

Private Equity in **ETHIOPIA**



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WHY ETHIOPIA?



1. Stability and Security

Ethiopia is the **oldest independent** country in Africa, and is among the most stable countries in the region.

Addis Ababa, hosting the African Union Headquarters, main UN offices and an important EU representation, might be considered as the **diplomatic capital of Africa**.

Security in Ethiopia has been ranked 55th out of 148 countries by the World Economic Forum, well above most of its regional peers such as South Africa (109th), Kenya (131st), and Nigeria (142nd).

In fact, Ethiopia ranked 36th and 38th globally in business costs of crime and violence, and organized crime.

2. Good Legal Framework

The Ethiopian Constitution of 1995 regulates a clear legal system that it is based mostly on continental tradition and his codifications (it exists a civil code, a commercial code, etc) with some influence from the common law system.

Laws and regulations are published in the Negarit bulletin in bilingual version Amaharic / English. Directives issued by Ministries and other public bodies are not published and usually not translated from Amharic.



3. Steady Growth

Steady GDP growth since 2004 (average rate 10%) / Steady per-capita GDP growth and feasible goal to achieve the status of medium income country by 2025

In the 2012/13 fiscal years, Ethiopia's economy **grew by 9.7%**. Average annual real GDP growth rate for the last decade was 10.9%.

Agriculture, which accounts for 42.9% of GDP, grew by 7.1% in 2012/2013, while **industry**, accounting for 12.3% of GDP, rose by 8.5% and **services**, with 45% of GDP, increased by 9.9% in 2012/13.

The Ethiopian Government with the new GTP II has focused his efforts to promote the industrialization process of the country.

Annual consumer price **inflation of 7.9%** in November 2013, compared to 39.2% and 15.6% in November 2011 and 2012, respectively.

4. Population

With a population of **95 million**, Ethiopia is the **second most populated** country in Africa (after Nigeria).

Urban areas like Addis Ababa, Mekele, Dire Dawa, Bahr Dahr are growing fast and improving their infrastructures.

For instance this year, the first city **light train** operating in Africa, has been inaugurated in Addis Ababa.

5. Availability of land and water

Land for investments might be leased from the State for very long periods (depending on investment sector) at a very low price if compared with other countries and with optimal financial conditions.

Ethiopia is endowed with a substantial amount of water resources. The surface water potential is impressive (even if little developed)



6. Abundant and Affordable Labor force

Ethiopia's labor law, which regulates worker-employer relations, is in line with international conventions.

With over **43 million workers**, Ethiopia has the second largest labor force in Africa (*World Bank's Doing Business Report, 2014*).

Ethiopia's minimum wage is among the lowest in Africa.

Generally, private sector monthly salaries for **university graduates** range from **USD 150 to USD 200**, while construction sector monthly wages range from USD 60 for daily laborers to USD 300 for a foreman (*Source: Ethiopia's Ministry of Urban Development and Construction*).

7. Well trained and/or educated young labor force

20% of the Ethiopian population is aged between 15 and 24 years, 30% between 25 and 54.

Primary school enrolment rates have reached **85.7%** in 2012/13.

By 2009/10 there were 200,000 students enrolled in higher education institutions, proportionately twice the number enrolled in universities in Kenya in 2012 (Deloitte, 2014).

There are more than **30 universities** in Ethiopia and recently the Government has approved to create 10 universities more in the next years.



8. Investment Incentives

Ethiopia offers a comprehensive set of incentives, particularly for priority sectors, such as:

- **Customs duty payment exemption** on capital goods and construction materials, and on spare parts whose value is not greater than 15% of the imported capital goods' total value.
- Income **tax exemption** from two to seven years for manufacturing or agro-processing and agricultural investments.
- Carry forward of losses for half of the tax holiday period.
- Several export incentives, including the Duty Draw-Back, Voucher, Bonded Factory and Manufacturing Warehouse, and Export Credit Guarantee schemes.

Recently the Government has published a new proclamation on **industrial parks** that offer very interesting incentives for parks developers, operators and established companies such as extended tax holidays, no restriction to get external loans in foreign currencies, among others. In addition, the government guarantees the remittance of profit, dividends, principals and interest payments on external loans, and the provision of land at competitive lease prices.



9. Export Opportunities (EBA, AGOA, etc)

Ethiopian products have **duty-free, quota-free access to the US and EU markets** under the African Growth and Opportunities Act (AGOA) and the Everything But Arms (EBA) initiative, respectively.

Ethiopia's main exports are gold (21 percent of total exports) and coffee (19 percent). Others include: live animals, oilseeds, leather products, textiles, flowers and khat.

Ethiopia main export partner is **Switzerland** (21 percent of total exports) mainly for export of gold. Others include: Somalia (11 percent), China (18 percent), Germany (8%), Belgium (7%), Sudan (8 percent) and Saudi Arabia (7 percent).

10. Huge market: domestic + gulf countries + Asia + COMESA + EU + USA

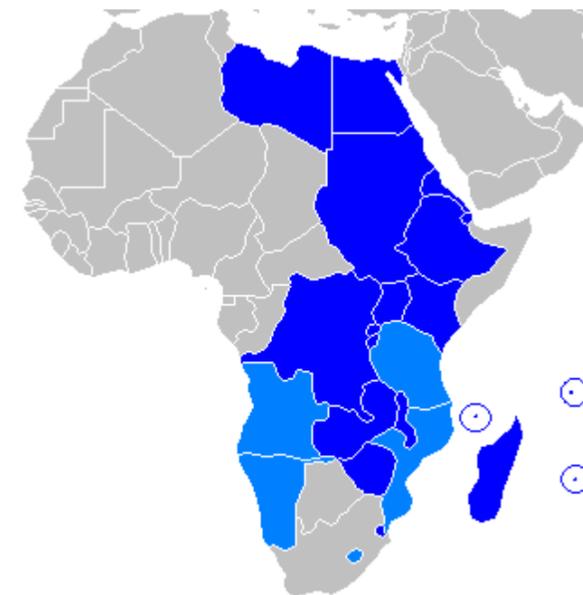
Ethiopia is expected to become a **middle income country** by 2025.

The Ethiopian medium class is indeed increasing and the diaspora people and the huge number of expatriates leaving in Addis Ababa constitutes at this time important domestic consumers potential.

Ethiopia is part of the **Common Market for Eastern and Southern Africa (COMESA)** comprising 19 member countries and over 400 million people.

The geographic situation is very favorable for exports to the Gulf Countries and the strong economic relationship with China and other Asian countries (India and Korea for instance).

Ethiopian Airlines serves 91 International and 20 Domestic destinations (24 for cargo network)



WHY NOW?



1. **Improved infrastructures** (Highway, Railway to Djibouti by 2016, Ethiopian Airlines, etc)
2. **Incipient market** and less competition
3. **Domestic entrepreneurs** looking for joint ventures with foreign investors and specially for know how and technology.
4. Strong investment **incentives**
5. Availability of domestic and international **public financing** (DBE, IFC, etc)
5. **Challenges:**
 - Availability of foreign currencies
 - Imports procedures (logistic and custom clearance)
 - Bureaucracy



WHAT SECTORS?



- ▶ **Agriculture** and Agro-Processing
- ▶ Manufacturing of **Textile** and Leather Products

 **Export** oriented and import-substitution business

- ▶ **Green Energy** Production
- ▶ **Industrial parks** development and/or operation

 In PPP or state contracts



WHAT STRATEGY?



- 1. Contribution of Know How and Technology**
- 2. Improve Manufacturing / Processing Value Added**
- 3. Improve quality and compliance with the EU and USA standards**
- 4. Invest in capacity building of the domestic labor**
- 5. Be competitive in the international markets**
- 6. Take the opportunity for the huge domestic market**





THANK YOU

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