydropower reservoirs as nine of its major rivers are suitable for hydroelectric power generation.
- The amount of electric power generated during 2018/19 was about 13.8 billion KWH, which was slightly lower than that of last year. Of the total electric power production, 95.5% was generated from hydropower, 4.2% from wind and 0.3% from biomass sources.

## Water availability

- About 93% of Ethiopia's water withdrawals are for agricultural use, much higher than the global average of 70%, which represent only about 4% of Ethiopia's total available renewable water resources.
  - During 2018/19, the proportion of people having access to potable water supply improved by 4.8% point to 76% (79% rural and 66% urban population); from the 71% (74% rural and 60% urban people) coverage the year before.

## Conducive tax environment

- Tax on profit (corporate income tax) is 30%.
- Excise tax ranges from 5% to 500% depending on type of goods.
- Turnover tax is 2% on goods and 10% on taxes.
- VAT is charged at 15%.
- Employment income tax is levied at a progressive rate from 10% to 35%.
- Withholding tax is applied at 2% on domestic transactions and 30% on suppliers without tax identification number (TIN) and business license.

## 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 (109.22 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 109.22 million 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 Bebeke 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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