



EUBFE
Business Climate Report
2021





Co-funded by the European Union



This report is supported by the Investment Climate Reform (ICR) Facility. The ICR Facility is co-funded by the European Union (EU), the Organisation of African, Caribbean and Pacific States (OACPS) under the 11th European Development Fund (EDF), the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. The ICR Facility is implemented by GIZ, the British Council, Expertise France, and SNV. This specific intervention is led by GIZ and Stephen Batstone and Wendwesson Shewarega on behalf of GFA Consulting Group GmbH.

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Foreword

It is my great pleasure to have been part of the taskforce of that has realized this key milestone of developing the very first annual EU Business Forum business climate report. I would like to extend my sincere appreciation to all our partners and members who contributed to this exercise with pertinent data. In this regard, special thanks goes to EUBFE, ENLBA and CAFÉ members, Ministries of Revenues, Trade & Industry, Innovation and Technology, Agriculture as well as Customs Commission, National Bank of Ethiopia and the Ethiopian Investment Commission.

2021 has been quite a difficult year to do business across the globe as well in Ethiopia. The unprecedented challenges posed by the covid-19 pandemic had cast a negative impact on the Ethiopian business climate with losses in revenues and logistical difficulties being some manifestations of the difficulties companies experienced. The devastating conflict in the North of Ethiopia has further exacerbated the challenges our members are facing but most importantly has brought about significant suffering and destruction to Ethiopia.

The EU Business Forum revised its strategic plan in 2020, to reposition itself as key partner in policy advocacy in Ethiopia and enshrining it into its mission as “become the partner of choice for Ethiopian government for policy engagement and become the leading foreign investor association in Ethiopia”. Moreover, its revised vision also intends to see Ethiopia become the preferred market for European FDI in Africa.

Conducting high quality empirical studies that provide clear policy recommendations have been indicated in the strategic plan as key towards attaining such lofty vision and mission of EUBFE. It is with this backdrop that EUBFE set about conducting its maiden business climate report 2021. This is the start of periodic reports of this configuration that would make up the basis of our policy advocacy engagements going forward.

For this report, we were able to collect survey data from more than 80 member companies, conduct in-depth interviews with 10 more CEOs as well as complement this data with additional documentary and interview with seven ministries, the national bank



and two commissions. Such a rich data set has enabled us to analyze and empirically posit recommendations that are realistic and relevant. Two consultative workshops held on the draft findings of the report with all stakeholders have further validated the outcomes.

When reading the report, please note that the survey data was collected during the summer of 2021 and statistical trends reported in the section on recent key developments in the Ethiopian economy relate to data from the first half of 2021. The trend data in particular becomes less reliable as a result of the dynamic the security situation and the impacts this is having on the economy. It serves as a useful reminder

of how quickly situations can change in business, and the need for ongoing dialogue to address emerging concerns and issues. We are deeply dismayed by what's happening to Ethiopia, the beautiful country that we are very proud and honored to have invested and continue to invest in. We hope and wish for a swift resolution to the unfortunate conflict. Needless to say, we remain committed to supporting the healing and reconstruction process going forward.

We do note that the most important step is what will be made out of the finding of this report. In this connection, we have put in place a plan that will unpack each recommendation driven out of this report to conduct deep dive studies (as needed) and devise policy recommendations together with our public sector counterparts. Our public sector counterparts have shown commendable readiness to accommodate the proposed solutions that emanate out this study as well as subsequent similar ones.

In conclusion, I would like to take this opportunity to also thank the Investment Climate Reform Facility (ICR), GIZ and the EU delegation for supporting and financing this study. Sincere appreciation goes to experts who worked on this project, Stephen Bastone and Wendwessen Shewarega as well as the EUBFE executive director Nahom F. Abraham.

I wish you insightful readings!

Ben Depraetere
Board Chairman EUBFE

Executive summary

This EUBFE business climate report is based on a survey of more than 80 European businesses with operations in Ethiopia, conducted in mid-2021. It was commissioned and managed by EUBFE, and supported by the French (CAFE) and Dutch (ENLBA) Ethiopian Business Associations.

The report provides an up-to-date assessment of the Ethiopian business environment and investment climate by the international business community,

with clear evidence on what the active international business community think about their Ethiopian investments as of mid-2021, and how they view prospects for future development.

It provides the basis for EUBFE to identify specific areas where further improvements in economic policy development and implementation are required, and where EUBFE can support processes of effective public private dialogue.

Key economic issues faced by the international business community include:

- » Slowdown of economic growth during 2020 and into 2021
- » Declining share of foreign direct investment in GDP
- » Rising levels of inflation over projected targets
- » Devaluation of the official exchange rate
- » Covid-19 induced supply chain disruptions
- » Delayed implementation of important economic reforms
- » Risks of low investor confidence
- » Security situation and conflict in the North

EU-Ethiopia Business Partnership

EU-Ethiopia Trade

€ 2,135 m

total value of EU-Ethiopia trade in goods in 2020

EU was the 3rd most important Ethiopian global partner accounting for more than **10%** of all exports, imports and total trade in goods in 2020

↑ **5%**

growth in goods exports from Ethiopia to EU between 2019-2020

↑ **232%**

growth in value of goods exports from EU to Ethiopia between 2010-2020

↑ **186%**

growth in value of total EU-Ethiopia trade in goods between 2010-2020

Top 3 HS sectors for exports from Ethiopia to EU in 2020



Vegetable products (including flowers)



Textiles and textile articles



Foodstuffs, beverages, tobacco

Top 3 HS sectors for imports from EU to Ethiopia in 2020



Machinery and appliances



Transport equipment



Products of the chemical or allied industries

Foreign Direct Investment (FDI)



50 billion ETB

EIC estimate of FDI Inflow to Ethiopia from Europe in 2020



Job creation

EIC estimates almost **3,000 permanent** and **1,000 temporary** jobs created through FDI in 2020

EUBFE member contributions to Ethiopian Economy



\$4bn+

EUBFE member capital investments in Ethiopia



60,000

jobs created directly and indirectly by EUBFE members in Ethiopia



5bn+ETB

EUBFE member tax contributions 2018-19

Key survey findings amongst international businesses operating in Ethiopia include:

- » The level of overall positive perception of the business climate is disappointingly low
- » Despite this, future prospects for turnover and investment are assessed positively
- » Being an international business is viewed as a significant contributory factor towards business success in Ethiopia
- » Five main keys to unlock business competitiveness were identified: staff development and training; improving cost efficiency; collaborating with customers; Improving sales competence; and enhancing brand awareness
- » Forex consistently emerges as one of the core problems facing international businesses
- » Regulatory burdens, inefficient infrastructure, and a worsening security situation are also identified as key problems

Key policy developments during 2020-2021:

- » The pace of reform remains high, but the effectiveness of implementation is less clear
- » The Homegrown Economic Reform Agenda continues to provide a key strategic platform for addressing specific business barriers and sectoral concerns
- » The new national 10-Year Perspective Development Plan sets sectoral priorities, and includes a specific role for public-private dialogue and consultation
- » The Investment Proclamation has opened up new sectors for foreign business activity
- » The role and mandate of the Ethiopian Investment Commission has been strengthened through the Investment Proclamation, though quality of service delivery can still be improved
- » Businesses want to see an effective investment and tax grievance handling procedure developed
- » Digitalisation and e-Government is reforming service delivery, with development of a Single Window Online Portal and online support to trade, licensing and registration, taxation
- » Businesses see the Single Window Online Portal as the most important service delivery channel
- » The new Digital Ethiopia 2025 strategy provides a framework for further development of e-Government services

Key recommendations



Main Challenges

- » Financial sector
- » Customs and tariff
- » Audit and taxation
- » Predictability of the business climate
- » Post-investment
- » Labour market
- » Licenses, permits and approval



Main Tasks

- » Improve access to Forex
- » Reduce customs clearance administrative procedures and checks
- » Improve auditing and tax appeal procedures
- » Improve the security situation, critical business infrastructure, and government interaction with international business
- » Improve PPD for better business engagement with Government
- » Create a better match between education and training provision and sectoral skills needs
- » Continued administrative simplification, supported by improved administrative guidance to business on required licenses and processes

The specific recommendations are further developed in the final chapter of the report.

Recent key developments in the Ethiopian economy

Key issues:

- » Slowdown of economic growth during 2020 and into 2021
- » Declining share of foreign direct investment in GDP
- » Rising levels of inflation over projected targets
- » Devaluation of the official exchange rate
- » Covid-19 induced supply chain disruptions
- » Delayed implementation of important economic reforms
- » Risks of low investor confidence
- » Security situation and Tigray conflict

Despite various economic policy reforms over recent years, economic growth had gradually slowed in Ethiopia in the period since 2010 from over 10% at the start of the decade, to less than 8% in 2018 just prior to the renewed focus on economic reforms introduced by Prime Minister Abiy Ahmed.

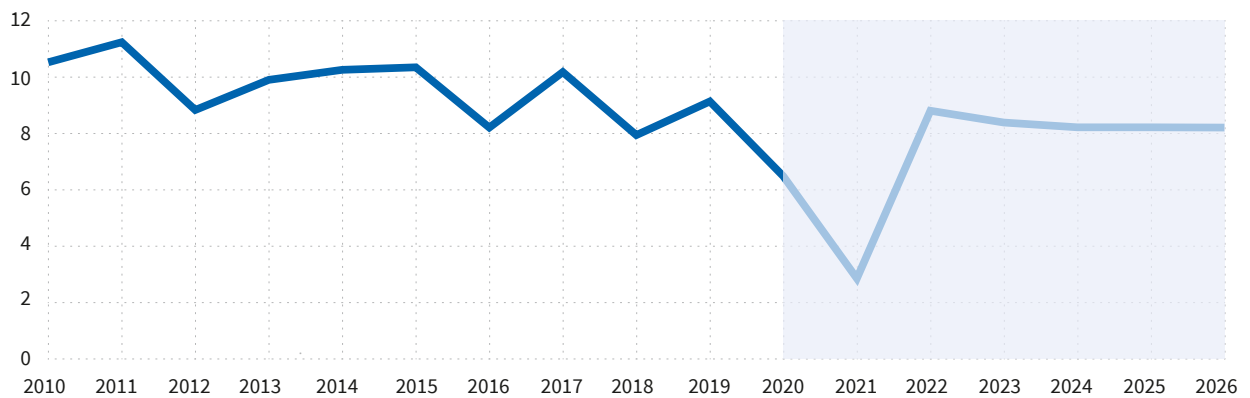
There had been a slight upturn in economic growth during 2019 at the start of the new Prime Minister's leadership of the country, prior to the declines that coincided with impacts of Covid-19.

During 2020 there was a marked slowdown in growth of Ethiopia's economy. Whilst the economy grew by 9.0% in 2019¹, this

reduced to growth of 6.1% in 2020 with continuing decline into 2021. This reduction is not surprising, given the impacts of the COVID-19 pandemic, especially on the hospitality, transport, and communications sectors. As of April 2021, growth was expected to rebound coming out of 2021, returning to around 8% year on year growth.

1 IMF World Economic Outlook figures for expenditure-based GDP, with annual percentage change in constant prices

Figure 01: Annual % Change in Gross Domestic Product (constant prices)



» **Source:** IMF World Economic Outlook database, April 2021, projections shown from 2020

These projections currently look very optimistic in view of the current situation in the country, and should be treated with caution.

Overall levels of total investment in Ethiopia² have remained flat over recent years and are not projected to increase significantly in the period through to 2026.

Expected GDP growth from 2022 onwards

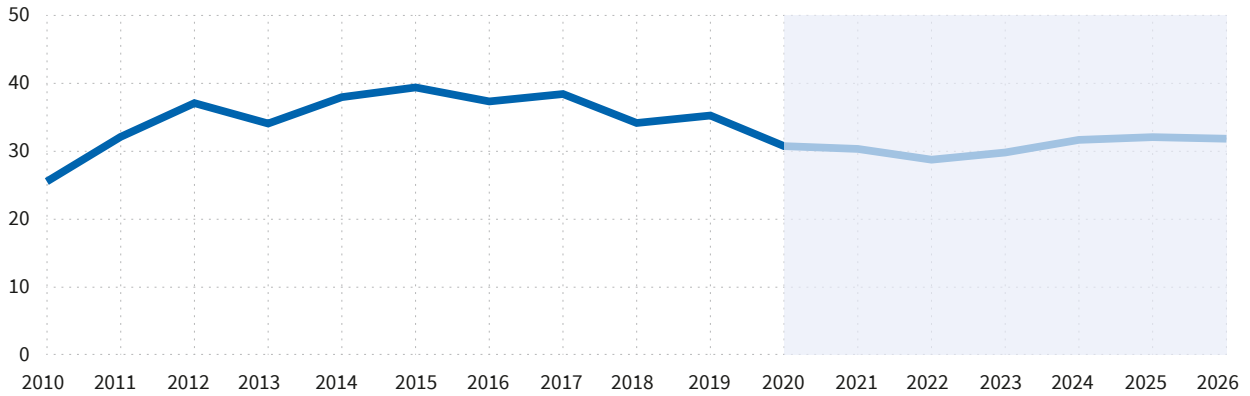
+8.0%

year-on-year growth.

< 8.0%
in 2018
▲ 9.0%
in 2019
▼ 6.1%
in 2020

² Expressed as a ratio of total investment in current local currency and GDP in current local currency.

Figure 02: Total Investment (% of GDP)



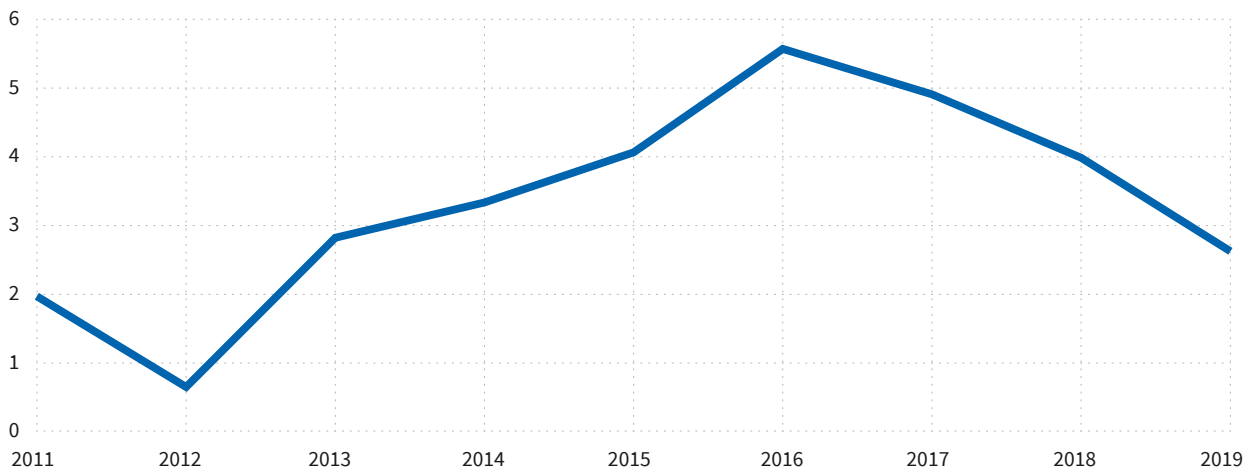
» Source: IMF World Economic Outlook database, April 2021

During 2020 there was a significant decline in foreign direct investment (FDI), which fell 20% to 2.2% of GDP according to the African

Development Bank, whilst personal remittances that account for 5.3% of GDP had also declined by 10%. World Bank data shows a trend of

declining FDI in share of GDP that started in 2016, and Covid-19 has simply sharpened this.

Figure 03: Net Inflows of Foreign Direct Investment as % of GDP



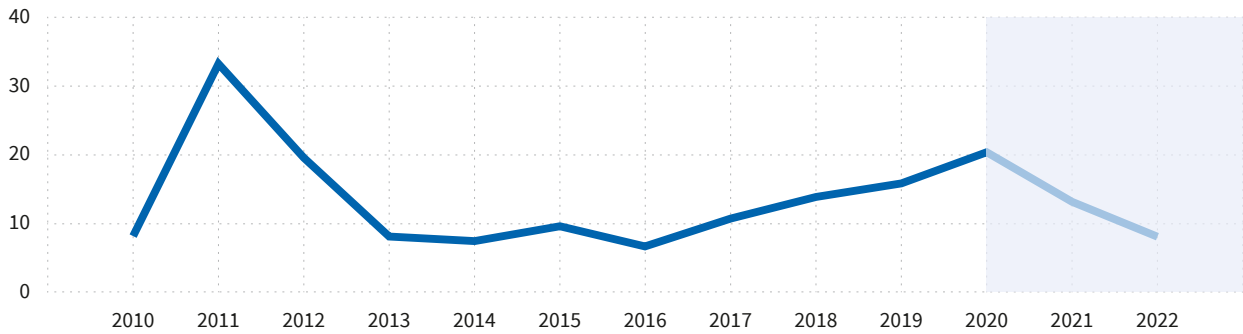
» Source: World Bank World Development Indicators

Supply chain disruptions and expansionary monetary policy, largely resulting from Covid-19,

have led to recent increases in inflation. In 2020 this reached 20.6%, well above the 8% official target.

The official exchange rate was devalued by around 8% to 35.0 birr per US dollar in November 2020,

Figure 04: Annual percentage year-on-year changes in average consumer prices



» **Source:** IMF World Economic Outlook database, April 2021

leading to an increase in export revenues of 12% and decline of imports by 8.1% in 2020. This reduced the current account deficit from 5.3% in 2019 to 4.4% in 2020 from 5.3% in 2019. The structural external imbalances were a cause of slowing the rate of economic growth, job creation and poverty alleviation in Ethiopia that resulted in a foreign exchange (Forex) constraint.

Longer term economic growth and macroeconomic balance requires increasing levels of export, and diversification of the economy. International businesses in Ethiopia are well placed to support this drive. Current issues with Forex, however, are a significant source of current business problems for the European business community, both in terms of imports of supplies for production, and in processing exports. In this respect, it will be interesting to observe impacts over the next year of the March

Official exchange rate was devaluated in 2020

To 35 birr

per US \$

Leading to

▲ **12.0%**

increase in export revenues

▼ **8.1%**

decline of imports

2021 Directive from National Bank of Ethiopia on foreign currency management, which introduced changes in retention of foreign currency rules as follows³:

- » Retained foreign currency can be used for import of any kind of good or services (subject to licensing restrictions) or sold to the bank at a rate capped at the selling exchange rate of the day;

³ This was subsequently amended through the retention and utilization of export earnings and inward remittance directives no. FXD/73/2021

- » Exporters can deduct 30% from their foreign currency inflow, with 45% (of the remaining 70%) allowed to be kept as foreign currency;
- » The residual part is automatically converted at the official commercial bank rate;
- » Exporters need to explicitly inform the National Bank of Ethiopia of intentions to retain foreign currency.

The challenges of managing business with foreign exchange restrictions in place that makes repatriation of profits for international businesses problematic, has been compounded over the past year by impacts of the Covid-19 pandemic that is changing global business transactions, and causing disruptions to established supply chains. As one example within Ethiopia: “the fall in consumer demand for clothing and the closure of retail stores in high-income countries has significantly hit apparel and textile suppliers. The impact has not been the same across the industry. Firms focusing on sporting goods are bouncing back, as containment measures are lifted and stores in key markets are reopening, while firms that provide formal attire remain subdued.”⁴

Despite the problems encountered especially over the past year, the Government of Prime Minister Abiy Ahmed is still stressing that investors should retain interest

in Ethiopia, where the recent Investment Law has been opening up new sectors in Ethiopia’s economy to foreign investment, such as in health, e-commerce and the transport services sectors. As the senior policy advisor to the Prime Minister Mamo Mihretu notes “Despite the ongoing pandemic, locust invasion and other challenges, the government is pushing through the home-grown economic reforms”⁵.

The package of reforms since 2019 has been impressive on paper. The complementary **Homegrown Economic Reform Agenda** and the **Ethiopian Ease of Doing Business Medium-Term Reform Roadmap** were both introduced in 2019, and a new national **Plan of Action for Job Creation 2020-2025** was unveiled in October 2019.

At the start of 2020 a new **Investment Proclamation** was passed by the Ethiopian parliament, focused on many issues of considerable interest to

the international business community in Ethiopia. It aims at:

- » Modernising the legal, regulatory and administrative framework of Ethiopia’s investment regime and investment policy framework;
- » Aligning the investment regime with national development goals and the recent reforms in policy direction and priorities;
- » Revising sectoral restrictions imposed on foreign investment;
- » Establishing a more user-friendly investment regime through changes to the listing approach on identification of sectors and activities that are open to foreign investors;
- » Identifying and adopting best practice investment promotion, facilitation and aftercare services and efficient investment administration system, including One-Stop-Services; and
- » Devising a rapid, transparent investor grievance handling mechanism; and
- » Aligning the investment regime with the country’s commitment under African the Continental Free Trade Area (AfCFTA) and the plans to join the World Trade Organization (WTO).

4 <https://blogs.worldbank.org/voices/how-covid-19-transforming-global-value-chains-lessons-ethiopia-and-vietnam>

5 <https://www.reuters.com/world/africa/ethiopias-economic-reform-drive-splutters-foreign-investors-2021-06-15/>

Later the same year, in June 2020 a new national **10-Year Perspective Development Plan** was launched that aims at making Ethiopia an African Beacon of Prosperity, as well as a new a new digitalisation strategy for the country, **Digital Ethiopia 2025**.

The Ethiopian Ease of Doing Business (EODB) Medium-Term Reform Roadmap from July 2019 outlined how Ethiopia quickly implemented a set of short term reforms, and embarked on an ambitious set of mid-term reforms. The key highlights from the short term reforms included:

- » Driving the reform agenda through high-level reform leadership at the Prime Minister's Office and in each Ministry, with a clearly defined reform agenda and a regular progress tracking mechanism;
- » Focusing short term reforms on quick wins as the basis for more ambitious medium & long term reforms that this action can contribute to;
- » Achievements that included 8 new laws and 40 procedural and administrative reforms being enacted in only 5 months.

Actually implementing reforms has proceeded at slower pace. Moving from short to medium-term was conceived in highly ambitious terms within the EODB Roadmap, with an objective of implementing all proposed medium-term reforms by 31 December, 2019. Clearly this was unrealistic as a planning goal, and there still remains a notable agenda of remaining items for implementation. Recommendations for medium- and long-term planning highlighted a need to revise actions based on results and lessons learned, and to focus on three core strategic imperatives:

- » Ensuring full and effective implementation of reforms;
- » Focus on deep and high-impact reforms that can significantly reduce time & cost (e.g. through process streamlining/ reengineering, use of ICT solutions etc.); and
- » Communicating reforms to all users with appropriate feedback loops in place to take corrective actions, as required.

As a result of these trends, the African Development Bank Group's recent 2021 assessment for Ethiopia is that

“the medium-term economic outlook is contingent on the resolution of the COVID–19 crisis, the pace of the economic recovery, and such other shocks as civil strife and climate change”⁶.

Downside risk to future economic performance is attributed to low investor confidence, influenced by domestic conflict as well as weaknesses in global economic growth, as well as future likely impacts of climate change.

Ethiopia's socio-economic development and future economic development path has been supported by the European Union over more than four decades, and through this deeper integration there has been significant increase in Ethiopia-EU trade in the past decade since 2010. The EU and Ethiopia engage in supporting and reinforcing mechanisms to lead Ethiopia on a pathway to sustainable development that should contribute towards poverty eradication, social development and the creation of an inclusive, strong and diversified economy.

6 African Development Bank (2021) “African Economic Outlook 2021 - From Debt Resolution to Growth: The Road Ahead for Africa” P.119

The EU and Ethiopia jointly work together on private sector development and the improvement of the business climate, and the EU Business Forum Ethiopia provides a practical demonstration of this through actively supporting the international business community and representing EU business interests in Ethiopia.

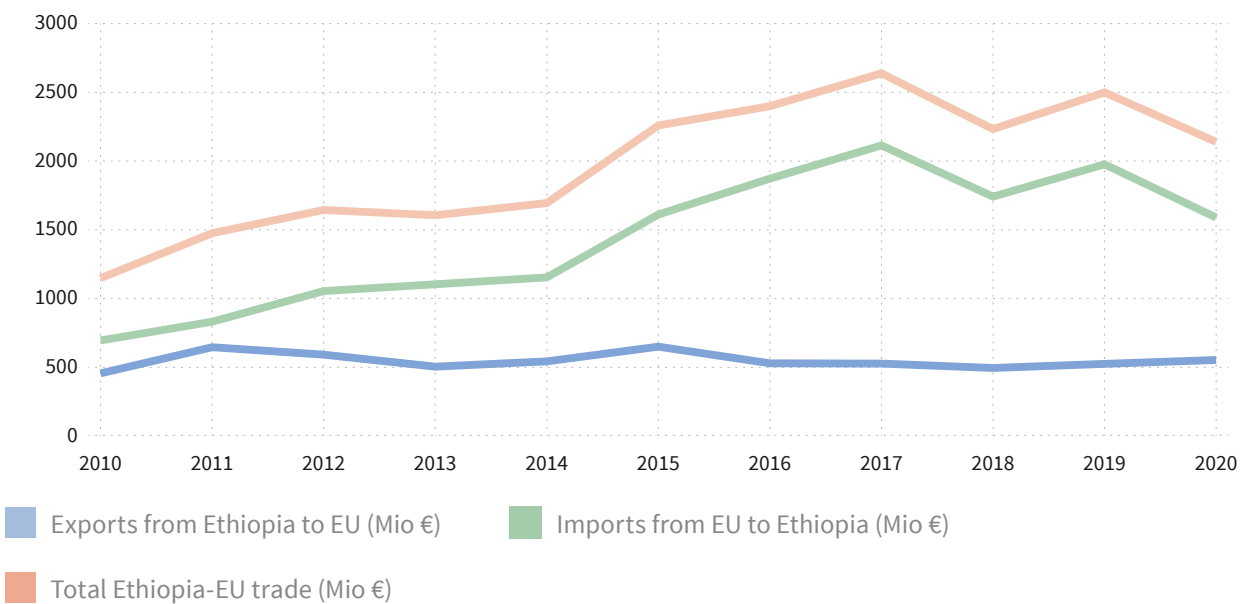
Observing the trends in trade between Ethiopia and the EU, it is clear that many EU businesses have greatly seized the opportunity for working with and in Ethiopia, with most of the increase in trade between Ethiopia and the EU being accounted for by

growth in imports from the EU. A challenge in the next decade will be to create the conditions for realizing similar export growth from Ethiopia to the EU. The international business community in Ethiopia has a large potential role to play in this. Understanding the attitudes, challenges and barriers faced by international businesses is crucial to further expansion of international trade between Ethiopia and the EU. The evidence presented in this report will help EUBFE to engage in deeper processes of public-private dialogue and lobbying and representation actions that can improve the business climate,

and provide input into work with Government that can improve growth potential not just for the international business community, but for all business in Ethiopia.

Finally within this section we must make comment about a sensitive subject. Security issues as well as the ongoing conflict in the North are worrying to the international business community, and cause continuing business uncertainty that could impact in future on international investment. We hope for rapid stabilisation of the situation to benefit all of Ethiopian society.

Figure 05: Ethiopia-EU Trade in Goods 2010-2020



» Source: DG Trade, European Commission “European Union, Trade in goods with Ethiopia” 02-06-2021



Current state of the business climate in Ethiopia

Key findings:

- » The level of overall positive perception of the business climate is disappointingly low
- » Despite this, future prospects for turnover and investment are assessed positively
- » Being an international business is viewed as a significant contributory factor towards business success in Ethiopia
- » Five main keys to unlock business competitiveness were identified: staff development and training; improving cost efficiency; collaborating with customers; Improving sales competence; and enhancing brand awareness
- » Forex consistently emerges as one of the core problems facing international businesses
- » Regulatory burdens, inefficient infrastructure, and the security situation are also identified as key problems

The 2021 EUBFE business climate survey emphasises that less than 1 in 5 businesses currently have a positive view of the business climate. In light of current economic developments, ongoing security issues and conflict, and impacts of Covid-19, this is perhaps not that surprising. Nevertheless, the finding that just under half of businesses have a negative view of the current Ethiopian business climate is a cause for some concern for future investment prospects and overall business confidence.

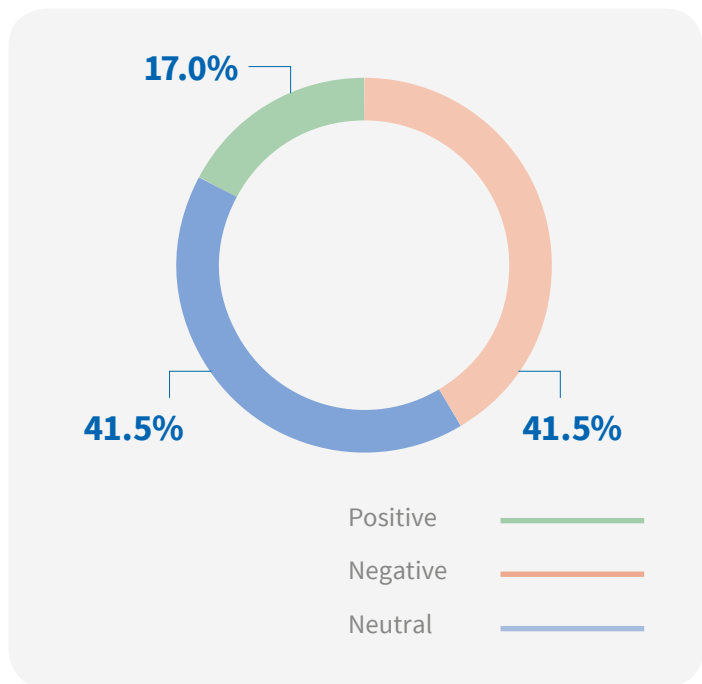


Figure 06: Overall Perception of the Business Climate (% of survey respondents)

There are real issues to be addressed

Key themes underpinning the negative view of the business climate by international businesses in Ethiopia include:

» Financial & Market related factors:

- **Forex** - A major issue for foreign investors in Ethiopia is access to foreign

exchange (forex), due to legal restrictions on availability of forex and tight regulation by the National Bank of Ethiopia (NBE).

- **Business Uncertainty** - Currency and price instability, alongside unpredictability of taxation, high inflation and high interest rates for loans are all seen as problematic in terms of creating business uncertainties.

» Operating Environment:

- **Security** - a worsening security situation is identified as an issue, alongside specific reference to the conflict in the North, and sporadic riots and strikes.
- **Infrastructure** - Infrastructure-related issues such as power shortages and poor quality of electricity despite ongoing investments

in the upgrading of the infrastructure, as well as poor internet are also a source of problems for businesses that are impacting on costs and prices.

» Labour Market Issues:

- **Skills and training** – the survey identifies a mismatch between skills needs and skills provision, with weak TVET provision.
- **Ethnicity** - whilst the Ethiopian workforce is generally regarded very positively within the survey, one respondent for example identified that ethnicity can be a cause of labour market problems especially amongst more highly educated people.

» Policy and Government:

- **Challenges of Government** was seen as problematic, especially in terms of governance at different levels, where central Government is viewed as not in control of local Government.
- **Regulatory burdens** – a common view is that there are too many regulations, and excessive bureaucracy with long processes required

in all sectors at government offices. For example, one respondent stated that “While there have definitely been some improvements in recent years..., licensing, export processes, taxation, and other regulatory processes are extremely onerous.”

- **Government interactions with business** – these can be a source of frustration in general, with the survey identifying a lack of understanding of international business requirements by Customs officials as one specific example.

A further theme that the survey uncovers is the extent to which Ethiopia is serious about attracting foreign investors and investment. Several respondents comment that foreign business are under-supported, and that initial support for international investors to start business in Ethiopia is not being followed up with sufficient aftercare. The specific roles that the Ethiopian Investment Commission (EIC) can and should play in this are not always viewed positively by the international business community.

One business that was interviewed commented that Ethiopia is providing ‘red carpet’ treatment when investors first make approaches through to the point of getting investment licenses, but then the investor faces more significant challenges once operations have commenced that are not adequately supported.

The challenge of both attracting and retaining investment in globally competitive markets is an important one for Ethiopia’s long-term development. This requires both the creation of a genuinely enabling business environment to attract investment through a compelling investment proposition, and ongoing support to businesses that have made an investment decision to aid their expansion and growth.

The support structures for foreign investors need to focus on both investment attraction and retention. A key body in this respect is the **Ethiopian Investment Commission** (EIC), established as an autonomous government institution accountable to the country’s Investment Board, which aims at attracting FDI and improving services provided to investors. Whilst their record in investment attraction is impressive,

there are some concerns expressed about their ongoing support and solving of business problems. A specific issue raised was that the bureaucratic requirement from investors to provide inputs for EIC reports is not always matched by useful, adequate levels of problem-solving support.

The mandate and authority of EIC is also questioned, with concerns raised about having some powers delegated from other institutions. As a result, some question whether it is functioning more as a promotional office for investment, rather than as an effective support institution. This is especially problematic with respect to more complex, non-standard requirements for support, where an inflexible approach is sometimes causing substantial delay in casework and finding appropriate support solutions.

These key themes and issues are explored further in more depth within the rest of the report.

But Ethiopia is (still) a land of promise

Despite some of these more problematic areas where EUBFE

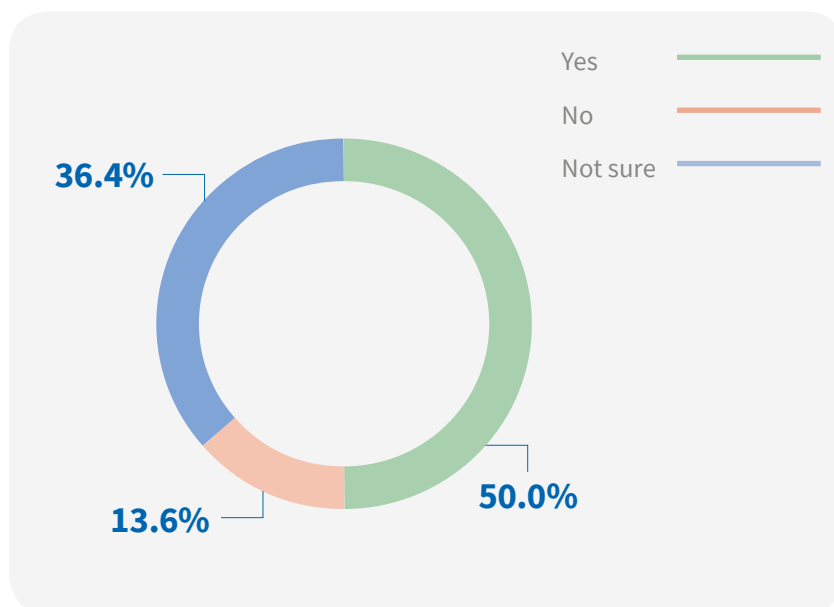
can provide useful input to policy dialogue and reform, we should note that there are good examples of businesses forward thinking approach and positive views on the future of business and the economy in Ethiopia.

Overall, attitudes towards investment in Ethiopia are generally positive. When asked ‘If you knew when you started what you now know about doing business in Ethiopia, would you still have invested here?’, half of all international businesses in Ethiopia would still have invested.

A theme of strong belief in Ethiopia and its potential is evident in some survey responses. Whilst remaining a challenging business environment, positive attributes mentioned include the cultural riches of Ethiopia, the quality of business executives and the workforce, and the high education levels amongst some groups.

Some believe that willingness and commitment at high levels of the Government Agenda that is moving forwards towards opening up previously closed sectors, and reducing the bureaucracy

Figure 07: The benefits of hindsight – would businesses still have invested?



associated with acquiring business licenses, securing land, accessing tax-related reliefs, access to finance. The Government is consciously taking measures to improve the country’s ease of doing business index.

Overall, a large potential for future growth and business opportunity is identified through the survey.

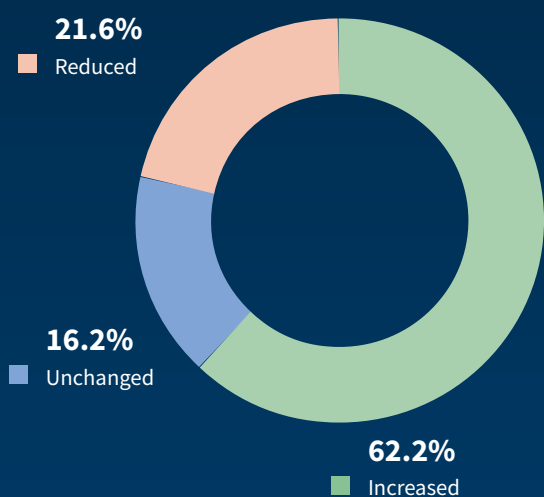
Opportunities for international businesses

Whilst a majority of businesses expect turnover to grow in the next 12 months, this reflects in part the difficult business environment faced during the past year as a result of Covid-19. Nevertheless,

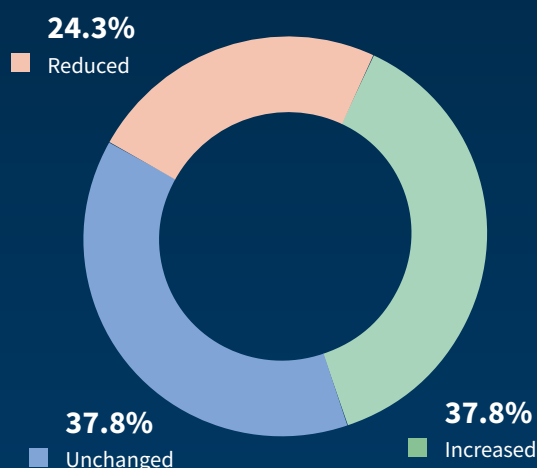
this is only part of the story since less than a quarter of businesses anticipate reducing levels of future investment.

Turnover and Investment Expectations

Expected changes in Turnover in next 12 months



Expected changes in Investment in next 12 months



Survey Respondents' positive perspectives on future investment in Ethiopia

Survey respondents identified various positive factors and reasons for investment confidence, such as the following:

- » Different levels and types of investment plans and expectations, for example
 - Optimism that could see doubling of investment in the coming year by one business
 - Planning for continuation of significant investments
 - Implementation of existing investment plans, e.g. development of a new site for 2021 completion
 - Investment remaining almost the same, but with replacement of depreciated assets
 - Use of sectorial roadmaps by Government to encourage more investment
- » Belief in the recovery from the very difficult 2020 as a result from improvements that should occur as Covid-19 becomes less significant

Recognising investment potential and opportunities in Ethiopia, and realising the benefits from Ethiopian investments are not necessarily the same things. There can be significant differences between core opportunities and actual business reality:

- » Main opportunities commonly identified: e.g. huge market potential in various sectors, availability of skilled and unskilled labour, very cost effective utility rates, potential to export to neighbouring countries.
- » Common realities of doing business: e.g. challenges of managing Forex constraints, lack of understanding of the needs of business by various government departments, managing risks associated with security issues etc.

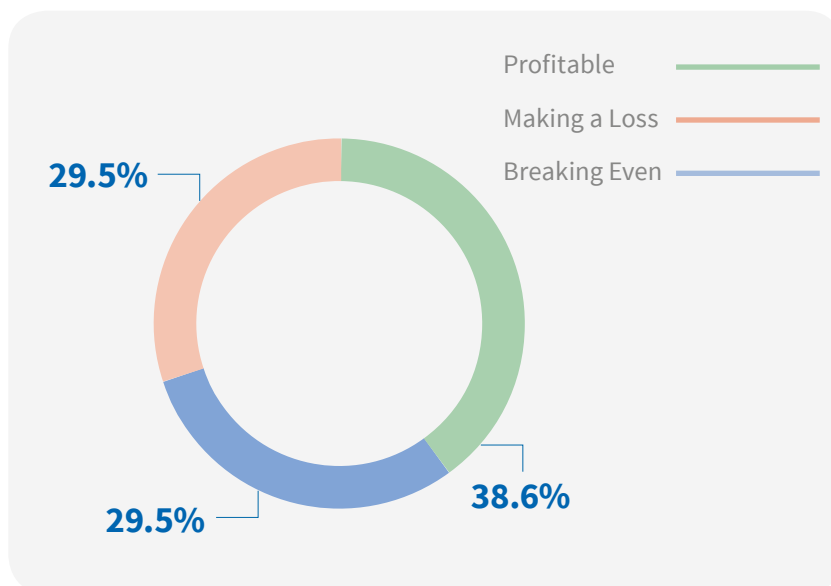
Profitability of International Businesses in Ethiopia

Despite the challenging environment over the last year, it is encouraging to note that business was still profitable for more than a 1/3 of international businesses in Ethiopia, with less than 1/3 recording losses.

In terms of reasons for businesses making a loss, we can summarise key factors as follows:

- » Covid impacts have been an ongoing challenge for business growth
 - Consequences on business logistics – during the past year there has been notable freight rate volatility, and important exchange rate variations; delays in shipping have been due to lack of place on vessels or aircrafts, congestion at hub ports and to unavailability of empty containers; and a lack of lab testing facility was identified as a further constraint
 - Consequences on orders and supplies – pandemic-related lack of international orders; increasing costs of packaging materials; increasing difficulties in sourcing some materials

Figure 08: Profitability of International Businesses in Ethiopia



- Impact on investments - COVID has delayed expected incoming investment.
- Regulatory complexity and infrastructure challenges were common
- » Country-level factors
 - Unavailability of foreign currency was one of the most commonly identified challenges
 - Devaluation of the birr against foreign currencies impacted on costs
 - The instability in the country over the past 12 months was identified as a key factor
 - Oligopoly initiatives and some anticompetitive practices from government owned service providers were noted as impediments to business
- » Sector-related issues
 - Financial regulations can create significant barriers, for example at a sectoral level to Fintechs and particularly foreign Fintechs
 - Other sectors, such as tourism have had no business since March 2020 following a successful 2019

Whilst the percentage of businesses making a loss (29.5%) may appear at first glance to be high, it is important to note that loss-making is not necessarily something wrong – as one business puts it: “to some

extent, this is normal”. In some cases losses are just a natural expression of growing pains for a business when operating in an uncertain business environment, especially one as turbulent as that experienced since the start of 2020.

Ease of Business Entry and Exit

Ease of entry is an important element of the World Bank ease of doing business framework for regulatory reforms that Ethiopia is working towards enhancing, but it is also important to address the issue of ease of exit from operations. One respondent identified an important issue when things do go wrong, profits are not made, and a business has to close, noting that the current “regulatory aspect of closing a business is too burdensome so businesses are reluctant to close their businesses”.

Advice to international potential investors

Survey respondents provided the following advice to any potential first-time international investors considering opportunities in Ethiopia

- » Come with an open mind and well prepared
- » Do your homework by studying the rules, business culture and the country history carefully and trying to firmly understand Ethiopians
- » Speak to current international investors into Ethiopia, since they will tell you the real story and are the true ambassadors
- » Build a good advisory team, consult a good lawyer, and look for long term returns
- » Set up with a local partner to get a local touch, but choose local partners carefully
- » Take time to form key relationships and invest in the relationship with the local communities
- » Invest if your returns horizon is in the long term
- » Plan to have enough resources to sustain the business.
- » When making preparations for investments, double your prep time and budget
- » Start at a very low level and expand as you grow
- » Do your research well, use your local partners, connect with the right governmental offices, and work with your embassy
- » Confirm all legal aspects related to your investment
- » Do on the ground research thoroughly, being aware of all aspects such as land allocation, security, FOREX, labour rules
- » Look for expert consultancy for fiscal and administrative matters
- » Use specialists and interact with the government in a formalised way
- » Wherever possible, let a local and qualified person take care issues related to local authorities, and especially dealings with the tax office and customs
- » Follow up on legal framework updates
- » Accept that business development could take more time than you anticipated
- » Be resilient, have perseverance, humility and tolerance, and consider other people’s ways of thinking in order to assess situations for their best
- » Develop great friendships along the way!

How were market entry opportunities identified?

The survey identifies many different routes to market taken by the businesses that participated. Some of the businesses have been operational for many years, to the extent that “the company is embedded in the country”. Of newer entrants, we can identify key factors such as the following:

- » **Market research route:** Several respondents highlight the importance of market research to identify the market opportunity. For example: one business identified promising market growth, reasonable entry cost, and value creation potential; another entered the market after getting market information through government investment promotion work; whilst promising results of research done by an external consultant led to market entry by another business.
- » **Market expansion route:** One business had already covered the Ethiopian market from Kenya before opening the branch office in Addis, whilst others stressed

the analogy to other markets in determining entry decisions

- » **Business partnership route:** identifying a well-established Ethiopian company as an attractive business partner proved the reason why one European business decided to work with them, and turn the partnership into a business success. Another partnership strategy that worked involved an Ethiopian developer that had the necessary license but no access to sufficient equity to move the project and investment forwards. Working with local institutions, such as a University proved a successful route for another business.
- » **Family and networks route:** One Ethiopian diaspora respondent entered the market to utilize the power of technology and knowledge to connect people with the required resources, whilst others highlighted family and networks built up over the years through regular visits to Ethiopia
- » **Serving the foreign business community route:** One successful food company was motivated by the presence of

a large foreign community in Ethiopia as the main potential customer base.

- » **Import substitution route:** One international business operating in the agri-food industry was able to identify an opportunity where no domestic producer was available, and all supplies were imported. Through domestic set-up, the business was able to stop the need for around 80% of imports.
- » **Cultural development route:** A common aspiration to develop Ethiopian crafts into a brand responsive to a demand for modern lifestyles was shared by a group of like-minded professionals who leveraged modest initial investment and support through a land allocation by the Government. Through this they have trained more than 200 employees, successfully developed turnover, and proved that traditional crafts can evolve to cultural industry.

» **Philanthropic investment route:** Our final example is both inspiring and cautionary. In their own words:

“I never invested primarily in Ethiopia to make profit. I have had a very successful business career in various European countries selling industrial products and if profit were my only motive then I would never have invested in Africa. However, I wanted to assist a country where I had worked as a volunteer during my younger days by creating jobs in a deprived area. I thought there would be a level playing field with what I have experienced in the past working in foreign countries. I have encountered a series of barriers and frustrations, however, that I was never expecting”.

Strengths and weaknesses of the operational environment

The survey identified various strengths and weaknesses of the operational environment.

An overview of some of these includes:

Strengths

- » Ethiopia’s economy has continued to grow over the past 5-10 years at a good pace
- » Ethiopia provides access to a large market of 110 million and access to regional markets
- » The private sector is very resilient
- » Return on investment can be very high
- » Reasonably skilled labour but mainly a very positive attitude towards work

Weaknesses

- » Forex is a particular problem for international businesses
- » Government administrations don’t always display good understanding of business needs
- » The education sector isn’t keeping up with current needs and rapid growth of the sector and doesn’t produce sufficient qualified people

Opportunities

- » There is tremendous agricultural opportunity with year-round production
- » New infrastructures and industrial parks are being created
- » A young and dynamic workforce
- » There is a lot of motivation and creativity and people who take initiative
- » Growing regional integration and future access to ACFTA

Threats

- » Uncertainties with the security situation
- » Repatriating dividends
- » Stalling economic policy reforms
- » Slow rate of privatisation of state-owned enterprises

One respondent highlighted the increasing population of the country and how that is creating a huge demand for products, use of technology and services. The developing nature of the country means that there is currently a huge gap in adopting technology, and high potential for product diversification.

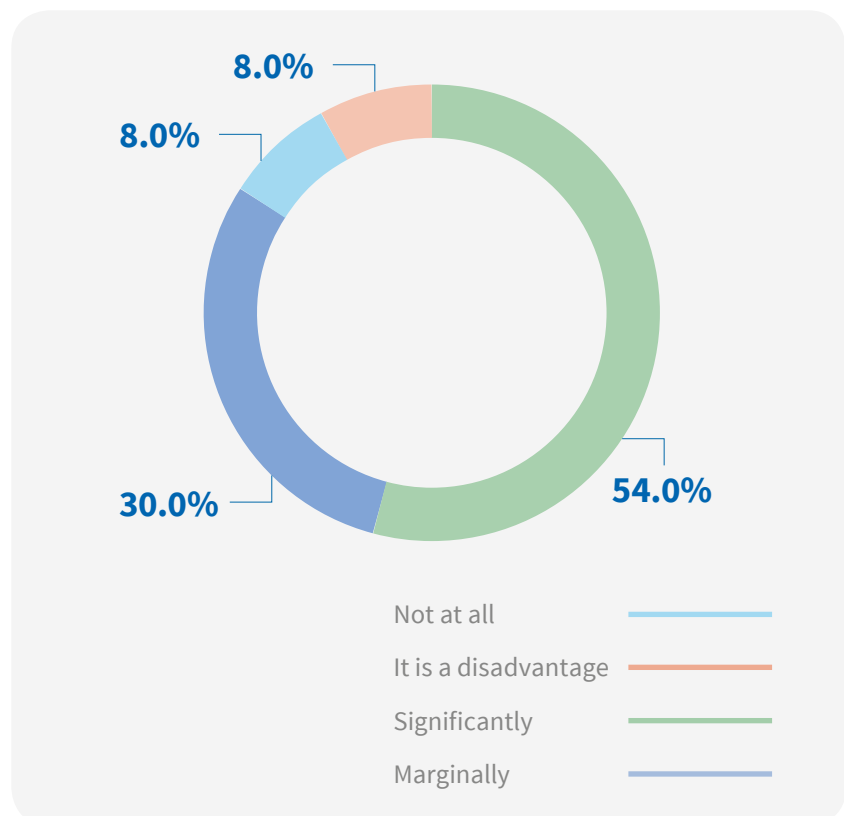
Another response stressed the opportunities for a holistic approach to development because of the many opportunities, and that once international businesses understand how business can operate in Ethiopia, it becomes easy to start new related businesses. The absence of over-saturated markets in Ethiopia, unlike in many developed countries, is what makes this possible.

The benefits of being an international company in Ethiopia

The majority (54%) of the survey respondents were of the opinion that being an international company significantly contributes to success of the business in

Ethiopia, with more than 4 out of 5 businesses seeing at least a marginal benefit. Less than 1 in 10 saw it as a disadvantage.

Figure 09: To what extent do survey respondents estimate that being an international company contributes to the success of their business in Ethiopia?



Amongst specific benefits mentioned by survey respondents, we would highlight the following:

- » Financial backing of international investors and back-up support (financial, legal, advisory, human resources, operational, access to foreign suppliers etc)
- » Attractiveness to local talent alongside access to qualified manpower
- » Leveraging international networks to develop client trust and use of services
- » Extending access of worldwide networks to local customers
- » Consumer brand awareness of products
- » People's beliefs that international means quality
- » Use of international standards
- » Being a big name as a means of opening doors and getting easier access to decision makers in case of problems
- » Complementing and de-risking Ethiopian business with business in other countries.
- » Reducing risks and impacts of potential corruption

Some potential downsides of being an international company in Ethiopia

It is not all positive, however. Comment was made by respondents on lack of equal and fair support towards international businesses in some administrations, how local companies can have advantageous ways of operating, and situations where some sectors are still limited in access. This seems to be especially the case in the finance sector. However, this also commonly applies in areas where licenses or permits are required.

The regulatory environment for establishment of digital financial services and future growth of fintech initiatives was highlighted as a specific area of concern, for example. Businesses observed that no clear directives/ regulations are issued to govern foreign fintech businesses in the country, such that legitimate roles of foreign fintech companies can be subject to varied interpretations and dependent on the will of regulatory officials.

Whilst this is a specific example, we would note more generally that application of unwritten regulations to foreign companies, whilst not being equally applied to locally owned companies can cause significant business uncertainty.

Similarly, constraints and delays in securing the right employees can impact significantly on business performance. A tour operator identified a specific issue related to processing of work permits, where the ministry of culture and tourism has to approve CVs of the proposed staff, and determine competency. There are also defined limitations on types of positions for foreigners and contract duration, which constrained business operations.

Land transfer can also be extremely problematic for international businesses. In one case, despite agreeing compensation for land use with farmers and support from the Ministry of Agriculture, the Ethiopian Investment commission and the Prime Minister's Office, the regional /local administration was not willing to transfer the land.

Enhancing competitiveness

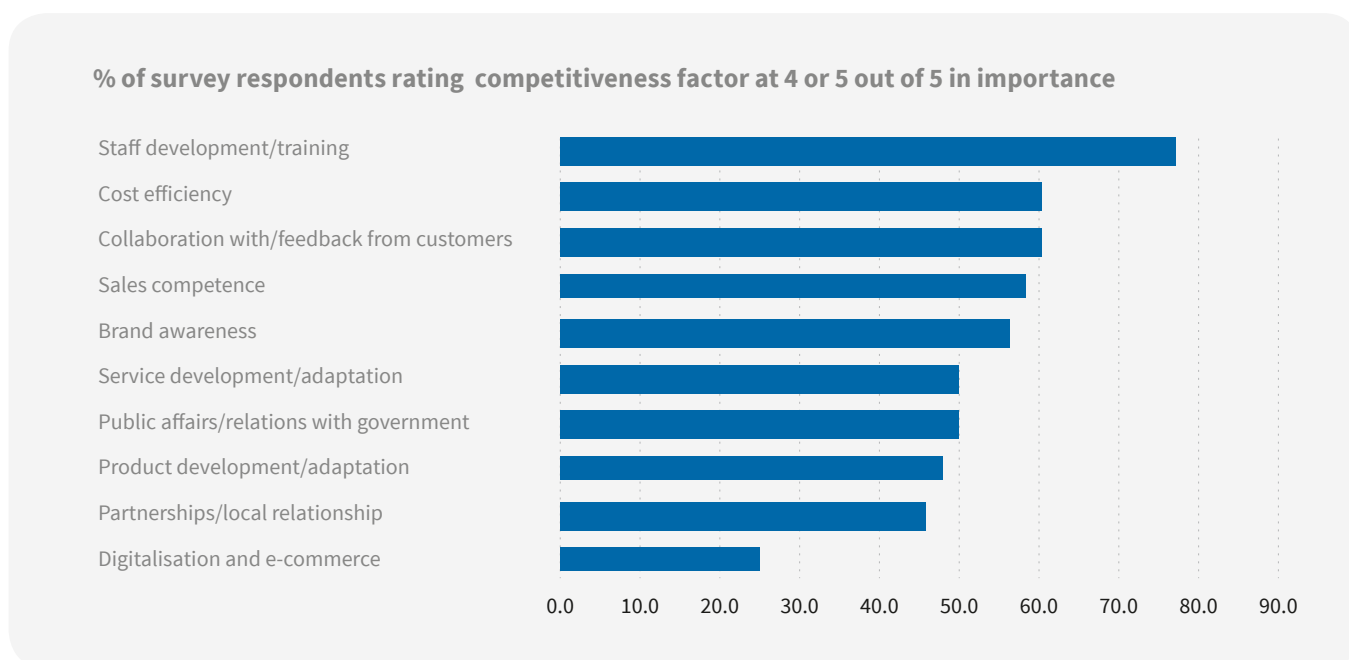
Within the survey we examined the main sources of competitiveness for international businesses operating in Ethiopia, as well as some of the key obstacles to doing business.

Staff development and training emerged as the most critical factor for ongoing competitiveness for international businesses in Ethiopia.

Only 4 other factors were rated as highly important by more than 50% of respondents:

- » Improving cost efficiency
- » Collaborating with customers
- » Improving sales competence
- » Enhancing brand awareness

Figure 10: Most Important Factors for Maintaining Business Competitiveness



In terms of various obstacles to competitiveness, we have summarised key findings from the survey in the table below. We would highlight that issues to do with

forex and dealing with government officials received the largest number of comments within the survey.

Nature of Obstacle	Example of impact of obstacle	Potential solutions
Access to service providers	Anti-competitive practices of public service providers	<ul style="list-style-type: none"> » Investigate opportunities for joint investment with the government contained within the “Investment Regulation” supplementing the Investment Law of 2020
Access to supplies and suppliers	<p>Shortage of raw materials and difficulties in importing required materials</p> <p>Getting suppliers that are willing to sign standard code of conduct documents is a problem</p>	<ul style="list-style-type: none"> » Working with Ethiopian Investment Commission to: <ul style="list-style-type: none"> » A) Identify and eliminate sectoral supply chain blockages; and » B) develop and disseminate standardised code of conduct documentation
Corporate taxation	Tax authority audits with unjustified reasoning leading to requirements to pay more tax, and court delays following successful appeal meaning that repayments lose value because of depreciation of the currency.	<ul style="list-style-type: none"> » Review tax auditing procedures » Require reimbursement following court appeals at value indexed at point of original payment
Customs	<p>Customs clearance process takes too much time with too many customs blockages</p> <p>Unpredictable actions of customs authority</p>	<ul style="list-style-type: none"> » Shorten waiting times for customs clearance by reducing administrative procedures and checks
Financial system	<p>The banking system is perceived as very frustrating and unfair, and not fit for purpose, with a lack of international banking entities</p> <p>Forex seen as one of the most significant obstacles, with lack of transparency in the Forex allocation system mentioned</p>	<ul style="list-style-type: none"> » Support the introduction of international banks, to bring new working methods and help modernize the banking system, enhance application of international banking practices and increase inter-banking operations » Following international best practice in Business taxation investment and currency regulations » Implement further Forex reforms discussed and agreed with business

Nature of Obstacle	Example of impact of obstacle	Potential solutions
Labour market regulation	Local government, especially in agriculture, has a big influence on labour market regulation, with local government and the Federal government policy and strategy not always well aligned	<ul style="list-style-type: none"> » Identify any areas of local government misapplication of national-level labour market regulation » Provide guidance and capacity development to local-level officials
Level of digitalisation	Access to internet is increasingly business critical and needs improvement outside of major cities, with reliable internet, that runs throughout and uninterrupted	<ul style="list-style-type: none"> » Prioritise development of decent broadband infrastructure for internet and mobile phones across the country within implementation of the Digital Ethiopia 2025 strategy
Licenses, permits and approvals	Business licenses have to be renewed every year requiring tax clearance. This means that businesses must validate tax returns with the tax authorities annually.	<ul style="list-style-type: none"> » Continue process of streamlining of business licensing permit and approval procedures » Provide better administrative guidance to business on required licenses and processes
Market access	Recognition that with the international market requirements in mind, competitors and markets are outside Ethiopia, and efficient logistics and customs facilitation is required to service them	<ul style="list-style-type: none"> » Reducing bottlenecks in supply chains for packaging, logistics and transportation in cross-border trade » Simplification of customs procedures and facilitation
Physical infrastructure	Poor standard of infrastructure including telecom, roads, electricity and water, raising business cost and market access problems	<ul style="list-style-type: none"> » Further promotion of the concept of industrial parks to overcome key infrastructure issues in specific locations » Increase investment in strategic infrastructure
Security situation	Inconsistent security situation in some parts of the country, due to conflict, strikes and demonstrations	<ul style="list-style-type: none"> » EUBFE support to EU statements on the security situation, and dissemination of key advice to members

It was also observed that a lack of a free market approach and culture is a further limiting factor for the development potential of the country. Processes involving government agencies are viewed as potentially problematic, due to requirements that are perceived as being opaque and unfriendly toward the private sector, and rules and regulations that change frequently. One of the underlying problems can be a lack of trust between businesses and officials that makes it difficult to abide with the regulatory requirements and administrative processes.

The biggest challenges are often encountered in dealing with the customs and tax offices, since these are areas that foreign companies interact with extensively. The lack of clear guidelines and information on regulations for businesses to follow can mean that “everyday is a surprise day”. It was remarked that as a result of this uncertainty, businesses can sometimes get two different answers for the same question at these offices.

The absence of certainty around rules, regulations and directives and the fact that different officials may have contradictory interpretations of the same rules is

especially problematic. The level and nature of bureaucracy impacts on all areas of business life, such as difficulties in renewing licenses, getting credit, etc. It is a source of considerable uncertainty for everyday business life. Specific challenges identified include:

- » **Poor information and advice** – poor visibility on websites was observed, with several participants commenting that whilst Government bodies say that support is offered, real support is not generally offered in practice, and the business has to self-support
- » **Systemic rigidity** – slowness in adapting to new ways of doing business was identified, particularly in terms of rigidity of some laws and lack of adequate working systems to appeal
- » **Transactional issues** - Slow or non-existing processes when working with Government officials were commonly mentioned, with bureaucracy and bottlenecks at the tax office and customs office highlighted,
- » **Inadequacies in legislation and its’ interpretation** – this is an important area, where a number of factors were highlighted, including:

- Excessive over-regulation;
- Fragility and under development of the legal framework in some sectors
- Constantly changing directives and circulars (administrative decisions) that create confusion
- Lack of clarity on application of rules and regulations, and retroactive application

“need to have greater alignment amongst several government offices, agencies or authorities”

Inefficient ways of working at government offices have also been identified. In particular, problems emerge from a lack of integration and cooperation between Government offices at different levels and in different work areas, making it difficult to finalize procedures and work on time. There is a need for greater alignment amongst government bodies. Ambiguity with respect to functions and mandate of regional and federal agencies was also stressed, with interaction between EIC and other government bodies being regarded as problematic.

There is a clear need to further build capacity and motivation of the staff of EIC staff, and strengthen recognition of the roles and mandate of EIC amongst other institutions (e.g. regional governments, power and telecom companies).

In part, the problems of working with Government officials derive from the fact that the main focus is on traditional services and products. As a result, when working on innovative business areas it can be difficult to get proper support. This reflects a common perception amongst international businesses that there is no business thinking at government level.

Whilst investors are looking for transparency, safety and clarity in their business dealings with Government officials, in reality they face: extensive bureaucracy; different interpretations of law and policies; retroactive changes of laws and policies; and inconsistent application that depends on the person/auditor doing the research/audit etc.

Changing the perception of government agencies, and attitudes towards the private sector in general and international business in particular still remains a challenge to overcome.

Through the survey, several areas where specific improvements should be made are identified:

- » **Capacity of Government officials** – developing experienced and empowered counterparts in the Ethiopian government to drive lasting change.
- » **Consultation and public-private dialogue** – consulting investors when the Government plans policy changes that impact them, so that workable solutions can be sought together and jointly developed before implementing policy or regulation changes.
- » **Fit for purpose regulations** – revising out of date policies, so that current policy and regulation better reflects current needs of the country and investors.
- » **Effective planning for introduction of reforms** – making sure that whatever reforms are introduced, they are announced in advance, have a proper test phase, and there is appropriate phasing in of the revised approaches when they are introduced to ensure that they work as planned.
- » **Efficient working practices** – timely and serious response by Government offices to investor questions, with prompt resolution.
- » **Uniform application of regulations** – no differences in interpretation and application of rules and regulations by Local government and Federal government.
- » **Support to exporters** – providing well promoted export incentives to ensure that exporters do not unnecessarily face the same restrictions of Companies serving the local market, and that exporters are able to successfully compete in international markets.

» **Development of new sectors**
 – supporting international investors with market development in diverse growth areas such as e-commerce, and facilitating use of convenient platforms for buyers to pay in Forex.

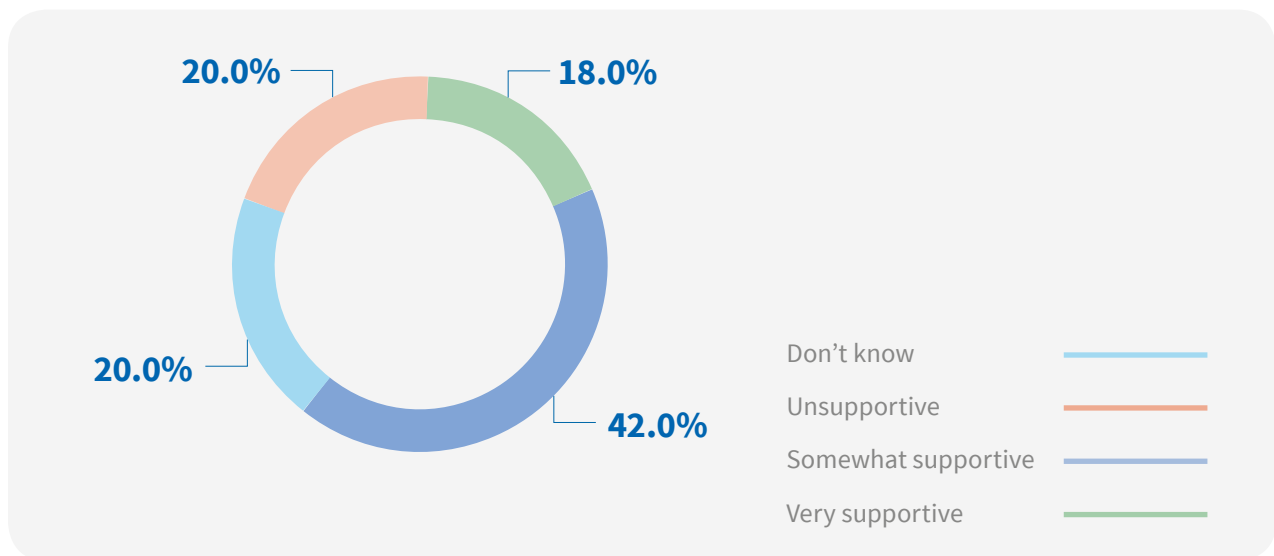
Impact of Covid-19

Ethiopia has generally handled the Covid-19 pandemic well given its constraints, according to many of our survey respondents. For instance, one business praised the Government’s attempts to keep businesses running as it was before, with the introduction of measures for companies to protect their workers that were not too strict. Keeping Ethiopian airlines

operational throughout the crisis was also viewed as important, and a credit to the Government. Acknowledgement is made of the need for balance between public health and supporting SMEs and informal sector survival.

Impact on business of the Covid-19 pandemic was generally negative though some businesses did identify positive opportunities through the disruption.

Figure 10: Supportiveness of Government policies been in mitigating the impacts of the Covid-19 pandemic in Ethiopia



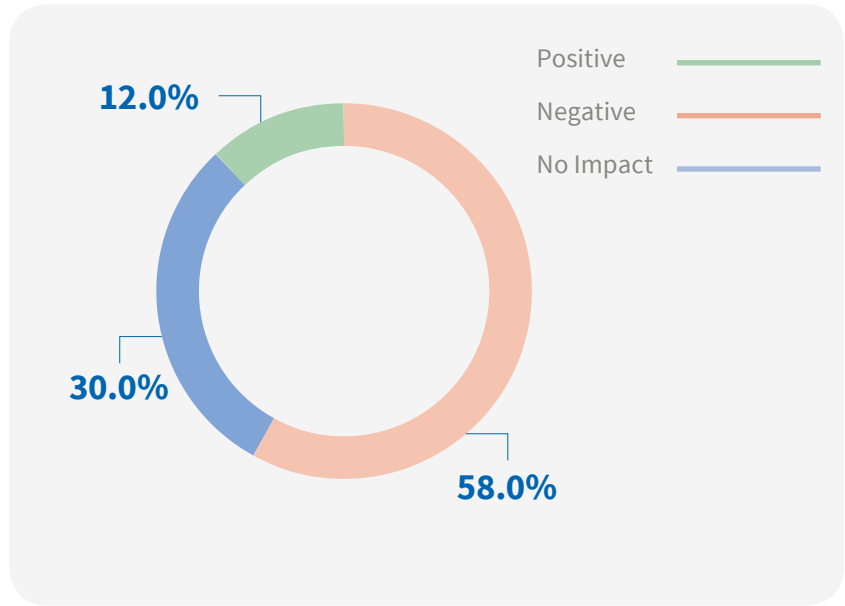
Some specific suggestions on how targeted support could have helped businesses include suspension of some regulations, such as customs warehouse limits to 10 days for airfreight or 15 days other freight shipments stay prior to a penalty of 20% of duty and tax amount, or free transport by rail due to COVID-19 for export shipments.

More general areas where improvements could have been made include:

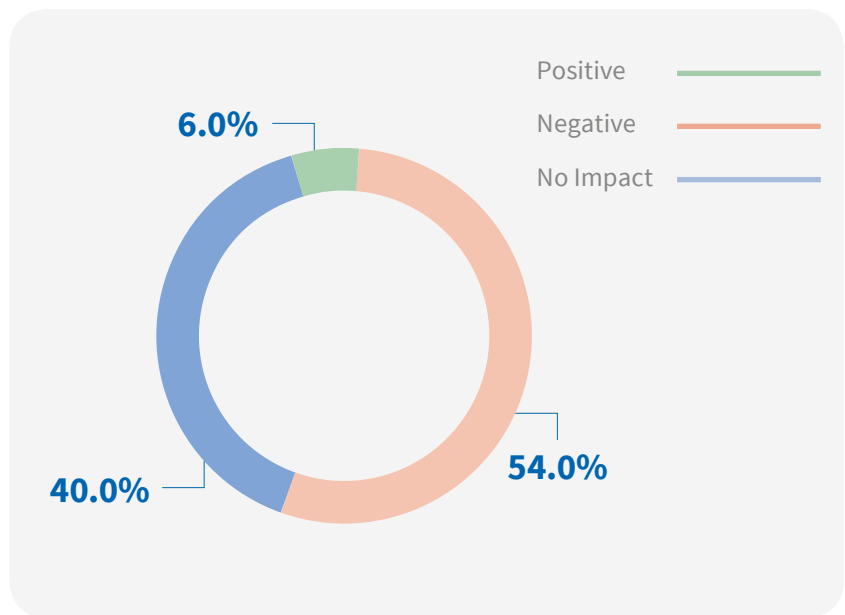
- » More testing and better public information
- » Establish basic hygiene regime in public spaces
- » Greater visibility on vaccination plans
- » Open the market for imported vaccines
- » Better implementation of the guidelines to prevent people from unnecessary mass gatherings to limit the spread of the virus
- » Create better public awareness of COVID 19 impacts
- » Facilitate quick approval of COVID funds made available by donors
- » Be available to listen to investors concerns and provide support accordingly

Figure 11: Impacts on International Business in Ethiopia of Covid-19

Impact on sales



Impact on ability to produce goods and services



Opportunity for growth



41.5%
of respondents

have negative perceptions
of the business climate

17% positive
41.5% neutral



50%
of respondents

would still have invested in
Ethiopia even if they knew
everything about doing
business there

36.4% not sure
13.6% no



84%
of respondents

believe that being an
international company
contributes to the success
of their business

54% contributes significantly
30% contributes marginally

Economic policy reforms and achievements

Key findings:

- » The pace of reform remains high, but the effectiveness of implementation is less clear
- » The Homegrown Economic Reform Agenda provides a key strategic platform for addressing specific business barriers and sectoral concerns
- » The new national 10-Year Perspective Development Plan sets sectoral priorities, and includes a specific role for public-private dialogue and consultation
- » The Investment Proclamation has opened up new sectors for foreign business activity
- » The role and mandate of the Ethiopian Investment Commission has been strengthened through the Investment proclamation, though quality of service delivery can still be improved
- » Businesses want to see an effective investment grievance handling procedure developed and implemented
- » Digitalisation and e-Government is reforming service delivery, with development of a Single Window Online Portal and online support to trade, licensing and registration, taxation
- » Businesses see the Single Window Online Portal as the most important service delivery channel
- » The new Digital Ethiopia 2025 strategy provides a framework for further development of e-Government services

The reform process has been progressing quickly over the past few years, with many important new strategic initiatives and legislative changes emerging. Whilst the direction of many of these reforms is largely welcomed by the business community, there are concerns related to the practical implementation and the effectiveness of Government bodies in administering processes and procedures – the ‘implementation gap’. As a result of both rapid change and weak implementation, businesses still face much uncertainty in their interactions with Government bodies. The role of EUBFE in providing an effective voice for the international business community in Ethiopia is as critical as ever.

Seeking to build on Ethiopia’s strong economic growth in recent years, the strategically important **‘Homegrown Economic Reform Agenda – A Pathway to Prosperity’** was introduced in late 2019 - just months before Covid-19 took hold. More recently, during 2020, further important Government strategies were

introduced that align directly with this action, including the new national **10-Year Perspective Development Plan** and the **Digital Ethiopia 2025** strategy, as well as the **Plan of Action for Job Creation 2020-2025** that identifies sectoral support issues in developing the private sector.

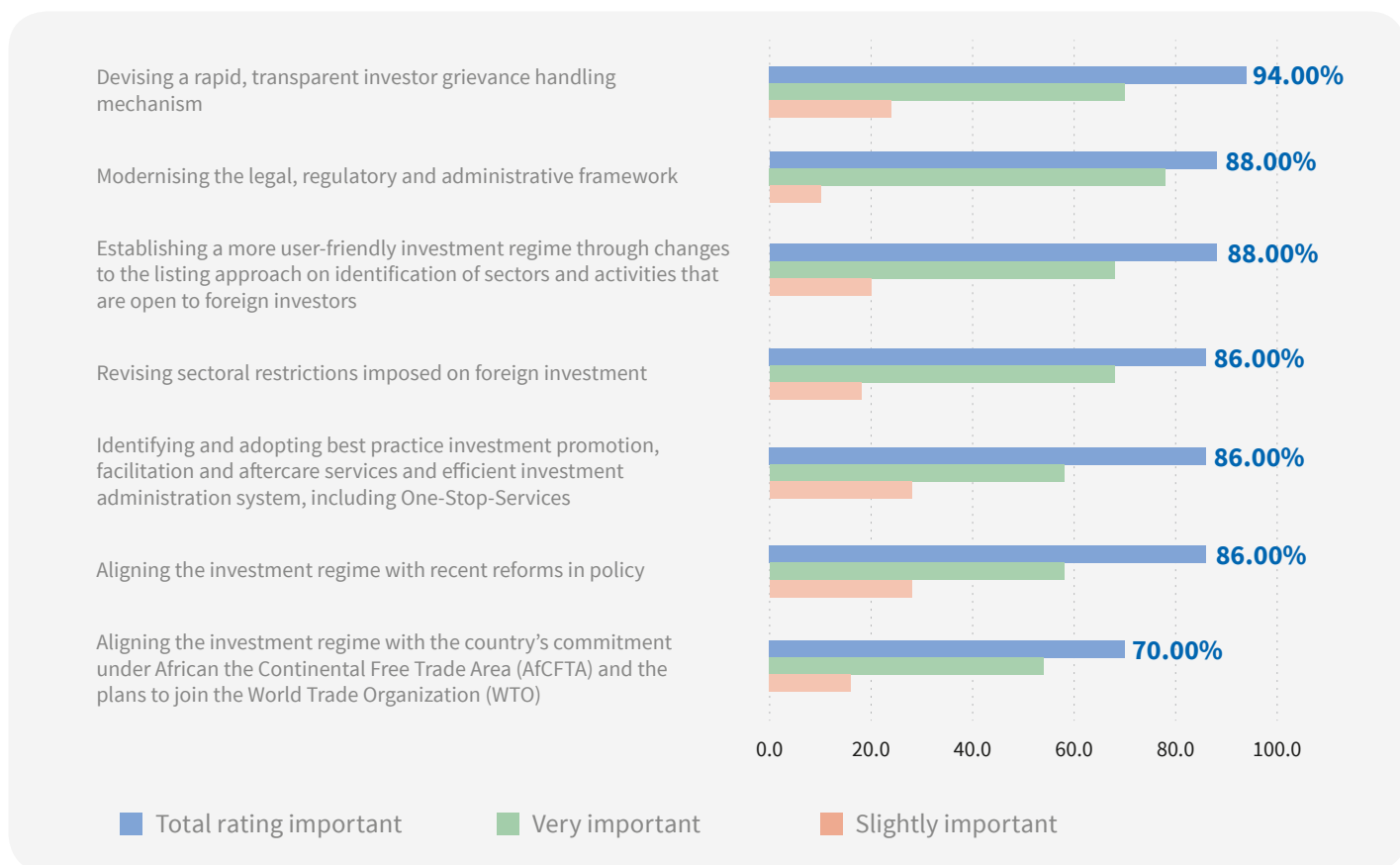
One of the most important legislative developments for the international business community is the **Investment Proclamation** issued in April 2020 (Investment Proclamation number 1180/2020).

In the opinion of the Ethiopian Investment Commission (EIC), the investment legal framework review that led to the Investment Proclamation and subsequent Investment Regulation of September 2020 is the most significant reform to facilitate FDI in the past few years. The new investment proclamation stipulates a “negative list” approach to investment areas open to foreign investors. This means foreign investors are only prohibited from engaging in investment areas that are listed as closed in the

law and its subsidiary regulation (Investment Regulation 474/2020-September 2020) or a decision of the Ethiopian Investment Board. This change has opened up numerous investment areas that were previously closed to foreign investment.

Within the survey, businesses were asked to rate the importance of the main action areas of the Investment Proclamation. Whilst all of the main directions were seen as important by a large majority of international businesses, the single most important factor is seen to be the need to work on developing a rapid and transparent investor grievance handling mechanism. Also worth noting, and linked to this, is that the highest proportion of businesses stressing high importance was for further modernisation of the legal, regulatory and administrative framework of Ethiopia’s investment regime and investment policy framework. The relatively lower proportion of businesses stressing the importance of AfCFTA probably reflects the longer term impacts that it will have.

Figure 12: Importance to international businesses in Ethiopia of main elements of the Investment Proclamation



The **Homegrown Economic Reform Agenda**, complements the Ease of Doing Business Medium-Term Reform Roadmap that was introduced in July 2019, and sets development goals for the coming decade that include:

- » Sustaining rapid and inclusive economic growth;
- » Building a resilient and diversified middle income-level economy with modern policy

and appropriate institutional framework;

- » Halving the proportion of people living in poverty;
- » Developing affordable health care, quality education, safe drinking water, and energy and transportation services;
- » Providing affordable access to finance to investors and consumers.

It is based on a package of macroeconomic, structural and sectoral reforms. The macroeconomic reforms are designed to correct foreign exchange imbalances, control inflation, improve access to finance, and ensure debt sustainability. The structural reforms aim at easing business constraints, whilst the sectoral reforms are designed to address sector-specific institutional and market failures.

The focus on key topics that the international business community have identified as important to them, such as Forex, trade facilitation business constraints, and sectoral and institutional weaknesses in implementing policy, highlight the important role that EUBFE can play in ensuring that the Government continues to make progress against this agenda of reform.

Forex is probably the single most commonly remarked on barrier within our survey, with many businesses commenting on negative impacts. Recent National Bank of Ethiopia (NBE) directives have targeted increasing Forex reserves and reducing financial expansion. Forex receivers have to surrender 50% of the Forex to NBE (this was 30% previously) but businesses are now permitted to keep 40% of the Forex earnings (this was 31.5% previously) and banks keep only 10% (used to be 28.5% previously). NBE raised reserve deposit requirements of commercial banks from 5% to 10% and raised the lending rate for loans from NBE to commercial banks from 13% to 16%.

Despite changes, many of the detailed and sensible recommendations on Foreign Exchange Allocation and Access for

Businesses in Ethiopia, made by the Business Environment Reform Facility in 2018⁷, have still not been implemented, and the situation regarding Forex remains a critical issue.

In June 2020 a new national **10-Year Perspective Development Plan**, by the Development and Planning Commission, was launched that aims at making Ethiopia an African Beacon of Prosperity. It is intended to replace the Growth and Transformation Plan II (GTP II). The 10-Year Perspective Development Plan is centred around five main strategic pillars:

- » **Private sector leadership in the economy:** creating a conducive investment climate, providing incentives, and building public-private partnerships;
- » **Quality economic growth:** inclusive economic growth focused on priority sectors of modern agriculture, manufacturing, and mining;
- » **Production and productivity:** Supporting exports and import-substitution through a range of measures and reforms;

7 https://assets.publishing.service.gov.uk/media/5c90aa9240f0b633fc95f6d4/BERF_Ethiopia_Foreign_Exchange_for_Businesses_.pdf

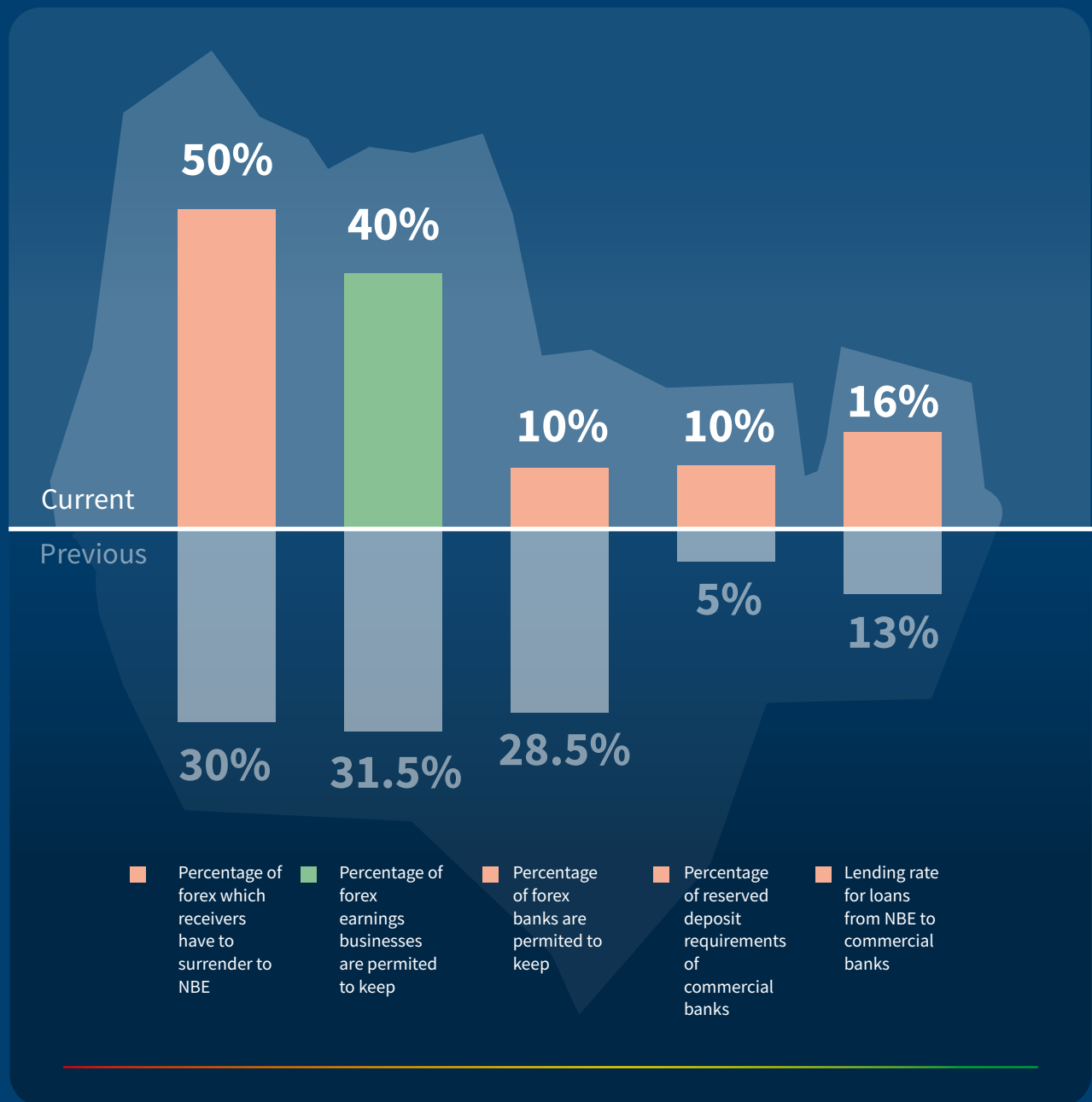
- » **Institutional transformation:** Institutional development to support growth and innovation;
- » **Equitable participation of women and children:** Ensuring gender equity and women and youth in leadership and decision-making;
- » **Climate resilient green economy:** Fighting land degradation, reducing pollution, improving productivity and reducing GHG emissions.

The proposed package of reforms is ambitious, and aims to deliver change through sectoral development focused on a set of productive sectors (agriculture, manufacturing, mining), enabling sectors (energy, transport, sustainable finance, innovation and technology, urban development, irrigation, human capital development), and tourism as a key service sector. If the reforms are effectively implemented, then the reforms will have significantly addressed many of the issues raised by our survey of the international business community.

The implementation of the plan is meant to focus on solving institutional bottlenecks, with an emphasis on resilience building, innovation and entrepreneurship. It is linked to the ongoing home grown economic

Forex remains a critical issue

Recent National Bank of Ethiopia (NBE) directives have targeted increasing forex reserves and reducing financial expansion



reform programme which is seen as a sprinting board for implementation.

Digitalisation is key to Ethiopia's long term growth and development. In June 2020 the Ethiopian Council of Ministers approved a new digital strategy **Digital Ethiopia 2025** linked with the Homegrown Economic Reform Agenda and the 10 year development plan. It identifies a need for improvement in these three main areas of operations, delivery channels and services:

- » **Government operations:** need for streamlining internal government procedures and administrative processes, and upgrading and modernizing processes including data storage and management, procurement, and human resource management;
- » **Service delivery channels:** use of innovative technologies for efficient service delivery, including online portals, mobile technologies, and other internet applications;

- » **Government services:** expanding and improving government services offered, though processes such as identity e-verification, and use of digital payments, alongside a human-centred approach to increase user satisfaction

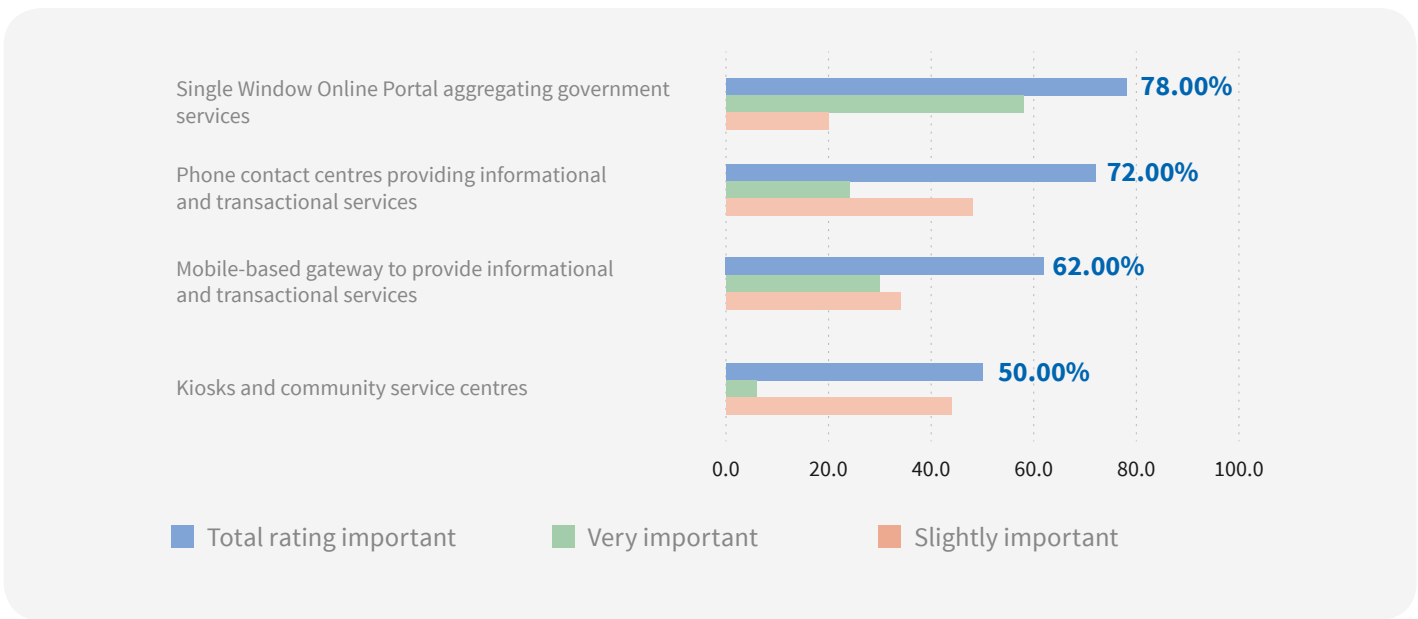
The main areas for development are summarised below, where we highlight those of most direct relevance to the international business community.

 <p>Government Operations</p>	 <p>Service Delivery Channels</p>	 <p>Government Services</p>
<ul style="list-style-type: none"> » WoredaNet (National Backbone Project) » National Data Centre » E-Procurement common platform » Human Resource Management Service (HRMS) » E-Office to eliminate paper-based interactions » Management Information System (MIS) and data collection 	<ul style="list-style-type: none"> » Single Window Online Portal aggregating around 50 government services » Phone contact centres, with planning to provide 77 informational and 40 transactional services » Mobile-based gateway proposals to provide 77 informational and 40 transactional services » Government application store with more than 50 applications » Kiosks and community service centres 	<ul style="list-style-type: none"> » Trade and investments » Tax » Agriculture services » Urban services (in Addis Ababa) » Passport and visa

We asked businesses what service delivery channels would best meet their business needs, and it is clear that further work on developing the single window online service portal

will be most helpful. Developing phone and mobile-phone support to businesses is also seen as important, however.

Figure 13: Importance to international businesses in Ethiopia of different modes of Government e-service delivery



Whilst the single window online portal continues to be upgraded, the Digital Ethiopia 2025 strategy has introduced new focus on employing a human centered approach to designing portals to help maximize uptake and utilization, as well as greater focus

on fully digitalized, end-to-end e-services to reduce business cost and time of completing such services. It acknowledges that poor design and lack of transaction capabilities have limited effectiveness to date.

The ongoing development of e-service delivery of Government services provides a useful opportunity for EUBFE and its membership base to contribute to the assessments of user needs, expectations and barriers that will be required for effective upgrading of services.

Whilst the single window online portal provides a mechanism for aggregating and facilitating easier access to service delivery, there have been a number of recent developments in specific service areas that impact on international businesses in Ethiopia. For example, an online single window for trade facilitation has been introduced (Ethiopian Electronic Single Window⁸) that incorporates e-transaction functionalities, alongside VAT report e-filing, the launch of a new Online Trade Registration & Licensing System (OTRLS) portal, and a revised online registry as part of the Ethiopian Movable Property Registry System that was developed on the basis of international best practices, and has been operational since February 2020.

Trade facilitation and customs clearance are seen as significant business barriers in our survey of international businesses. This is consistent with findings from the OECD trade facilitation

indicators⁹. Whilst trade facilitation performance had improved between 2017 and 2019 in involving the trade community. Performance in other areas is stable and below average performance Sub-Saharan Africa in the majority of areas.

The OECD identifies the following as key areas for improvements: better provision of information on regulatory changes and consultation prior to the introduction or amendment of trade-related regulations ; reducing number of documents and time required for import and export and simplifying procedures; reducing physical inspections and eliminating use of pre-shipment inspection; providing accelerated controls and preferential treatment for perishable goods; expanding use of Authorised Operator programs; improving IT systems for electronic data exchange alongside automated border process risk management procedures; and completing the development of the

Electronic Single Window (ESW) for trade¹⁰.

The ESW offers a single electronic platform and brings almost all regulatory agencies under the same process, thereby reducing processing time and cost, and also reduces corruption by decreasing in-person interactions and increases government revenue by speeding up import/export transactions. Our consultations with the Transformation Management Team in charge of the Electronic Single Window system at the Ministry of Revenue highlight the importance of effective coordination of the activities of the various agencies involved in the import/export process and streamlining of the approval process.

The first phase of developing the ESW was focused on international trade (import/export) in goods., and involved 54 institutions including 19 banks, 18 insurance companies, and most regulatory

8 <https://esw.et/esw-trd/>

9 <https://www.compareyourcountry.org/trade-facilitation/en/1/default/ETH/default>

10 <http://esw.et/esw-trd/>

agencies. Three institutions that are involved in import permits (National lottery for games, Ethiopian standards agency and Ethiopian Broadcast Authority) are not yet part of ESW and are planned to be integrated under the second (advancement phase).

In the next planned phase (the Advancement phase) the following activities will be implemented:

- » **Implementing a proper risk management system** – currently inspections by regulatory agencies (for example by customs and food and drug control authority) are not coordinated and are carried out independently. They will be coordinated in future. All regulatory agencies will be asked to prepare risk assessment criteria and establish a risk management system, so that goods with no (low) risk criteria can be cleared quickly to facilitate movement of goods.
- » **Implementing service level agreement** – all institutions in the ESW will develop a service standard and will be required

to implement this standard. If the institution fails, users will be able to escalate the issue to higher authorities.

- » **Reporting** – the ESW has some reporting functionality but this requires further strengthening. A “Data Warehouse” system is currently being developed, with detailed information going down to individual businesses. The data will then be accessible by regulatory agencies when required.

Taxation reforms have been undertaken by the Ministry of Revenue and Ministry of Finance and Economic Cooperation, including reforms to the legal framework, IT system upgrading, capacity building, and e-systems development.

Recent revision to the legal framework includes introduction of a new excise tax proclamation from March 2020. Upgrades to the tax IT system are being planned on the basis of results from a commissioned study on tax administration by the world bank, and will address issues of

user-friendliness and a better user interface. Modernisation of tax administration is also being supported through staff capacity building, and a Tax Transformation Office (TTO) that is tasked with following up modernization projects.

Whilst electronic tax system activities have been developed for over 3 years, in 2021 e-filing and e-payment for taxpayers was introduced, and already over 6,900 tax payers have been utilizing the new systems this year.

The Ministry of Revenue 5 year plan highlights the important role that the Ethiopian Customs Commission is starting to play in administering the tax administration and reforms, since it was established in 2018. It envisages ECC collaborating with the following main agencies and stakeholders to improve the operations and coordination of the tax administration system

- » **Ministry of Finance and Economic Cooperation (MoFEC)** – preparation of laws, regulations, directives and tariff revisions;

Ethiopian Single Window Online Portal



Most important e-Government service delivery channel

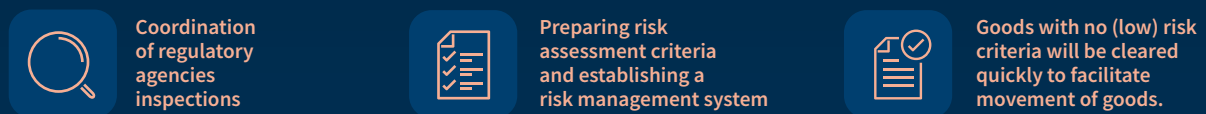
1st PHASE

■ Focused on international trade (import/export) in goods and involved



2nd PHASE the Advancement phase

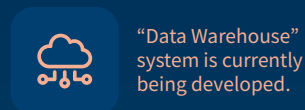
■ Implementing a proper risk management system



■ Implementing service level agreement



■ Reporting



- » **National Bank of Ethiopia (NBE)** – preparing a directive to enable tax payments via banks, implementing a system to prevent under-invoicing and over-invoicing, and supporting financing of import and export trade activities;
- » **Ministry of Transport** – improving logistics efficiency and reducing cost, expanding and improving dry ports, and introducing an efficient import/export data exchange system;
- » **Ministry of Innovation and Technology (MINT)** – digitalization of tax and customs administration services, building a data recovery centre, enhancing tax and customs administration systems security, and developing a big data analysis system;
- » **Ministry of Trade and Industry (MoTI)**¹¹ – One-stop business registration and clearance service, improve standards verification service for export and imports,
- » **Ethiopian Investment Commission (EIC)** – One-stop investment registration

11 This Ministry has recently been reformed under a new name, and competencies re-allocated. We refer to the name in place at the time when the interviews were conducted.

service, streamline industry parks operations with tax and customs system, integrated data exchange on large investments

- » **Ministry of Agriculture (MoA)** – implement animal quarantine system (import and export), provide efficient professional support to agriculture-related imports.

ECC has a Strategic Partnership Directorate and has agreed an MoU with EUBFE to handle complaints presented by EUBFE. The Directorate will receive complaints from EUBFE and liaise with concerned directorates to resolve these issues.

Key achievements of ECC during 2020-2021 include: legal reform including seven directives on release of goods on guarantee, customs duties and tax debt payment duration, customs inspection and priority customs clearance goods, temporary import of tourism items, temporary export and re-import, customs transit, and abandoned and confiscated good disposal; online customs clearance process handling through the ESW; guidance on post-clearance audit within Ethiopian Customs Management Systems (ECMS) through development of a manual;

preparation and implementation of a post-clearance audit quality assurance policy and compliance strategy; review of the Customs Procedure Code (CPC); and study on implementing Authorized Economic Operators (AEO) and Customs Special Service schemes, alongside preparation of an AEO operational and system audit manual.

Business registration and licensing is another common business barrier. The ICT directorate of the Ministry of Trade and Industry (MOTI) administers the Online Trade Registration and Licensing System¹². The new system was launched at the end of January 2021 and all registration and licensing activities are included under it. Whilst digital files of existing businesses have been entered into the new system, currently only about 10% businesses have subscribed under the new system. This is largely because most business licenses are subject to renewal from October to December annually.

All new business registrations and licenses are now handled under the online system. Existing businesses

12 <https://etrade.gov.et/>

will be required to register on the system when they apply for services and the coverage is expected to increase considerably by the end of 2021 due to annual business license renewal.

The system is designed to make it easy for businesses, regulatory agencies and the general public to find information on the status of businesses. Users can easily search for businesses to see information on the business registration and the licenses the business holds. They can check whether specific businesses are duly registered and hold valid licenses for their activities.

Aside from work on the OTRLS, the Ministry of Trade and Industry (MOTI) has developed a ten year development plan (2020-2029) aimed at: developing an efficient and modern trade system; increasing export trade; expanding manufacturing industry; strengthening planning and research capacity; and building implementation capacity. It has also commissioned a first national trade policy that is currently being drafted by a team of consultants. A draft was recently presented to MoTI and after revision it will be presented

to stakeholders. There is also planning for revision to the Industrial Development Strategy (that was launched back in 2002).

Within the MOTI plans, there is a sectoral focus on the following priority sectors in the period through to 2025: Agro –processing (food, beverage, sugar, meat and dairy, honey and wax); Leather and leather products; Textile and garment; Building materials (cement, metals); Basic chemicals and chemical products; Pharmaceuticals and medical equipment; Paper products (pulp production) and printing; Wood products; Agricultural products (pesticides and fertilizer); Plastics/PVC; ICT; and Electronics assembly.

Agriculture is a sector of particular interest to many international businesses operating in Ethiopia. The Ethiopian Investment Commission has been strengthening support in this area, and has established an Agricultural Projects Aftercare and facilitation team that provides direct support to investors in the agricultural sector. Following receipt of an investment permit, investors can be assisted in addressing one of the biggest challenges for investors of obtaining land by working with the relevant

regional administration. After investors acquire land, follow-up is provided to facilitate access to other necessary facilities (such as electricity, telephone, and internet).

When investors request duty free import of goods, applications are submitted to the duty free incentives department (directorate), and checks on progress of the investment are made with field visits to ensure that the investment is properly underway. The incentives department checks that the goods are on the list of approved duty free items and coordinates with the customs commission for duty free processing.

EIC stressed in our consultations with them that investors who face problems should come to them first to try and solve their problems rather than going to other institutions. Despite this, we would note that some survey respondents amongst the international business community have experienced poor service quality from EIC, and there are clearly improvements that can be made in how EIC interacts successfully with businesses, in providing required support in an efficient and timely manner.

Outlook for the next year

Many economic commentators have previously identified the potential for strong economic growth through to 2025 as a result of high levels of foreign investment, and a strong government reform agenda. There is currently less certainty about how this will play out over the next one to two years. The current security situation, and conflict in the North is undoubtedly worrying to the international business community, and resolution of these issues needs to be a clear priority.

It is anticipated that going into 2022 there will be ongoing instability, which may slow the pace of economic reform. Ongoing security concerns may limit new foreign investment, with subsequent constraints on growth in the short term.

In the survey, we asked participants how they would assess the level of anticipated future risks to doing business in Ethiopia in the coming 12 months. Based on this, we can identify 5 key areas of risks that need to be further addressed in policy dialogue work, aside from addressing security concerns:

- » Legal uncertainties related to over-regulation, under-developed legal frameworks, rapidly changing legislative environment, and lack of clarity on application of rules and regulations
- » Ethiopian economic policy framework conditions
- » Exchange rate and foreign exchange restrictions
- » Access to finance
- » Energy and raw material prices

Ranking of Risk Areas	Description	Average Risk Score (out of 100 where 100 is greatest risk in the next 12 months)
1	Legal certainty	60.4
2	Ethiopian economic policy framework conditions	60.3
3	Exchange rate	59.8
4	Access to finance	57.9
5	Energy and raw material prices	50.7
6	Shortage of specialized labour	47.8
7	Infrastructure	43.0
8	Demand for goods and services	41.8
9	Trade barriers / Preferential treatment of domestic companies	38.1
10	Labour costs	34.2

Fundamentally, what international businesses in Ethiopia want and need most to reduce their business exposure to risks in the coming years is support to ensure:

- » An easily understood legal and administrative framework that is predictable, and interpreted in a fair and uniform manner with no surprises;
- » Appropriate growth-oriented economic reforms that have been jointly developed with business to maximise impact

and minimise unnecessary business costs and bureaucracy;

- » Better business financing conditions through a stable exchange rate and improvement in FOREX access; and
- » Predictability in pricing and service delivery in key areas, including stable energy and utilities supplies, access to supply chain inputs and raw materials, and efficient trade facilitation.

Through the online survey comments, and in-depth interviews with businesses, we are able to identify 7 key areas where further practical reforms are needed, and where EUBFE can play a useful role in processes of public-private dialogue to find workable solutions to common business problems. These 7 key areas are outlined in our policy recommendations and conclusions in the next section.

Policy recommendations and conclusions

Key recommendations:

- » Financial sector challenges - Improving access to Forex
- » Customs and tariff challenges - Reducing customs clearance administrative procedures and checks
- » Audit and taxation challenges - Improving auditing and tax appeal procedures
- » Predictability of the business climate - Improving the security situation, critical business infrastructure, and government interaction with international business
- » Post-investment challenges - Improving PPD for better business engagement with Government
- » Labour market challenges - Creating a better match between education and training provision and sectoral skills needs
- » Licenses, permits and approval challenges - Continued administrative simplification, supported by improved administrative guidance to business on required licenses and processes

Based on the challenges and issues identified through the survey, the EUBFE board has identified a number of recommendations and conclusions that can be further pursued through effective public-private dialogue (PPD). We briefly summarise the core issues related to the challenges, and provide general recommendations to address these.

Following the general recommendations presented in the table below, we have further broken these down so that specific recommendations are provided for:

- a) the Government of Ethiopia;
- b) development partners;
- and c) EUBFE.

Table 01: General Recommendations for Improving the Business and Investment Climate

No.	Challenges/Issue	Description	General Recommendation/s
1.	Financial Sector	Access to forex and timely and predictable repatriation of profits remain a challenge among FDI community. Moreover, the banking system is perceived as very frustrating and unfair, and not fit for purpose, with a lack of international banking entities	<ul style="list-style-type: none"> » Improve access to Forex - A major issue for foreign investors in Ethiopia is access to foreign exchange (forex), because of the availability of forex being highly restricted through law and tightly regulated by the National Bank of Ethiopia (NBE). » Identify successful approaches in tackling such a challenge in a comparable economy through benchmarking
2.	Customs and tariff	Customs clearance process takes too much time with too many customs blockages Unpredictable actions of customs authority	<ul style="list-style-type: none"> » Shorten waiting times for customs clearance through the AEO scheme and green lane clearance and by reducing administrative procedures and checks
3.	Audit and Taxation	Application of audit and taxation frameworks and processes can lead to business uncertainty and raised business costs	<ul style="list-style-type: none"> » Business Uncertainty - Currency and price instability, alongside unpredictability of taxation, are seen as problematic in terms of creating business uncertainties. » Audit unpredictability is also affecting the operations of some companies, as comprehensive audit consumes significant time and effort. » Ascertain access to relevant information on tax appeal procedure » Require reimbursement following court appeals at value indexed at point of original payment

No.	Challenges/Issue	Description	General Recommendation/s
4.	Predictability of the business climate	<ul style="list-style-type: none"> » A worsening security situation is identified as an issue, alongside specific reference to the conflict in the North, and sporadic riots and strikes » Infrastructure-related issues such as power shortages and poor internet are also a source of problems for businesses that impact on costs and prices » Cumbersome bureaucracy and lack of skill to cater for dynamic needs of international business » Government interactions with identified as a source of frustration in general, with the survey identifying a lack of understanding of international business requirements » Frequent changes in regulations 	<ul style="list-style-type: none"> » Resolution of the security situation to improve Investment Safety. » Continued focus on enhancing infrastructure development » Identify and address weaknesses in business-Government interaction and engagement » Engage in sustained public-private dialogue processes to improve legislative development and implementation
5.	Post-Investment Service	<ul style="list-style-type: none"> » Sporadic public-private dialogue 	<ul style="list-style-type: none"> » Proactive Engagement between private sector and the relevant authorities needs to be established » Outcomes of PPD needs to be documented and followed up
6.	Labour Market	<ul style="list-style-type: none"> » The education sector isn't keeping up with current needs and rapid growth of the sector and doesn't produce sufficient qualified people » Human capacity and skills can be low 	<ul style="list-style-type: none"> » Engage and work with the international business community to identify and address any identified skills mismatch and labour mobility issues and improved quality of provision of TVET and University education
7.	Licenses, permits and approvals	<ul style="list-style-type: none"> » Business licenses have to be renewed every year requiring tax clearance 	<ul style="list-style-type: none"> » Continue process of streamlining of business licensing permit and approval procedures » Provide better administrative guidance to business on required licenses and processes

In the table below, we extend the recommendations to identify what the Government should do in each of the areas above, where

the donor and development community can aid reforms and implementation, and how EUBFE can support these processes.

Table 02: Recommendations for Business and Investment Climate Improvements

No.	Challenges /Issue	Specific Recommendations		
		GoE/Relevant Authorities	Development Partners	EUBFE
1.	Financial Sector	<p>NBE</p> <ul style="list-style-type: none"> » NBE should engage with the private sector more to ascertain the effectiveness of forex management regulations » Improve business accessibility and dissemination of Foreign Exchange Operation Guidelines, Foreign Exchange Directives and queue placements 	<p>Development partners support the implementation of the economic reforms, that would bring about addressing macroeconomic imbalances in the mid-term</p> <p>In the short-term, capacity of NBE should be enhanced to cater for the dynamic needs of the business climate following international best practice in Business taxation investment and currency regulations</p>	<p>Establish sustained platform to engage with relevant authorities and inform member companies on developments</p>

No.	Challenges /Issue	Specific Recommendations		
		GoE/Relevant Authorities	Development Partners	EUBFE
2.	Customs and tariff	<p>ECC</p> <ul style="list-style-type: none"> » ECC should engage with the private sector to identify bottlenecks and provide swift resolution » Harmonize service quality and standards across all customs branches » Review e-governance to improve system efficiency 	<p>Support harmonization and cooperation between ECC and other government authorities involved in clearance of imports</p>	<p>Support members by engaging with ECC on making available relevant and up to date information</p>
3.	Audit and Taxation	<p>MoR</p> <ul style="list-style-type: none"> » Prior consultation should remain the modus operandi of the government agency concerned » Indicative timeline on comprehensive audits should be shared with companies » Audit manual to be shared with businesses 	<ul style="list-style-type: none"> » Support automation of tax payment services and complaint handling mechanisms to aid transparency » Strengthen private sector engagement mechanisms to infuse institutional accountability, follow up and policy and/or operational recommendations 	<p>Continue to engage with MoR at both policy/high level as well as operational/mid-level</p> <p>Create a platform to share and update members on new developments in the regulatory arena</p>

No.	Challenges /Issue	Specific Recommendations		
		GoE/Relevant Authorities	Development Partners	EUBFE
4.	Predictability of the business climate	<p>EIC, MoP, MoR, EthioTel, ECC</p> <ul style="list-style-type: none"> » All ministries and authorities that are primarily engaged with the private sector should institutionalise private sector engagement » Access to relevant information should be readily available to the private sector » Enhanced engagement with the government on security updates and proactive support to investors » Harmonisation of services across regional states should be ascertained in the spirit of the new investment proclamation » Continuous capacity building 	<ul style="list-style-type: none"> » Support automation of services by the public sector, that promote transparency and efficiency » Invest in capacity building of public servants to meet the dynamic need of international businesses, in particular in taxation, customs and logistics 	<ul style="list-style-type: none"> » Sustained dialogue with government authorities » Document and disseminate successful CSR engagements that provide template for new investors to seamlessly start operations

No.	Challenges /Issue	Specific Recommendations		
		GoE/Relevant Authorities	Development Partners	EUBFE
5.	Post-Investment Service	<p>EIC</p> <ul style="list-style-type: none"> » EIC should lead proactive engagement between the Government, regions and the FDI on a regular basis » EIC should monitor the business climate and intervene swiftly » Aftercare service should be made available to existing FDI 	<ul style="list-style-type: none"> » Support studies that identify and provide solutions to systemic bottlenecks » Promote and invest in sustained PPD 	<ul style="list-style-type: none"> » Follow up on MoUs signed with MoR, ECC, MoTI and MoH in realizing their targets » Engage with the government based on empirical studies that give rise to policy recommendations
6.	Labour Market	<p>Ministry of Higher Education</p> <ul style="list-style-type: none"> » TVET and higher education institutions should improve education-industry linkage via involvement of private sector in curriculum development » Incentive mechanisms that promote business-education linkage as well as on-the-job training should be instituted 	<ul style="list-style-type: none"> » Investment in studies and institutional and regulatory capacity that's promote industry-education linkage 	<ul style="list-style-type: none"> » Promote and lead industry-education linkages
7.	Licenses, permits and approvals	<p>MoT, EIC</p> <ul style="list-style-type: none"> » Review and streamline the cumbersome annual business license procedure » Automate business licensing process » Ease work permit processes 	<ul style="list-style-type: none"> » Support studies to provide analysis of alternatives and best practices to facilitate efficient business licensing and work permit practices 	<ul style="list-style-type: none"> » Engage with MoT and other relevant authorities to promote information exchange between international businesses and the private sector community and public sector counterparts

Appendices

Appendix A: Survey Design

The survey was commissioned by EUBFE, and supported and financed through the Investment Climate Reform (ICR) Facility. This is co-funded by the European Union (EU), the Organisation of African, Caribbean and Pacific States (OACPS) under the 11th European Development Fund (EDF), together with the German Federal Ministry for Economic Cooperation and Development (BMZ) and the British Council. It is implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), the British Council (BC), Expertise France (EF), and Stichting Nederlandse Ontwikkelingsorganisatie (Netherlands Development Organisation, SNV).

In implementing the survey and developing the report, EUBFE has worked closely with the Club d’Affaires Franco-Ethiopiennes (CAFE) and the Ethiopian Netherlands Business Association (ENLBA). To manage the survey planning and delivery a Task Group was established that has overseen the process. Implementation support has been provided through a team of international and Ethiopian technical experts provided through the German development aid consulting company GFA Consulting Group GmbH.

The main data collection instrument was an online survey administered from May-July 2021. This was distributed to international businesses operating in Ethiopia through EUBFE, CAFÉ and ENLBA, as well as through Embassies with the support of the Delegation of the European Union to Ethiopia. The design and content of the survey was agreed through the EUBFE Task Group.

In total 84 usable survey forms were completed, which the report has used as the basis for main findings. Consent was obtained from companies to use the results to process them for this report.

In addition to the online survey, a series of follow-up in-depth face-to-face interviews were conducted online and in-person. These explored the themes and issues covered by the survey in more depth.

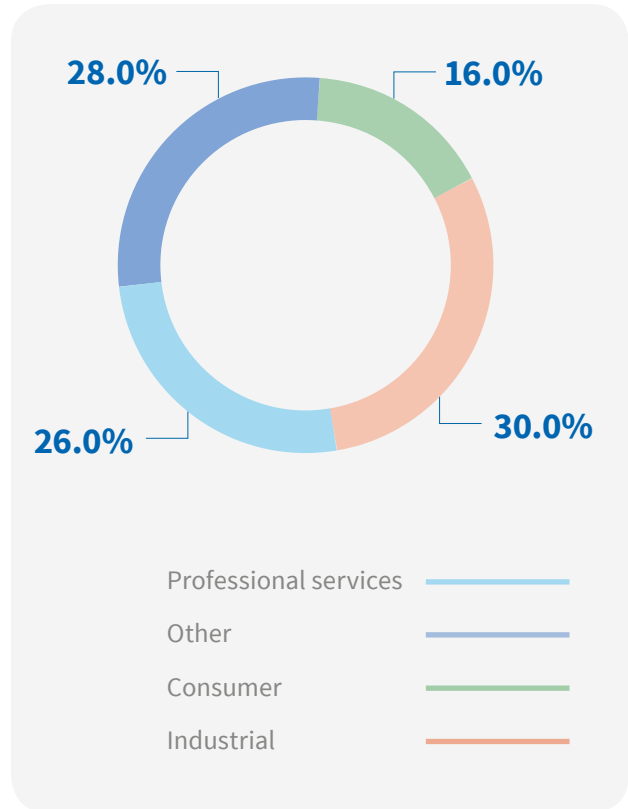
To assess the policy background and recent developments in more detail, following up on the survey themes, interviews were also carried out with main Government Ministries as well as the Ethiopian Investment Commission.

Appendix B: Background on companies

In total, 84 usable survey questionnaires were submitted. The businesses represent a wide spread of international business activity in Ethiopia. Businesses operating in industrial sectors, including agri-food processing, represented the largest broad grouping of survey participants (30%).

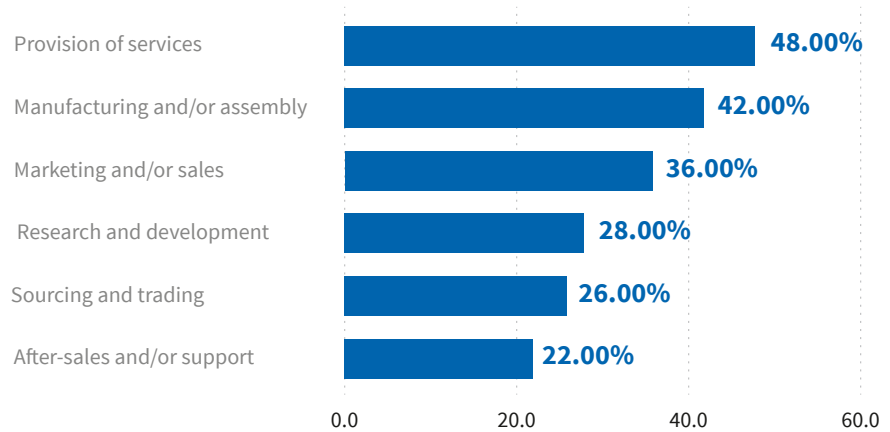
Within this broad breakdown of activities, respondents identified a wide range of specific activities and sectors that they are engaging in within Ethiopia, as illustrated in the word cloud below. As is readily apparent, agricultural terms feature strongly. This reflects the importance of the agriculture sector within the Ethiopian economy, and the involvement of international business within this strategic sector.

Figure 14: Broad sectoral breakdown of survey respondents



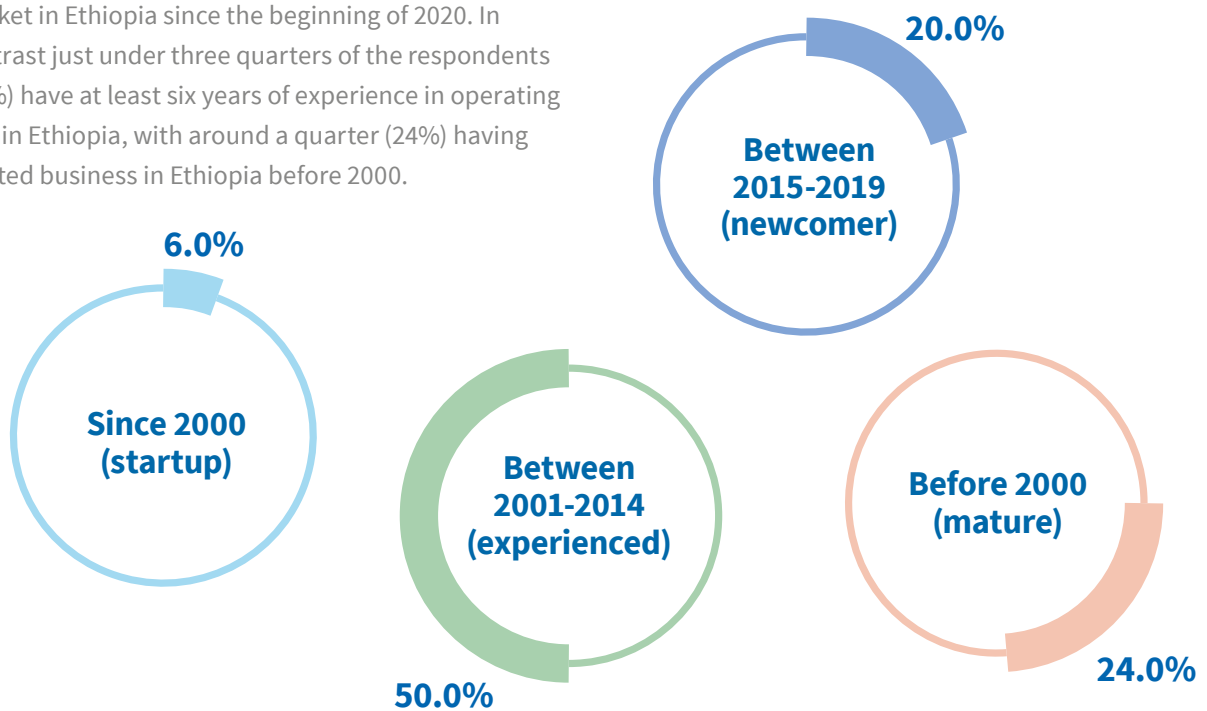
Businesses were asked what their main areas of activity within Ethiopia are. Most common were providing services (mentioned by 48% of respondents), manufacturing or assembly, and marketing and sales. It is encouraging to note that more than a quarter of respondents highlighted their activities in research and development.

Figure 15: Major activities conducted in Ethiopia by survey respondents



The businesses responding to the survey are on the whole well experienced in operating in Ethiopia, and bring this experience to bear in identifying the key issues to be addressed in improving the business environment and investment climate. Only 6% of respondents were startups who had entered the market in Ethiopia since the beginning of 2020. In contrast just under three quarters of the respondents (74%) have at least six years of experience in operating within Ethiopia, with around a quarter (24%) having started business in Ethiopia before 2000.

Figure 16: Period since commencement of operations in Ethiopia



Larger international businesses are the most common survey respondent, with 60% of responses coming from businesses that employ more than 250 people globally. Nevertheless, just under one in five (18%) were very small microenterprises with less than ten employees.

The pattern of size of Ethiopian operations by employment size of these international businesses operating in Ethiopia is more evenly distributed. With more than 85% of respondents employing at least ten employees within Ethiopia, the contribution these businesses make to the Ethiopian economy and employment is significant.

Figure 17: Global employment size breakdown of survey respondents

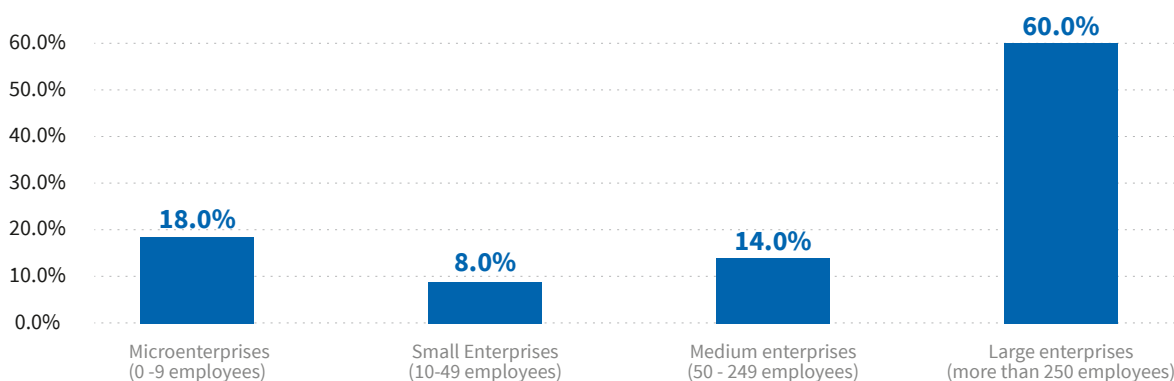
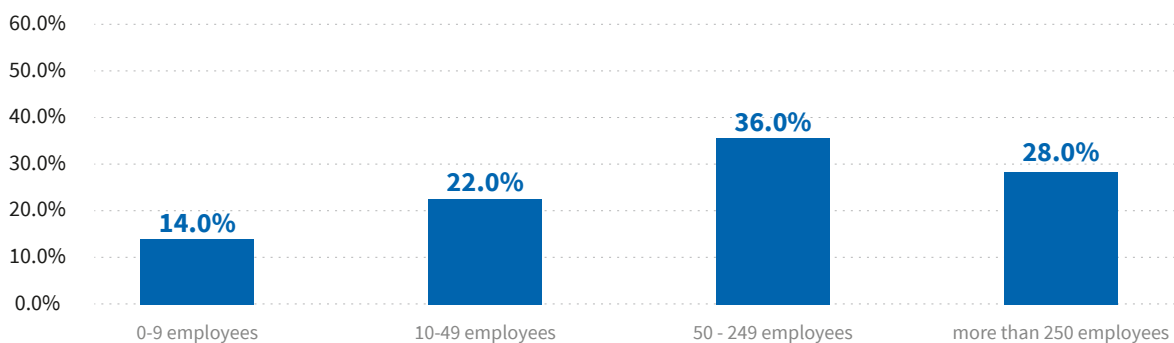


Figure 18: Business size breakdown by number of employees in Ethiopia (survey respondents)



Appendix C: Background on EUBFE

The European Business Forum in Ethiopia (EUBFE) has the vision of supporting Ethiopia in becoming one of the most attractive business environments and the commercial capital of Africa through an inclusive economy. EUBFE aims to be the partner of choice for the Ethiopian government for policy engagement, as the leading foreign investor association in Ethiopia

It was established in 2012 in response to the need for (i) a sustained dialogue with the Ethiopian authorities; and (ii) a platform for networking and information-sharing between EU businesses. It operates as an independent legal entity, since formally registering in February 2017 as a ‘Foreign Investors Association’.

EUBFE is actively supporting and contributing to Ethiopia’s development through bringing in and expanding high quality investments from EU companies and individuals. This is creating jobs, transferring knowledge, earning foreign exchange and accelerating growth.



It is facilitating operations for EU companies doing business in Ethiopia through:

- » Improving exchange of information about the Ethiopian business and regulatory environment;
- » Developing a platform for networking and forging business links between EU companies; and
- » Facilitating dialogue with the Ethiopian authorities.

EUBFE is managed by a Board of 10 members representing the EU business community in Ethiopia and is headed by a Bureau made of a Chairman, a Vice-Chairman, a Treasurer and a Executive Director.

For further information, or for membership inquiries please visit our website (www.eubfe.eu) or email us at: contact@eubfe.eu



