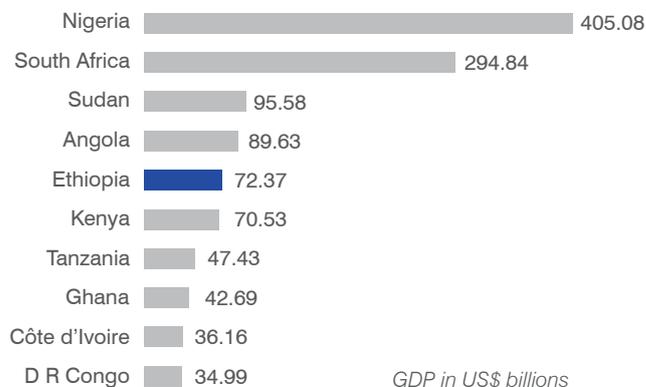


### ETHIOPIA: AN OVERVIEW

The Federal Democratic Republic of Ethiopia, Africa's second most populous country, has the fastest growing economy in the region and one of the fastest in the world. The economy has experienced broad-based growth assisted through public and private investment, though manufacturing sector performance has been relatively modest. The World Bank forecasts continued growth between 7.5% and 8.3% to 2019.

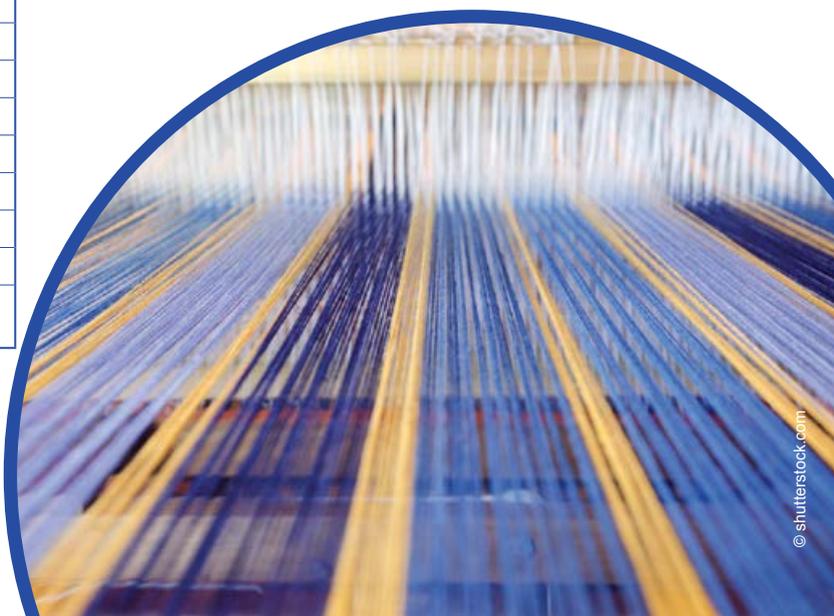
**Ethiopia is the largest East African and 5<sup>th</sup> largest Sub-Saharan economy**



\*Source: World Bank, 2016

Key facts	
Capital city:	Addis Ababa
Area:	1.14 mm km <sup>2</sup>
Population:	99.96 mm (2015)
0–14 years:	41.44% (2015)
15–64 years:	55.08% (2015)
Youth literacy rate (15–24 years):	
Male:	71.13% (2015)
Female:	67.82% (2015)
GDP (nominal):	US\$ 61.54 bn (2015)
GDP growth:	10.8% average (2003/4 - 2014/15)
FDI inflow:	US\$ 2.17 bn (2015)
Exports:	9.8% of GDP (2015)
Imports:	27.3% of GDP (2015)
Govt. expenditure:	US\$ 20.2 bn (2015-16 est.)
Govt. revenue:	US\$ 16.3 bn (2015-16 est.)
Currency:	Ethiopian birr (ETB)
Language:	Amharic, Oromiffa, Tigrigna, English (major)

\*Source: EIC, 2016; World Bank, 2015; UN, 2015; CIA, 2017



## WHY ETHIOPIA?

- Strong potential for the development of a competitive textiles and cotton industry thanks to favourable soil and climatic conditions, as well as affordable hydro-energy.
- Duty-free access to the EU and US markets through the Everything But Arms initiative and the African Growth and Opportunity Act.
- Strong export performance: Ethiopia's garment and apparel industry grew an average of 51% over the last six years, with the UK accounting for 10% of Ethiopia's textile and garment exports, other European countries taking 50% and the USA taking 40%.
- Since 1992, international investors have licensed more than 65 textile investment projects in Ethiopia, with retailers like H&M and Primark already sourcing clothing from the country.

### Raw material scenario

Cotton is grown under rain-fed (small-holder farms) and irrigated (large-scale commercial farms) conditions in Ethiopia. The production methods vary considerably between the two types. There is vast potential to increase the production of cotton under both conditions in Ethiopia which has approximately 3,000,810 ha of land available for growing cotton.

The total consumption of cotton by Ethiopia's factories is around 111,081 tons of lint cotton annually at full production. Since there are no cotton grading and classification systems in Ethiopia, lint cotton is marketed at similar prices for all quality grades.

### Manufacturing value chain

- **Ginning:**  
There are 31 ginners with an installed ginning capacity of 106,164 tons of lint cotton, and 37,300 tons of lint cotton attained annual capacity, translating to 35% of the installed capacity.
- **Textiles:**  
There are 122 textile and garment factories, including ginning, spinning, weaving and knitting, and integrated and traditional clothing-making companies. There are 21 ginning, 3 spinning, 18 weaving and knitting mills, 13 integrated, 60 garment and 7 traditional handloom companies.
- **Apparel:**  
The installed capacity of each section of the sector is 72 million kilograms of yarn, 122 million metres of woven fabric, 30 million kilograms of knitted fabric, 18 million kilograms of processed knitted fabric, 49 million metres of finished woven fabric, 62 million pieces of knitted garments and 18 million pieces of woven garments. The capacity utilization ranges from 45% to 70% and the industry's average utilization is 58%.

### Business environment

#### LEGAL AND REGULATORY FRAMEWORK

- The Ethiopian Investment Commission approves and issues investment permits.
- The Ethiopian Industrial Park Development Corporation is mandated to develop and operate a wide range of industrial parks. It serves as an industrial park land bank, develops industrial parks and hands over land to private industrial park developers through leases or subleases, and sells or rents shades.

### Global and regional market access

Global and regional market access	
Market access under	Markets
African Growth and Opportunity Act (AGOA)	United States (3 <sup>rd</sup> country fabric provision)
Everything But Arms (EBA)	European Union
Northern Corridor Transit and Transport Coordination Authority (NCTTCA)	Burundi, Kenya, Uganda, Rwanda, the Democratic Republic of the Congo and South Sudan
Cotonou Agreement (ACP-EU)	European Union
East African Community (EAC)	Burundi, Rwanda, Kenya, the United Republic of Tanzania and Uganda
Common Market for Eastern and Southern Africa (COMESA)	Burundi, Kenya, Comoros, the Democratic Republic of the Congo, Egypt, Djibouti, Eritrea, Libya, Sudan, Madagascar, Malawi, Mauritius, Rwanda, Swaziland, Uganda, Zambia, Seychelles and Zimbabwe
Tripartite Free Trade Area (TFTA) between EAC, COMESA and Southern African Development Community (SADC)	Regional markets, including South Africa

## LOGISTICS AND CONNECTIVITY

- Due to the fact that Ethiopia is land-linked, it makes use of the Port of Berbera (Somalia) and the Port of Djibouti (Djibouti);
- The international airports are Addis Ababa Bole International Airport, Dire Dawa International Airport, Mekelle Alula Aba Nega International Airport and Bahir Dar Ginbot 20 International Airport.
- Ethiopia Railways has a number of projects underway, with the eventual intent to create a 5000 km network servicing every corner of the country. The main priority is to link Addis Abba and Djibouti's main port, and this is nearing completion and will soon start operation (681 km of this 781 km-long line falls within Ethiopia).
- Ethiopia has a road network of 60,466 km.

## MANPOWER SCENARIO

- There is abundant availability of a relatively well-educated labour force (more than 43 million workers).
- Wage rates: Unskilled worker – US\$ 40 to US\$ 50; semi-skilled worker – US\$ 45 to US\$ 60; skilled worker – US\$ 60 to US\$ 80.

## POWER SCENARIO

- Total installed electricity generating capacity is anticipated to be 17,000 MW by 2020 (Ethiopian Electric Power Corporation).
- Power production in Ethiopia has progressively increased during the last 10 years, mainly from clean hydropower energy. Ethiopia has the second largest hydropower potential in Africa (Deloitte, 2014).
- The average power cost in Ethiopia is 3 US cents/kWh.

## GOVERNMENT SUPPORT FOR CTA SECTOR

- Except for a few products (such as semi-processed skins and hides), there is no export tax imposed on Ethiopia's export products.
- There is a duty drawback scheme to incentivise export-orientated production. When the finished goods are exported, duties and other taxes paid are drawn back 100%.
- Voucher scheme: A voucher scheme is utilized in lieu of taxes and duties payable on raw material imports.
- Bonded factory and manufacturing warehouse schemes are available.
- Exporters can retain as much as 20% of their foreign exchange earnings for future use. The National Bank of Ethiopia imposes no export price control.
- Franco valuta raw material imports are allowed for enterprises involved in export processing.
- An export credit guarantee scheme is available to mitigate risk of customer defaults and thereby facilitate competitive pricing.

## Banking sector

There are 17 banks in Ethiopia. Of these, 16 are privately owned.

There has been improved access to financial services and, in 2016, the total number of bank branches reached 3,187 (roughly 34% of these branches are in Addis Ababa). This brings the ratio of population to bank branches to 28,932. The banking system's total capital is ETB 43.1 billion (US\$ 1.9 billion in 2016). Of this, private banks comprise 51.1% (African Economic Outlook, 2017).

The Commercial Bank of Ethiopia is the state-owned bank and accounts for 31.5% of total capital in the banking system. The banking sector in Ethiopia is stable and sound, and the system-wide capital adequacy ratio is 15%. Return on equity and return on assets displayed strong performance, at 44.2% and 2.8% respectively (African Economic Outlook, 2017).

Banks' loan portfolios are also good and the ratio of non-performing debt is less than the 5% target, at roughly 3.5% (African Economic Outlook, 2017). There has been strong growth in deposits and the share of time and savings deposits in overall deposits has increased. Nevertheless, the financial system does not offer a full range of services.

The financial sector is not open to foreign participation and there are no capital markets. Lending is mostly collateral-based and most small entrepreneurs lack the necessary collateral.

## Other advantages

Cotton, textile and apparel sector investors in Ethiopia can benefit from:

- Ethiopia is Africa's oldest independent country and one of the continent's most stable countries.
- The constitution and investment law protect private property. Foreign investors can make convertible foreign currency remittances out of Ethiopia at the current exchange rate. Ethiopia is a member of the World Intellectual Property Organization and the Multilateral Investment Guarantee Agency, which is a World Bank affiliate that guarantees against non-commercial risks in member countries.
- Ethiopia's economy is experiencing rapid growth and is forecast to continue on this trajectory.



## INVESTMENT OPPORTUNITIES

### ▪ Apparel manufacturing:

This is the most attractive investment option for global investors due to the duty free advantage under AGOA and to other major markets. Ethiopia has well-developed export channels and infrastructure.

### ▪ Textile (yarns and fabrics) manufacturing:

Ethiopia is an attractive destination for textile investments across four main production areas: spinning; knitting and weaving; finishing and garmenting. This will help satisfy the growing domestic and regional demand for a variety of products, including yarn (cotton yarn; polyester blended yarn), grey knitted and woven fabric, finished fabrics (bottom weights; workwear; knits and uniforms; printed sheeting) and ready-made items (curtains; terry towels; blankets; mosquito nets).

### ▪ Apparel accessories:

East Africa's apparel exports are increasing, but there is little production of apparel accessories like labels, buttons, zippers and hooks, etc. An investment targeted at manufacturing and import substitution of such items is a good proposition.

### ▪ Services:

With growing production of apparel- and textile-manufacturing factories, opportunities will arise to provide associated services like testing and buying houses, technical consultancy, brokerage services, export marketing and training, etc.



## KEY CONTACTS

### Ethiopian Investment Commission

Tel: +251 115 510 033

E-mail: [ethioinvest@investethiopia.gov.et](mailto:ethioinvest@investethiopia.gov.et)

Web: [www.investethiopia.gov.et](http://www.investethiopia.gov.et)

### Ethiopian Textile and Garment Manufacturers' Association

Tel: +251 115 576 002

E-mail: [ageazi.etgama@gmail.com](mailto:ageazi.etgama@gmail.com)