

Time to invest in Ethiopia

New Year Message

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31 December 2020

As we approach the end of 2020, I wish to take this opportunity to wish you a Happy New Year and the very best for 2021. In many ways, the year 2020 has been a memorable year for all the wrong reasons. What started as a promising year, especially for Ethiopia, and the beginning of a new decade turned very quickly into one of the most challenging years that the world has seen in recent history. Countries across regions and the world at large, regardless of size and level of development, were forced to implement partial and total lockdown of their economies with devastating consequences on business, employment and investment flows. No-one predicted the Covid-19 pandemic and the economic crisis that followed. Therefore, no country was prepared for it.

Ethiopia was among the first set of countries that took bold and decisive actions to increase awareness of Covid-19 pandemic among the population and introduce effective measures to control the spread of the virus in the country. Thanks largely to the farsighted and astuteness of the Ethiopian leadership, these measures were implemented swiftly and effectively.

In addition to increasing facilities in the health sector, the Government undertook a series of policy measures to prevent mass unemployment, minimize hardship among low-income households and support the business community, both small and large. During the early days of the pandemic, the Council of Ministers announced several tax-related measures and an employee pension payment scheme covering the first few months of the year. The National Bank of Ethiopia also made over 15bn ETB available to private banks in the form of liquidity injection to enable them to provide debt relief and additional loans to their customers. Moreover, banks were instructed to allocate foreign currency to importers and manufacturers engaged in the production and supply of products used to control Covid-19.

To increase local production of Personal Protective Equipment (PPEs), the Government introduced specific policy measures aimed at supporting the manufacturing sector and the suppliers of inputs needed for the production of PPEs. Imports of raw materials and equipment related to Covid-19 were automatically exempted from taxes. Moreover, the Ministry of Revenue expedited VAT returns for manufacturers and exporters; waived rental shed payments; extended VAT and turnover tax payments; and allowed manufacturers, who could export their products, to sell them in the domestic market.

Indeed, the whole government machinery was mobilized to provide operational support to manufacturers. For example, the Ethiopian Food and Drug Authority (EFDA) issued a temporary COVID-19 medical products approval and import permit authorization directive, and a guideline to expedite the authorization processes for manufacturers, importers, and sales of COVID-19 medical products. The Ministry of Transport, Ethiopian Shipping and Logistics Services, and Ethio-Djibouti Rail also introduced price reductions for inland transport and Covid-19-related dry port services. The Customs Commission also suspended demurrage costs for Covid-19-related import and export products. All these and other policy responses taken by the government of Ethiopia helped to control the spread of the virus and minimize the potential negative impact of the Covid-19 shock on the Ethiopian economy.

As a gateway to investment flows to Ethiopia, the primary goal of the Ethiopian Investment Commission (EIC) is to attract and increase quality investment to Ethiopia and ensuring that the business environment is conducive for investors to prosper and contribute to growth and economic development. In the aftermath of the outbreak of the Covid-19 pandemic, the EIC contacted many investors in Addis Ababa and different regions to reassure them and pledge EIC's commitment and readiness to provide support as needed. Sadly, many exporters of manufactured products - operating both within and outside the Industrial Parks - were badly affected by the sudden collapse in external demand and the disruption of trade flows following the lockdown measures introduced by governments in major economies where the markets for Ethiopian exports are located.

The EIC worked closely with these companies to assess the implications of the unfolding crisis and find solutions that would mitigate the immediate adverse impact. Indeed, as a stop-gap measure, the EIC began encouraging both domestic and foreign investors to repurpose, retool and manufacture PPEs for domestic use and also to export to regional markets and beyond. Working closely with other public institutions, the EIC identified and supported companies that were able and willing to repurpose and start manufacturing PPEs. This initiative has opened new opportunities for companies that never thought it would be possible to start new production lines and produce a diverse range of products to supply to the growing domestic market and export to regional markets and beyond.

The future is promising: 2021 - a year to invest in Ethiopia

For many years, Ethiopia achieved double-digit growth rates and impressive achievements in economic diversification and poverty reduction. It also emerged as one of the most favoured investment destinations in Africa. Indeed, these achievements were hailed as one of the greatest African stories of the 21st century, giving hope to many in the continent that with the right policies and the right political leadership, sustained growth is possible even in low-income

economies. The EIC wishes to build on these successes as we look forward to the future and prepare for recovery from the Covid-19 crisis.

There are many building blocks to support sustained investment flows and economic growth in the coming years. Over the last few years, Ethiopia has built world-class industrial parks to promote export-led industrialization, attract investment, encourage technology transfer and produce light manufacturing products for export. The parks have enabled Ethiopia to increase exports in textile and leather products, and entice anchor investors - some of them leading global corporations in the apparel sector such as PVH and H&M – to source supplies from Ethiopia. Since the establishment of industrial parks, FDI inflow to Ethiopia has been growing by 50 per cent per year on average, reaching the peak of \$4.1 billion in 2017. Ethiopia is now the largest recipient of FDI in the East African region and the fifth largest FDI destination in Africa after Egypt, South Africa, Congo and Morocco.

In the last two years, the Government of Ethiopia, under the leadership and guidance of His Excellency, Dr Abiy Ahmed, the Prime Minister of Ethiopia, has initiated a series of economic reforms aimed at correcting imbalances in macroeconomic policies, improving the business environment, strengthening the role of the private sector in the economy and attracting foreign investment. The reform agenda has placed greater emphasis on job creation, liberalization of the investment regime and the upgrading of the country's knowledge base, particularly in digital technologies. It will pave the way for future growth and recovery from the Covid-19-crisis.

Economic reforms as building blocks: paving the way for investment-led growth

The main focus of recent reform agenda has been on finding short-term solutions to macroeconomic imbalances, particularly foreign exchange constraints, and creating a legal and business environment attractive to investment. To assist with these adjustments, the Government launched a *Home-Grown Economic Reform Agenda (HGRA)*. As the name

implies, the HGERA was not designed with external support but through an internally driven policymaking process reflecting the government’s desire to shift policy direction from State-driven to private sector-led growth and development. The principal objective of the HGERA is to stabilize the economy within three years and pave the way for another decade of high-level and investment-led growth. The HGERA is grounded on three pillars:

- **Macroeconomic reforms** - to correct foreign exchange imbalances, control inflation, safeguard financial stability and ensure debt sustainability;
- **Structural reforms** - to ease institutional and structural bottlenecks to business development and job creation; and
- **Sectoral reforms** - to address market failures inhibiting export growth in key strategic sectors, particularly agriculture, manufacturing, tourism, mining and ICT.

The implementation of the HGERA began in mid 2019 and within a few months, the country was witnessing early signs of economic stabilization as demonstrated by a decline in inflation and improvements in foreign exchange supply. Thus, when Covid-19 was declared a global pandemic in February 2020, Ethiopia was already on a growth trajectory. The trend was so promising, international organizations were projecting that Ethiopia’s growth rate would exceed 8%, well above the world average.

It is clear, therefore, that if it had not been for the outbreak of the Covid-19 pandemic in early 2020, the economic reform that began in 2019 would have enabled Ethiopia to stabilize its macroeconomic imbalances, improve export performance, attract more foreign investment and achieve the level of growth projected by the World Bank. However, that was not to be due to the negative global economic impacts generated by the Covid-19 pandemic.

As we look towards 2021, the prospect for Ethiopia appears promising due to the policy adjustments introduced in the last two years. The government intends to use the HGERA as a springboard to implement a Ten-Year Perspective Plan (TYPP – 2021-2030) aimed at achieving inclusive and sustainable growth and structural transformation. The TYPP gives greater emphasis to the quality of economic growth, particularly job creation and poverty reduction, solving the institutional and administrative bottlenecks to investment, encouraging entrepreneurship and building economic resilience. The main macroeconomic goals of the ten-year plan are to increase investment in export-oriented activities, create 1.3 million jobs per annum, enhance the contributions of the manufacturing sector to economic development and fast-track the graduation of Ethiopia into a middle-income economy.

Achieving these goals will enable Ethiopia to accelerate the recovery from the economic recession created by the Covid-19 shock. An important requirement for recovery is the ability of the country to attract Foreign Direct Investment (FDI). FDI brings with it not only the finances needed to initiate investment projects but also the technology, technical know-how, management skills, product design and the marketing network that Ethiopia needs to produce high-quality products and build domestic productive capacity through learning and linkages.

Fortunately, the investment law reforms, and the broader macroeconomic adjustment undertaken since 2018 have focused on creating a conducive environment for attracting FDI into priority sectors. In this respect, three key reform areas that are critical for post-Covid-19 recovery and for attracting investment during 2021 and beyond are worth highlighting. They include:

- the modernization of Ethiopia’s investment regime;
- the ongoing efforts to create a user-friendly investment environment by improving the ease of doing business; and
- the decision to privatize state-owned enterprises.

In January 2020, the Ethiopian Parliament approved a new investment proclamation, signalling a major shift in the country’s policy direction towards investment. The new proclamation has opened sectors and activities that were previously closed to foreign investors while, at the same time, ensuring that certain activities remain open only to local investors and Ethiopian Diasporas. More importantly, however, the new regime has made it relatively easier for foreign investors to identify sectors or activities where they are allowed to invest and has introduced a transparent dispute settlement mechanism. The main guiding principle behind the investment policy reforms has been the need to adopt international best practices and ensure that the new investment proclamation is compatible with attracting quality investment that contributes to exports, job creation and economic growth.

Similar approaches were also followed in reforming the procedures for starting a new business. The aim is to improve the country’s performance in the World Bank’s Ease of Doing Business Index, which is widely accepted by foreign investors as a useful indicator of the affability of the domestic policy environment and administrative procedures for starting a business in a country. Currently Ethiopia ranks 159 out of 190 countries and the goal is to improve Ethiopia’s ranking to less than 100 in three years. The initiative to improve Ethiopia’s doing business ranking was launched by the Prime Minister, Dr Abiy Ahmed who is convinced of the importance of creating a business-friendly policy environment as part of the broader economic competitiveness and job creation agenda. Already a number of procedures, including administrative requirements for starting a business, securing credit, tax payment schemes, registration of property, getting access to electricity, enforcement of contracts, construction permits as well as other requirements have been revised and in some of cases removed from the processes involved in starting a new business or initiating an investment project.

All these ambitious reforms along with the ongoing efforts to privatize State-owned enterprises in key sectors such as energy, telecom, services and the manufacturing sector will enable Ethiopia to position itself as an attractive investment destination and kick-start the post-Covid-19 recovery agenda. In this respect, as we move into 2021, Ethiopia is ahead of many countries in implementing the policy reforms necessary to start the post-Covid-19 recovery phase and attract increased investment into priority areas.

Aware of this potential, the EIC has initiated a series of organizational reforms and developing the tools that the agency needs to service investors effectively and attract increased additional investment into priority sectors. We are currently developing a new investment promotion strategy that reflects appropriately the new investment proclamation, which, as already noted, is compatible with international best practices. We are also implementing a new aftercare strategy designed to ensure continuous engagement with existing investors and to facilitate post-establishment support to investors, including possible disputes or complaints that may arise. In this respect, the new scheme that the EIC introduced to deal with grievances by investors promptly and appropriately is a good example of the reforms that the EIC has been introducing to make the agency fit-for-purpose and client-oriented. Moreover, the EIC is currently reviewing its internal organizational structure and its working relationship with other public institutions with a view to improving coordination in the delivery of investment facilitation and aftercare services. In this connection, priority will be given to EIC's working relations with regional Investment Commissions, which are important players in facilitating and supporting investors in the respective regions.

At the EIC, we believe that continuous and active engagement with key stakeholders, particularly investors, is the central responsibility of an investment promotion agency such as the EIC. We have already started meaningful dialogue with various investors, key public institutions and representatives of development partners. As we move into 2021, we intend to build on this momentum to ensure that those who are already investing in Ethiopia continue to engage even more actively and also to ensure that 2021 is a year for other investors to choose Ethiopia as an investment destination. It is my hope and new year wish that together we will make 2021 a year to invest in Ethiopia and benefit from the enormous and diverse opportunities that the country offers.

I, and all colleagues at the EIC, wish you a Happy New Year and good health, happiness and prosperity for 2021.