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Foreword Innovation Norway: Rita Brokstad

International Business Project has more than 35 years of experience with projects that allow Norwegian students to gain valuable experience from working with international industries. Innovation Norway has been a proud partner of the program since the beginning. The Project gives ambitious students international work-related experience, where they learn leadership and improve their skills in project management and international collaboration. To most Norwegian companies, Ethiopia remains unknown territory. With this report, the students hope that Norwegian businesses will gain more insight and crucial market information about opportunities in Ethiopia.

Ethiopia, Africa's oldest independent country and it's second-largest in terms of population, has long been one of the poorest and least developed countries.
Economic growth and optimism have marked Ethiopia in recent years. Massive economic reforms led by Prime Minister Aiby Ahmed has put Ethiopia on the world map – and won him global recognition – including the Nobel Peace Prize. But this fast approach has also stirred simmering ethnic and political divisions in the country, where uncertain political and economic environments are well-known challenges for trade and development. However, the situation Ethiopia and the world is now facing due to the Covid-19 pandemic is taking a severe and fundamental impact on the entire economy worldwide, and has already caused severe damage. Norway, with a strong, small open economy with 5,5 million people, has the capacity and resources to combat and implement several economic measures. But Ethiopia, with 105 million people, a weak economy is in a totally different position. The large economic growth in Ethiopia recent years has made it possible to focus on education, poverty reduction, and infrastructure. But still, Ethiopia is one of the most aid-dependent countries in the world. Most Ethiopians live in the countryside and feed on agriculture. Coffee is the most important export commodity. The fact that the economy is dependent on agriculture makes the country particularly vulnerable to periods of drought. The country has been starved several times, even during periods with typical weather. Now the Covid-19 pandemic threatens food security even further.

Hydropower is Ethiopia's most important natural resource. The country is developing dams and power plants. It gives enormous opportunities but also creates challenges towards neighboring countries and environmental protests. Ethiopia is in dire need of importing goods, mainly oil, electronics, and machinery, and the country has a trade deficit. China is the most important trading partner. Ethiopia has many needs and challenges - and Norwegian and international companies can contribute to solving many of these. A limited number of Norwegian companies are active in Ethiopia today. But there is an increasing interest from Norwegian companies, both large and smaller investors, exporters and entrepreneurs have found exciting business opportunities in the country. This report will give valuable market knowledge and an overview for further engagement. Innovation Norway, with the support from the Norwegian Ministry of Foreign Affairs, is very pleased to be a partner for the International Business Project report.

Rita Brokstad,
Regional Director Africa & Middle East,
Innovation Norway

Foreword IBP: Project Leader

International Business is an independent, non-profit student project that is carried out annually by a group of students BI Norwegian Business School (BI), the Norwegian School of Economics (NHH) and the Norwegian University of Science and Technology (NTNU). The project was initiated in 1984 by Innovation Norway, to explore international market opportunities for Norwegian companies. Since its inception, students have been recruited. The main purpose of the project is to explore and define market opportunities for Norwegian companies in emerging markets. Our study uncovers distinctive market opportunities and seeks to develop understanding and awareness of cultural discrepancies that may occur in interactions with foreign markets and business culture. The project's final product is this extensive report, which delves into the opportunities available to Norwegian companies interested in establishing or investing in Ethiopia. The methodology of this research is similar to an academic paper. Using reliable sources, the research was conducted in a conjoined effort from both primary and secondary-gathered data. Our data was collected both from experts in Norway and during our study trip to Addis Ababa, Ethiopia, in January 2020.

International Business is a unique multidisciplinary project which brings students from three major Norwegian schools together. Each year it allows participants to develop communication and information gathering skills and build networks between students and the business sector. We gained a lot of valuable experiences working together, many of which will be highly relevant for our future careers. The team this year has been highly diverse, with group members from Nepal, Bangladesh, Pakistan, Greece, Germany, France, and Norway. The beauty of diversity has challenged and inspired us to see Ethiopia's culture and business environment from several viewpoints.

I would like to express our sincere gratitude to our sponsors; without the support of these Norwegian companies, eager to partner with students, we would never have been able to complete our project. We are thrilled by your contributions, and we hope that you continue to see value in such student projects. Our institutional partners (BI, NTNU, NHH and Innovation Norway) are invaluable as they provide us with a platform to drive this student project forward.

On behalf of the 36th team of the International Business Project, I am proud to present our report. This project focuses on opportunities for Norwegian companies and entrepreneurs in Ethiopia. During our project time, Ethiopia's prime minister, Abiy Ahmed Ali, received the Nobel Peace Prize. The motivation for the prize were his efforts to achieve peace and international cooperation, and in particular, for his decisive initiative to resolve the border conflict with neighboring Eritrea. With this prize, the interest and focus on Ethiopia have increased, which is essential as a part of the world's goal to achieve sustainable development. I hope you find this report interesting and helpful, and that it also inspires you to invest and find new business opportunities in Ethiopia.

Eline Eilerås
Project Leader, 2020

INTRODUCTION

Ethiopia in a Nutshell

We find The Federal Democratic Republic of Ethiopia, located in the north-eastern part of Africa, known as the Horn of Africa. Ethiopia is the most populous landlocked country in the world and shares borders with Sudan to the north-west, South Sudan to the west, Kenya to the south, Somalia to the east, Djibouti to the northeast, and Eritrea to the north [1]. Ethiopia is the oldest independent country in Africa. Since the land never was colonized, apart from a five-year occupation by Mussolini's Italy in 1935, it has retained much of its unique cultural identity and traditions. The Greek etymology aithos and ops meaning "burn" and "face" gives the name Ethiopia the translation and meaning "burned faces," or "The Land of Burned Faces." Addis Ababa is the capital of Ethiopia, also named Addis Ababa, which means "new flower" or "natural" spring. The Capital is the largest city in Ethiopia, and it is home for the African Union and the United Nations Economic Commission for Africa [2].

Ethiopia is home for more than 80 different ethnical groups, whereas the Oromo, Amhara, Somali and Tigerans are the largest groups. Smaller ethnic groups include the Gurage, Awi, Afar, Wolayata, and Beja. Ethiopia is also proud to be referred to as "The Land of Origin" since it was home to some of the earliest hominid population and possibly the region where Home Erectus evolved and expanded out of Africa to populate Eurasia 1.8 million years ago [2].

Mountains, plateaus, and lakes dominate the Ethiopian landscape, all divided by the Great Rift Valley that's surrounded by lowlands and steppes [3]. Ras Dashan is the highest mountain in Ethiopia with its 4550 meters above sea level and is a part of Simien Mountain ranges [4]. The Blue Nile flows from Lake Tana, Ethiopia's largest lake situated on the basaltic Plateau of the north-western highlands. The Blue Nile river is an essential source for

farmers' productivity and to supply significant amounts of electric power, among others. Precious metals and other natural resources such as gold potash, natural gas, copper, and platinum are natural resources to find in Ethiopia. Tropical monsoon is the dominating climate in Ethiopia. The diverse landscape results in a varied climate to the different topographical regions. The highlands cover most of the country and have considerably cooler weather than other areas at a similar distance to the Equator. Eastern Ethiopia is typically warm and dry, while the Northern highlands are cold and wet in season. The rainy season begins in April and ends in September, whereas the driest months are typically from November to February. Because prosperity is dependent upon rainfall, the rainy season is crucial to the population in Ethiopia [5].

Ethiopia is one of the world's fastest-growing economies. Still, it is also one of the poorest countries in the world. The main challenges for sustaining positive economic growth and accelerating poverty reduction in Ethiopia are job creation as well as improved governance. The World Bank refers to some of the main challenges as limited competitiveness, which constrains the development of manufacturing, job creations, and increases exports. Furthermore, an underdeveloped private sector. The government aims to expand the role of the private sector through foreign investment and industrial parks to make Ethiopia's growth momentum more sustainable. Another challenge is political disruption, such as social unrest, could negatively impact growth through lower foreign direct investments, tourism, and exports [7].

Ethiopia - Horn of Africa

Demographics

Population

Ethiopia has a population of 112 million, making it the 12th most populated nation in the world and the second most populated nation in Africa (September 2019). As of 2019, Ethiopia has had a yearly population growth rate of 2.61%. In comparison, Norway has had a growth rate of 0.77 % the same year [1]. Its current population is expected to double in the next 30 years, hitting 210 million by 2060 [2].

Age structure

The Ethiopian age structure is characterized by a young population. Approximately 43.2 % of the population are 0-14 years old, while only 2.9 % is 65 years old and above. The median age of the Ethiopian population is 17.6 years for males and 18.2 years for females. In comparison, the median age of the Norwegian population is 38.6 years for males and 40 years for females [3]. The burden of diseases is an important explanatory factor for this young population, accounting for 74 % of deaths and 81 % of disability-adjusted life years lost per year. A predominantly rural and impoverished population with limited access to safe water, housing, sanitation, food, and health care has contributed to ill health in Ethiopia. This disease burden is dominated by malaria, prenatal and maternal death, acute respiratory infection, nutrition deficiency, diarrhea, and HIV/AIDS [4].

Urbanization

The population density of Ethiopia is 112 people per km², which ranks 123rd in the world [5]. The reason behind this modest density can be explained by the fact that Ethiopia has a predominantly rural population. The highest density is found in the highlands of the north and middle areas of the country, particularly around the centrally located capital city of Addis Ababa. Although Ethiopia is characterized by a rural population, the rate of urbanization in the country has had an annual rate of change of around 4.63 % in the last five years, making the urban population representing 21.2 % of the total population [6]. Leveraging this urbanization could potentially be seen as a means to gain economic growth, improving quality of life and reducing poverty. Cities contribute to 38 % of gross domestic product (GDP) with only 15 % of the total workforce. Conversely, a potential urban population boom would pose pressure on the cities in terms of providing jobs, infrastructure, services and housing. Urban financing could thus be a key contributor to Ethiopia's economy for years to come.

Politics

As the second-most populous country in Africa, it has emerged as one of the fastest-growing economies in the world. In recent times, it has built strong ties with China contributing to the economic spur in recent times. During the colonial period, it was one of the few independent countries in Africa, which was only occupied by Italy for a short five-year period. Historically, the country was a monarchy, and it was overthrown in a coup d'etat in 1974.

Between 1974 and 1991 the country was under a Marxist dictatorship which ended with the country being split into federal states based on ethnicity. Opinions are divided on this division, and this has also been a source of some conflict in recent times. While the country's recent turn towards a more stable future points towards a better future, it is pertinent that we understand the political conflicts to be able to assess the risks accurately. [1]

Political System

Ethiopia is comprised of nine federal states (kilil) based on ethnicity. The prime minister serves as the head of government, and the president serves as the head of state. The president is elected indirectly by the parliament. The party that emerges with a majority in the legislative election nominates the prime minister. Currently, Sahle-Work Zewde serves as the president, who was elected unanimously. Abiy Ahmed is the current prime minister who represents the EPRDF, the current ruling party. [2]

EPRDF currently holds 501 out of the 547 seats in the House of Representatives while the rest are held by their allies [2]. The fairness of the election is under much debate as the opposition went on to call it an 'undemocratic disgrace'. The electoral board, however, maintains the opinion that it was conducted in a free and fair manner [3].

After much criticism and a mass protest on the streets during 2016 and 2017, EPRDF appointed Abiy Ahmed as the new prime minister. He has emerged as a symbol of hope for the country for reasons both political and apolitical.

Conflict and Struggle

Ethiopia has been through one form of internal conflict or the other since the fall of the monarchy in 1974. Radical moves by the newly set up communist dictatorship such as nationalizing landlord's property and a high degree of militarization with the support of the Soviet Union drove the beginning of the conflict. The resistance was based in Eritrea, and the Ethiopian government pursued a war rather than a settlement [4].

While the communist dictatorship was overthrown, and a 'democratic' system was set up in 1991, the country continues to be seen as a strong-armed regime by many. Incidents of ethnic violence in the past decade, and also as recently as 2017 has raised questions whether the government has been unable to act against this, or if it is willful ignorance. EPRDF, the current ruling party has been criticized in the past for irregularities in elections, which also led to the massacre of civilians during protests.

Early 2018 was difficult for Ethiopia. Political turmoil created a problem for the country, but the appointment of Ahmed has been viewed as a positive move by many. The recent peace deal with Eritrea that marks an end to a long-standing conflict has echoed a positive message. He has taken steps in the right direction to un-ban political parties, releasing political prisoners and promising competitive elections in 2020 have rekindled the hope in building a free system [6].

While this has struck the right chords with many, there is a new move of ultra-nationalism that has given rise to a new wave of conflict displacing about 3 million people. His commitment to liberalizing the system, and promoting the message of freedom may not be an easy thing to execute.

The government has much work to do in instilling belief in the system, and giving people a sense of freedom as radical moves such as completely shutting off internet access, and curtailing the press have not done a favor to its image. The moves by the new government seem like a step in the right direction, and while it's a long way to go, a persistent effort could provide resolve to this issue. Liberalization of key sectors such as telecom will aid the process, and the fact that it is already underway, points toward a positive direction.

In our conversations with the residents of Addis Ababa, we could see hope. They believed that the conflict which hit the country hard was a thing of the past, and they had much to look forward to. However, as there is still a lack of certainty with the elections in 2020. Opinions are divided on what the right course of the country is, and people are uncertain that the elections might push the country into a spiral of turmoil yet again.

Economic and Foreign Policy

Among other things, the fast-growing economy of Ethiopia has been a source of much international interest in the African nation. There has been an astounding growth in recent years, and a significant decline in the number of people living in poverty.

Ethiopia has taken an attempt to replicate the Chinese model to fuel growth by capitalizing on its population and economic weaknesses, and so far, the approach has borne fruit. The country has recorded an annual growth of over 10% for more than 10 years until 2017. The government had maintained control of the key sectors, and made investments in infrastructure, health and education.

With the arrival of Abiy Ahmed, there have been major steps to liberalize the economy including the finance sector [7]. As of now, the various state-owned corporations, including the popular Ethiopian Airlines operate autonomously while they still receive support from the state. The government has also taken steps to attract FDI by introducing economic zones, fiscal incentives, and participative financing.

Ahmed has also had a transformative role in the country's foreign policy. It seeks to strengthen its presence in the region to promote a more integrated Africa, and also maintain a similar position globally. Ethiopia has established strategic partnerships with countries across the spectrum including China, USA, and nations in the middle east while taking the lead on regional integration within Africa. The policy to 'not take sides' has seemed to work in the country's favor [8].

Among other partners, the Chinese government has been a key stakeholder in the Ethiopian economic spur. China remains the country's largest source of FDI. While this has been a double-edged sword for many emerging economies, it would take a while before we can fully understand how this will pan out for Ethiopia. Some key projects such as the Grand Renaissance Dam which would provide a resolution for the long-standing energy crisis are seen as potential propellers for the country's economy.

Macroeconomics

Recent development

According to the World Bank, Ethiopia is the fastest growing economy in the region [7]. Its geographical placement is of strategic value to the country, as it is close to the middle east and its markets [7]. An important recent event, which will go down in history, is the international acknowledgment of the Ethiopian Prime Minister, Abiy Ahmed Ali's "efforts to achieve peace and international cooperation, and in particular for his decisive initiative to resolve the border conflict with neighbouring Eritrea", for which he was awarded the Nobel Peace Prize 2019 [6]. Due to the recent peace in Eritrea, Ethiopia will be able to make use of the Eritrean ports for its international trade (7), opening landlocked Ethiopia up for new possibilities.

Economic Growth

The Ethiopian government is in the second phase of its Growth and Transformation Plan (GTP). According to UNESCO, "The major objective of GTP II is to serve as a springboard towards realizing the national vision of becoming a low middle-income country by 2025" [11]. As stated by the International Monetary Fund, Ethiopia has the fastest growing economy in the African region. Over the last decade, high economic growth has reduced poverty and led to better living conditions. The Gross Domestic Product (GDP) has experienced an increase in the last decade, with a drop in 2017 "due to political uncertainty and appropriately restrictive macroeconomic policies" (3). As the political climate settled and investment recovered, the GDP increased from 7,7% to 9,2% in 2018 [2]. Construction and services accounted for most of the growth seen.

Trade Balance

Ethiopia's economic complexity index (ECI) in 2017 was -1,27445, ranking the country on 117th place out of 129 countries [4]. During the first quarter of 2019, the country exported $686.10 Million, and imported $3565 Million, giving the country a trade balance of $-2879 Million. Compared to the fourth quarter of 2018 the numbers have gotten better; the export increased, while the import decreased. The main exports are coffee (32%), oilseeds (16%), gold (11%), and cut flowers (9,4%) (5). The main imports are machinery (32%), transportation (17%), metals (11%), and chemical products (10%) [5].

Ethiopia's main trading partners are China and Saudi Arabia. China accounts for 18% of total imports and 8% of exports, while Saudi Arabia accounts for 13% of total imports and 7% of exports (8). 50% of all Ethiopian exports go to Europe, 34% to Asia, 13% to America, while the rest is exported to Oceania and Africa [5].

Inflation

The inflation rate in Ethiopia is at its 15,5% (July 2019) at its highest since June 2018. It is expected to increase to 19,1% by the end of the third quarter of 2019. From June 2018 to July 2019, the country's consumers have experienced an increase in food prices (0,5%), while the prices for non-food items have decreased slightly (0,5%). From an overall perspective, the inflation rate has dropped. This is due to the current inflation rate being a bit lower than the average inflation rate from 2006-2019, which was 16,06%. To get some perspective, the inflation rate during the financial crisis in 2008 reached an all-time high of 64,2%, while the lowest rate was found in 2009 with a negative 4,1%. [9] All numbers in this paragraph were found at Trading Economics.

Unemployment

The most recent unemployment rate (December, 2018) was 19,1%, per 2018. That is a 2,2% increase from 2016 [10]. Reasons for this could be the declining mortality and fertility rates, as well as a high unemployment rate (22%) among the urban youth labor force (15-29 years). This high unemployment rate is likely the result of the population increase (due to declining mortality) and shifts in the agrarian economy [1].

Education

Low quality. Lack of school supplies. Low participation. These three phrases accurately describe the educational system of Ethiopia today. Although the Ethiopian educational system has gone through vast improvements since the 20th century, with the NER (Net Enrollment Rate) in elementary education increasing from 29% in 1989 to 86% in 2015 [1] and a vast increase in the amount of schools in the country - Ethiopian education struggles to keep up quality in schools and student engagement.

School Standards

Ethiopian schools struggle with the lack of basic school supplies such as books, pens and paper - with some schools even lacking clean water and working toilets for students. Class sizes vary with approx. 65 students and one teacher in each classroom. The student to teacher ratio makes it difficult to be followed up as a student, and although Ethiopia enforces compulsory and free education on the primary level, many students drop out in favor of entering the labor force. As a result of this - the adult literacy rate in 2018 was 51,77% for people 15 years and older. [2]

Higher education

Following elementary education, the secondary education system in Ethiopia only engages 26% (2015) [1] of eligible students. Furthermore, Ethiopia does not have enough institutions for secondary learning. This challenges the Ethiopian goal of being a middle-income country by 2020-23. When it comes to tertiary education - Ethiopia has a higher participation rate compared to other East African countries, but an average that is lower than the LDC (Least Developed Countries). Due to a low disposable income in Ethiopia, there is also a low outflow of students studying abroad, with just above 6000 students - compared to 89,000 Nigerians and 13,000 Sudanese. [1]

Future objectives

The Ethiopian government emphasizes improvements in the educational level in the country, and has implemented various strategies in recent years in order to develop education. Free and compulsory education, as well as the construction of more institutions have been central in these improvements. In order to keep up with the economic boom; the government also aims to lead 70% of students into engineering and natural science and 30% into humanities and social science. Although education dominates as the largest expenditure in the Ethiopian government budget, the government is struggling to keep up with spending. Spending per tertiary students as a percentage of GDP decreased by more than 50% between 1997 and 2012. [1]

"One of the most educationally disadvantaged countries in the world" for most of the 20th century because of armed conflict, famine and humanitarian crisis." - World Bank (1)

Labor Market

Labor market and skill mismatches limit countries' capacity to adapt to changing circumstances, and they slow productivity growth. A strong and modern public employment service can contribute to a virtuous cycle by helping individuals upgrade their skills and improve their employability, as well as increasing countries' productivity and competitiveness. Public Employment Services (PES) generally plan and execute many of the active labor market policies used to help workers find jobs and firms fill vacancies, facilitate labor market adjustments, and cushion the impact of economic transactions. Recognizing the fact that the barrier to matching the supply and demand of labor is the lack of labor market information and job search skills, the Ministry of Labor and Social Affairs (MoLSA) of the Federal Democratic Republic of Ethiopia and International Labor Organization (ILO) are working together.

The total labor force in Ethiopia in 2019 is 53.6 million (28.5 million were male and 25 million were female) and it is expected to be 55.4 million (29.5 million will be male and 25.9 million will be female) in 2020. It was 28.6 million (15.8 million were male and 12.8 million were female) in 2000 and 39.6 million (21.4 million were male and 18.2 million were female) in 2010 [3]. In 2019, 34.4 million employees in Ethiopia were active in the agricultural sector, 11.6 million were in service and 6.6 million were in the industrial sector [4]. And, In 2020, it is projected that 35.1 million employees in Ethiopia will be active in the agricultural sector, 12.2 million will be in service and 7.1 million will be in the industrial sector [9] [11].

In Ethiopia, there are three main sectors in which people are employed; agriculture, service, and industry. Agriculture represents the biggest sector in terms of employment, but the second biggest with respect to the share of GDP. In 2000, 76% of the total labor force in Ethiopia was employed in the agricultural sector, in 2010 it was 74%, in 2019 it is 65% and in 2020 it will remain the same. It shows that the Ethiopian economy is going to be a less agricultural-based economy day by day. In the case of GDP share, agriculture contributed 41.45% in 2010 and 34.8% in 2017 [4]. Service represents the second biggest sector in terms of employment, but the biggest with respect to the share of GDP. In 2010, 18% of the total labor force in Ethiopia was employed in the service sector, and it is 22% in 2019. In the case of GDP share, service contributed 41.76% in 2010 and 36.92% in 2017 [4].

Finally, Industry represents the least contributing sector both in terms of employment and with respect to GDP share. In 2010, 8% of the total labor force in Ethiopia was employed in the service sector, and it is 13% in 2019. In the case of GDP share, the industry contributed 9.44% in 2010 and 22.9% in 2017 [4]. So, it shows that the Ethiopian economy is going to be a less agricultural-based economy day by day and the industry sector is following an upward trend. The contribution ratio of the industrial sector towards GDP is also increasing!

PES (Public Employment Service) Policy in Ethiopia

Public employment service provision is among the key priorities and goals of the government of [2]. The policy prioritizes decent employment opportunities through harmonization of macro and sectoral policies and strategies for matching the supply and demand of labor, improving labor market information and employment services, creating an enabling environment that facilitates the transition from an informal to formal economy, maintaining industrial peace and other cross-cutting issues for employment creation. Besides, it gives particular attention to youth and people with disabilities and women by adopting practical and supportive strategies that ensure equal participation in the labor market. As part of its goal of promoting accessible, efficient and effective employment services, the government targets to enhance the number of citizens employed domestically through support 12.6 million by 2019/20 fiscal year; and provide support and ensure the protection of the rights and safety of 0.5 million Ethiopians willing to take overseas employment [1].

Legal Framework in Ethiopia

The legal framework that governs employment services in Ethiopia comprises international conventions ratified by Ethiopia and domestic law. These legal instruments are described below: International Conventions: Ethiopia has also ratified 21 ILO conventions, two of which are on employment services. The former is Convention No. 88 concerning the Organization of the Employment Service which was ratified back in 1963. The latter was the Private Employment Agencies Convention No. 181 of 1997 that was ratified in 1999. This convention came into force in 2000. The ratification of ILO conventions Nos. 88 and No. 181 reveals the value that Ethiopia attaches to employment services [4].

Domestic Laws: Ethiopia has issued different proclamations in an effort to improve employment outcomes through improving employment services and relations. Labor Proclamation No. 377/2003 is the legal framework that is currently regulating the employment relationship in the private sector. Following the ratification of the Private Employment Agencies Convention, No. 181, Ethiopia also issued its Private Employment Agency Proclamation No. 104/1998, based on the principles laid down in this convention. The proclamation was also issued to encourage the participation of individuals and private entities in the employment services in the country. Proclamation No. 104/1998 was later replaced by the Employment Exchange Services Proclamation No. 632/2009 with the aim to define the role of public and private employment agencies in employment exchange; to further protect the rights, safety, and dignity of Ethiopian going abroad for employment in pursuance to their qualification and ability; and to revise the existing Private Employment Agency Proclamation No. 104/1998 to strengthen the mechanism for monitoring and regulating domestic and overseas employment exchange services. Proclamation No. 632/2009 was also replaced by the new Ethiopia's Overseas Employment Proclamation 923/2016, which regulates overseas employment only. Local employment service provision, however, is still regulated by Proclamation No. 632/2009 [10].

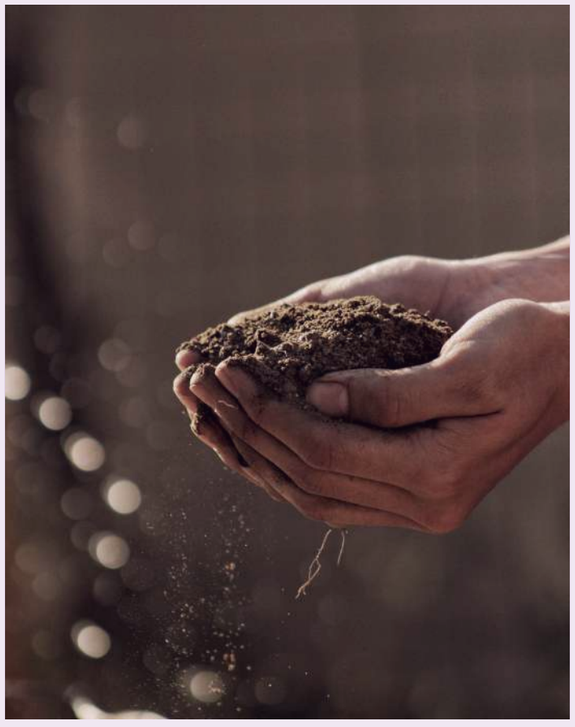
From 2020, Ethiopia is following new proclamation (1156/2019) instead of 377/2003

Labor Market Institutions: Labor market institutions play important roles with regard to employment relations, labor protection and provision of labor market services. However, institutions established to manage the labor market in the country are not well developed [2]. This weakness is characterized by undeveloped institutions, limitations of the regulatory framework that often serve the formal and wage employment sector, which resulted in a lack of protection and job security, lack of social dialogue, and poor labor market services against the background of labor market imperfections.

Government Institutions

MoLSA and its Regional Counterparts: In Ethiopia, the main state institutions which play a significant role in facilitating the match between labor supply and demand and which bear responsibility in planning and coordinating employment promotion activities are the Ministry of Labor and Social Affairs (MoLSA) as well as regional Labor and Social Affairs Bureaus and their structures at sub-regional and local administration levels, and the Advisory Board. Among MoLSA's responsibilities are: registering labor organizations, registering collective agreements and ensuring councilors and arbitrators upon the request of the parties, undertaking studies on the national labor force, collecting and disseminating information on the labor market, developing special programs for vulnerable groups of workers (women, youth, elderly, people with disabilities, etc.) and issuing directives on working conditions, occupational safety and health at work.

Labor Advisory Board: MoLSA set up the Labor Advisory Board as stipulated under Article 171 of the labor law that provides for the establishment of an advisory board which studies and examines matters concerning employment service, working conditions, the safety and health of workers, the labor laws in general and give advisory opinion to the minister. The Board is tripartite and is composed of several sector ministries and labor institutions.



Infrastructure and communication

From 2019's World Economic Forum's report, Ethiopia is set at the 123rd place among 141 economies in the Global Competitiveness Index when it comes to infrastructures which sets the country in the bottom group [1]. In later years however, the sector has been booming. Authorities have invested heavily in state-led infrastructure projects, projects mainly financed by China [2].

Transportation

Sea transport

Because Ethiopia is an enclaved country, it doesn't have any shipping possibilities. However, the country has a good relationship with Djibouti that is the country's door to international waters. Authorities are also currently in the process of improving the country's ties with Eritrea that could also be a potential gateway for import/export.

Rail network

The governmental organization in charge of the rail network development is the Ethiopian Railway Corporation (ERC). The Addis Ababa-Djibouti railway has been recently rebuilt and can now transport goods and people from the capital to the sea in about 10 hours, which is a considerable improvement since the old railway could only cross the same distance in about 84 hours [3]. This 754 km segment of railway is the country's main artery for all shipped imports and exports. It is, as of today, the most cost-effective import-export method. But this railway segment is only a start. The ERC has the ambitious plan of expanding the network to a total of almost 4.900 km, of which 757 are already in construction, which would eventually come to be known as the National Railway Network of Ethiopia [4].

Road network

For the 2015/2020 period Ethiopian authorities have been planning in expanding the country's road network for its then network of 126.773 km of roads to 220.000 km, in other words an expansion of almost 74% [3]. As outlying cities are starting to become manufacturing centres, there is an increased need for roads of improved quality and higher capacity. The government is therefore planning on spending more than $4 billion on the country's road network.

The highway route A1 connecting Addis Ababa to Djibouti is extensively used for the freight of goods and resources.

Air transport

International airports: *Addis Ababa Bole International Airport in Addis Ababa and Aba Tenna Dejazmach Yilma International Airport* in Dire Dawa

Domestic airports: 42 domestic airports covering most of the country

Recently, Ethiopia has tripled the passenger capacity of its main airport in Addis Ababa [5]. The objective of this expansion is to turn Bole Airport into an international hub in order to become the new "world's gateway to Africa". The previous owner of the title was South Africa, however considering Ethiopia's more centralized location, the country's goal is soon to be achieved.

The country has been for a while investing in its national airline, Ethiopian Airlines, and managed in recent years to make it the biggest air carrier of the continent. The company has more than tripled its annual number of passengers. Just like other sectors, Ethiopian Airlines is currently being subject to privatization.

Because of its enclaved situation, air freight is accountable for an important share of the country's import-export. With a booming economy, air freight has grown considerably in later years from 227,76 million ton-km in 2008 to 2089,28 million ton-km in 2018 [6].

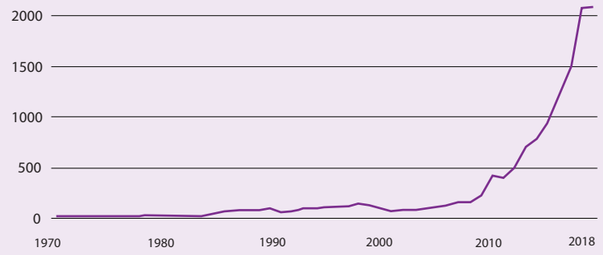


Figure 1 - Freight by air transport in million of ton-km (Source: World Bank)

Telecommunication

After many years of government monopoly, the telecom sector is finally opening for private domestic and foreign investments. Because of the previous state monopoly in telecommunications, prices have been very high, and therefore considered a luxury expenditure for many. High speed internet prices have been extremely high compared to the local consumer price index, making it unaffordable for most of the population. According to the World Bank, there were 32,6 mobile subscriptions per 100 inhabitants in 2018 [6].

Although 4G is installed in the capital, connection availability lacks greatly. The actual download and upload speeds are much below the theoretical speeds of the broadband with peaks at 3 Mbit/s for download speed and 1 Mbit/s for upload speed. With the sector opening for private investments, it can be expected vast improvements in regard to that issue [7].
In 2017, about 18,62% of the population was using the internet. It has been reported by Human Rights Watch that the internet and other telecommunication systems have been under heavy surveillance.

Water and Sanitation

Water in Ethiopia has long been a humanitarian issue. Mainly because the country is subject to chronic droughts, especially in rural areas. In order to cope with that issue, the construction of water points across the country has been undertaken at an industrial speed in the 2006/2012 period.
Nowadays, the primary issue is poor water quality mostly caused by poor sanitation. 69,8% of the Ethiopian population is exposed to unsafe drinking water [8]. In other words, more than two-third of the population can have health complications due to exposure to bad quality water. In 2016, it was measured that 85% of water sources were contaminated with E. Coli. Sanitation is also a big issue. Almost the whole population lacks improved sanitation.
When it comes to water and sanitation management, Ethiopia has long been institutionally weak. The country's water and sanitation conditions have however improved greatly thanks to the WASH initiative that has led decentralization and sector reform. The WASH program (Water, sanitation and hygiene) was started by UNICEF to "improve sanitation and hygiene to address stunting, diarrhea and trachoma, leveraging resources for access to water and sanitation in schools and health facilities, innovating to improve functioning of water supply [9]. Even though tap water is not yet drinkable, the program has led to greatly improved water supply and sanitation quality.
Water tariff rate ranges between a low of USD 0.076/m3 (if consumption is less than 7 m3) to USD 0.50/m3 (if consumption is greater than 501 m3) [10].

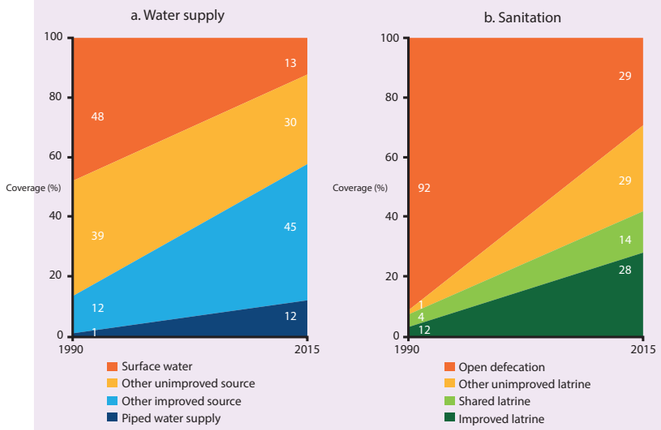


Figure 2 - Estimates of Water Supply and Sanitation Coverage in Ethiopia (Source: UNICEF/WHO)

Industrial parks

In recent years, the country's authorities have set up a plan to improve industrialization. In order to reach that goal, big industrial parks have been designed to host production plants for foreign companies willing to outsource their production or start a new production plant in Ethiopia. A total of 13 parks are planned [11]. 9 are developed by the government with 2 already operational and 7 in construction. The rest of the parks are being built by private investors.
Each of the parks is designed with focus on a specific industrial sector. This specialization has been decided to adapt the functionality of the park to the sector's necessities, and thus improving economy of scale and production efficiency there.
To make those parks attractive for foreign investors, local authorities have implemented a variety of incentives, both fiscal and non-fiscal. Moreover, the planned improved transportations – especially the road and railway networks, will give better access to these parks in the near future.
One important constraint imposed by the government is that at least 90% of the production is to be exported abroad, while only 10% can be sold to the local market. This is the government's strategy to improve the country's import/export ratio that is currently largely in imbalance.

The governmental parks

Hawassa Industrial Park- Eco Industrial Park:
- **Cluster/ Specialization:** Textile & apparel
- **Area:** 1.4 million m2 (Phase 1)

Bole Lemi Industrial Park (I and II):
- **Cluster/ Specialization:** Textile and apparel, leather and leather products
- **Area:** 3.5 million m2

Mekelle Industrial Park:
- **Cluster/ Specialization:** Textile & apparel, Foot wear & Leather products
- **Area:** 10 million m2

Kombolcha Industrial Park:
- **Cluster/ Specialization:** Textile & apparel, Foot wear & Leather products
- **Area:** 10 million m2

Adama Industrial Park:
- **Cluster/ Specialization:** Textile & apparel, Foot wear, Machinery fabrication
- **Area:** 10 million m2

Dire Dawa Industrial Park:
- **Cluster/ Specialization:** Open for multiple sectors, focused on export as it is the closest to port Djibouti
- **Area:** 10 million m2

Kilinto Industrial Park:
- **Cluster/ Specialization:** Pharmaceuticals
- **Area:** 2.8 million m2

Debre Berhan Industrial Park:
- **Cluster/ Specialization:** Agro-processing
- **Area:** 10 million m2

Arerti Industrial Park:
- **Cluster/ Specialization:** Building materials & furniture
- **Area:** 1 million m2

Fiscal incentives

Establishing production in one of the governmental industrial parks can be interesting from a fiscal point of view.
First, industrial park developers benefit from an income tax exemption from 10 to 15 year, industrial park enterprises up to 10 years, and expatriate employees up to 5 years.
Next, companies can enjoy custom duty and other tax exemption in the parks.
Last but not least, all export products beside semi-processed hides and skins are tax exempted.

Non-fiscal incentives

Beside the fiscal advantages of establishing production in the industrial parks, companies can also benefit the following non-fiscal incentives:
- One-stop shop service
- Expedited visa procedure
- Customs facilitation
- Guarantee against expropriation
- The right to own immovable property
- Subsidized utility rates
- Guarantee for remittance of funds
- The right to open and operate foreign currency accounts.

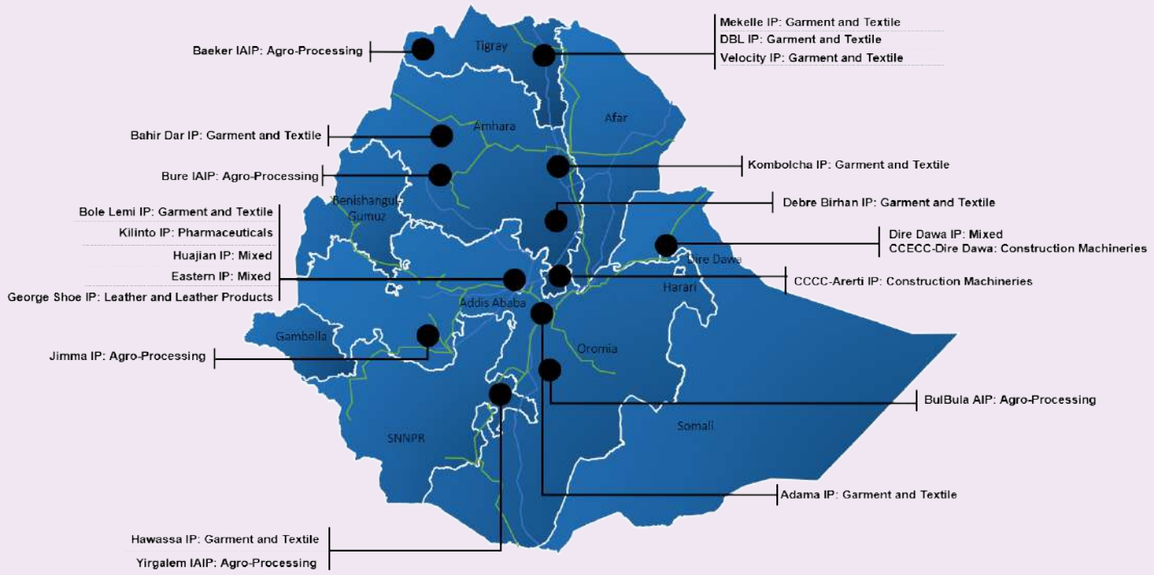


Figure 3 - Industrial Park Locations (Source: Ethiopian Investment Commission)

Startup Ecology

Supportive Entrepreneurial climate and Continuous Digitalization

Ethiopia is known for its double-digit economic growth for the last few years and the Ethiopian Government is ambitious to provide a conducive business environment to maintain this rapidly growing economic growth [1]. Apart from state support, the United Nations Development Program (UNDP), in collaboration with the Ethiopian government introduced an intensive program across Ethiopia to boost the culture of entrepreneurship, which will ultimately accelerate the development of the private sector in the region. This program was designed to enable Ethiopia in achieving "Middle Income Country" status by 2025 [2]. Secondly, Ethiopia soon realized the importance of information technology as a part of the nation's journey towards industrial development. According to the Ethiopian Ministry of Innovation, the first IT Expo took place in June 2017 in Addis Ababa, where 300 delegates from 45 countries attended the expo [4]. The basic purpose behind this initiative was to set up a system to bring about technological progress and development to help grow and prosper the newly established small and medium enterprises. The most surprising changes took place in the Financial Industry and that is why FinTech has remained as the top priority of investors [3]. Ethiopia being a 2nd populous country has a wider customer base for digitalization ventures and it is worth to mention the role of digitalization ventures in creating employment opportunities in the country [5].

Recent Policy Reforms

Ethiopia started to work towards improving ease of doing business in a country as a part of wider economic reforms of the newly appointed government led by Prime Minister Abiy Ahmed, who took over the office in April 2018 [6]. This movement was initiated with an expectation to reduce the structural problem of unemployment and Ethiopia since Abiy took over has been undergoing a raft of reforms where he reiterated his resolve to open up a hitherto government-controlled economic space. The Prime Minister stressed that cutting bureaucratic bottlenecks for the business startups in their initial phase will motivate the foreign investors to enter the market [7]. The former Ethiopian government kept the major industries like telecom and airlines under monopoly which are wholly owned by the then government of Ethiopia but as a part of ease of doing business initiative, the newly appointed government announced the privatization of major industries and in February 2019, Telecom firm, Ethio telecom became the first of four major state-owned corporations to be privatized [8]. The World Bank's ease of doing business index positions Ethiopia on 159 out of 190 and keeping in view this position and the huge potential to grow for the businesses and attracting the foreign investments, the Ethiopian government seems to look forward to bringing about revolutionary changes in the country to boost startups [9].

The startup Academy

Ethiopia has over 250,000 new graduates every year, of whom 70% are in Science, Technology and Engineering, making Ethiopia the highest source of technical talent in Africa today [10]. Keeping in view this emerging potential coupled with a speedy transition towards economic development, Startup Ethiopia has been launched in June 2019 with an inaugural annual flagship event targeting 2,000 participants including 1,000 youth ambassadors, 120 startup semi-finalists recruited from 14 cities around Ethiopia [10]. The objectives of this platform are to identify and showcase dynamic startups from all over Ethiopia and across all sectors and to position Ethiopia as an emerging vibrant startup ecosystem. This platform also aimed to overcome the most common challenge of lack of investments for startups by creating a platform to connect startups with investors and raise early-stage and impact investor interest in Ethiopian startups. Furthermore, Entrepreneurship Development Center (EDC) as an entity is introduced to identify growth-oriented enterprises as well as potential entrepreneurs, unemployed youth and women nationwide and provide them with direct support to enhance their entrepreneurial skills and competencies to establish and operate profitable, competitive businesses on a sustainable basis [11].

Natural Resources

Natural resource governance is considered one of the well-known strategies to accelerate development, especially in the case of low-income countries like Ethiopia. The country is blessed with plenty of natural resources including gold, potash, natural gas, copper and platinum. Among these, natural gas is considered as most abundant in the region and explorations in the past have shown that Ethiopia has some of the largest deposits of natural gas as compared to other countries in Africa. Keeping in view the significance of the potential of these untapped resources, the Ethiopian Government has taken progressive steps to ensure extensive exploitation of natural resources. One of the prominent strategies is inviting more private investors to the country and the issuance of licenses to parties interested in the mining sector [1]. Despite having a huge potential to contribute to Ethiopia's economy, the development of oil, gas, and mineral resources are not among the key drivers of economic growth. Although the industry is in its infancy stage, the contribution to the country's exports is already significant and resource wealth can potentially have a positive impact on the social and economic development of Ethiopia [2].

The mining sector of the country has contributed to less than 1 percent of GDP, 14 percent of exports, 1 percent of government revenue and was only able to create 4,000 formal jobs in 2018. After realizing the potential untapped resources, the Ethiopian government has set a growth and transformation plan with a target of achieving a 10 percent contribution to GDP by 2025 from the mining sector [3]. To achieve this target, Ethiopia will have to learn from experiences and good practices of more mature mining economies and make use of available frameworks.

Challenges and Recommendations

According to the report published by the United Nations Conference on Trade and Development in 2019, Ethiopia remained top-ranked in East Africa for the inflow of Foreign Direct investments in petroleum refining and mineral extraction. The main investor countries include Saudi Arabia, China, United States, India and Turkey where China has increased its investments in the country over the past decade [4]. However, instead of commitment towards economic reforms, the Ethiopian Government keeps exercising full control over the several significant sectors, holding the monopoly over the financial sector and local banks. There are several constraints to foreign investment, the most prominent being high interference of the state in the economy, poor condition of infrastructure, difficulties related to land acquisition, strict foreign exchange control, high transaction costs and weakness of institutions. Furthermore, political unrest is also one of the factors affecting the sense of security among foreign investors, ethnic conflicts often arising from the use of resources and land disputes occasionally become violent.

Therefore the report highlights that investors should rely on the good quality geo-data acquired from authentic resources. This will enable investors to gauge the real potential of the mining sector in Ethiopia. The study of the governance framework is crucial before entering the industry. As above mentioned interference of state could create uncertainty for the sustainability of projects in Ethiopia. Therefore, it must be necessary to gain enough insight into the governance framework. The existing competition must be assessed as mentioned already that Chinese firms are highly engaged in the mining sector. Chinese firms are well known for their labor and equipment. The new investors should be able to see the potential in the presence of already operating giants. Although there are several sources of secondary data for assessing Ethiopian markets, mostly highlighting the Ethiopian pushes to boost foreign direct investments but the report recommends to go through the real on-ground scenario by approaching external consultants having enough knowledge and experience of assessing markets in Ethiopia.

Humanitarian Activities

At the start of the millennium, Ethiopia was accounted as one of the poorest countries in the world with 56% of the population living on less than US$1.25 PPP a day [1]. Since then, the country has slowly but surely been rising from its ashes. Nowadays, less than 30% of its population is living under the national poverty line. Despite its record-breaking speed at reducing poverty, crucial improvements are still needed in order to reach a satisfying level of prosperity for most of the population, as poverty remains widespread across the country, especially in rural areas. Humanitarian action is therefore still a necessity, and many governmental organizations, as well as non-governmental organizations (NGOs), are actively contributing to improving wellness in the most affected areas of Ethiopia.

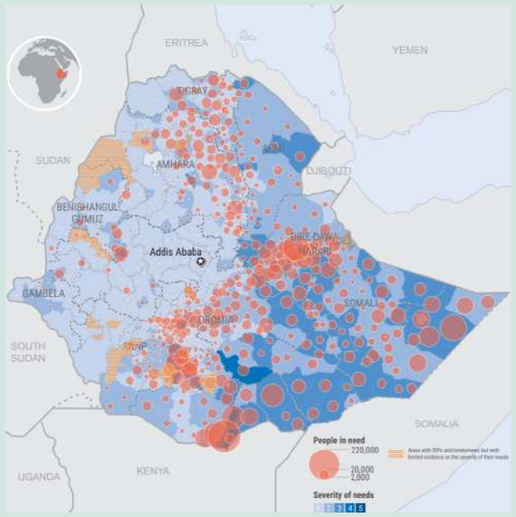


Figure 1 - Severity of needs and number of people in need by region (Source: OCHA)

Foreign aid in Ethiopia

Many United Nations entities are active in Ethiopia for humanitarian goals. Among those we can count UNICEF, the World Food Program (WFP), the World Health Organization (WHO) or the Food and Agriculture Organization (FAO) [2]. There are also many NGOs active in Ethiopia such as major organizations like Action Contre La Faim or CARE [3]. In 2017, the total foreign aid amounted to US$ 2.419.390.000 [4].

Norwegian action in Ethiopia

As highlighted previously, Norway is one of the main donors after the United States, the Netherlands and Sweden. Norwegian authorities have set an objective to relieve the population with humanitarian help on the short-run, and support the country developing toward sustainability in the long-run [5].

An example of a Norwegian NGO who significantly contributed to improving the standard of living is the Norwegian Church Aid (NCA). NCA ensures that local populations can sustain themselves by teaching them how to manage and own projects in order to become self-sufficient. Their range of activities include gender-based violence, climate resilience, water sanitation and hygiene, humanitarian response and reconciliation between groups.

Humanitarian market

Because of ongoing poverty in Ethiopia, there is a need for emergency products supplied by foreign organizations. Beside inflows of refugees from neighbouring countries, there are several millions of internally displaced refugees. There is therefore still an imperative need for foreign assistance.

GC Rieber Compact is one of the companies that provides emergency rations to both governmental organizations and NGOs. The company's goal is to attend to the nutritional needs of populations in distress. From their East-African hub in Kenya, they provide organizations who are directly in contact with populations affected by malnutrition, in order to give them the opportunity to start a new life threatening crisis [6]. Their contribution has resulted in improving substantially life quality for many, notably in Ethiopia, consequently reducing poverty in the country.

Ethiopia is thus a country with many opportunities for companies wishing to contribute to the development of the country by investing in the humanitarian market.

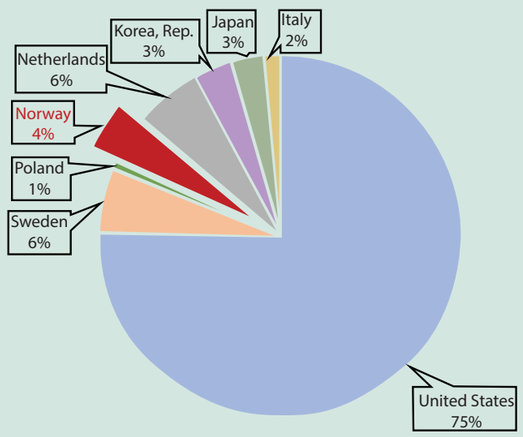


Figure 2 - Main aid contributors in 2017 (Source: World Bank)

GC Rieber Compact AS was established in Bergen, Norway in 1948. For 70 years we have provided high quality food products "For Life". Today GC Rieber Compact AS one of the leading companies within the maritime and humanitarian field producing unique food products for malnutrition, preparedness, and maritime survival.

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INDUSTRY ANALYSIS

The Trend of Consumer Goods

The Situation Today

The consumer market in Ethiopia seems to be booming. The country has a population of over 100 million people, and a population growth of approximately 2.46% per year [2]. Furthermore, the country is going through an immense economic boom with the GDP growth rate at 7.71% [1]. When only assessing the numbers, the market size is clearly large and seems to be attractive with a strengthening GDP. However, the GDP per capita is one of the lowest in the world, and a majority of the population is still under the poverty line. Purchasing power hit a record high in 2012, equalling 31% [4] before plummeting to a low of 9.8% in 2018. A future growth in purchasing power is expected, but uncertain. The average salary in Ethiopia is only 9.060 ETB per month (2522 NOK) [3], with the maximum salary being approximately 39.721 ETB (10.857 NOK). As a consequence of the combination of low salary, a growing population, and no foreseeable decline in the number of children per family, a majority of the population can only afford to purchase products at local markets or produce themselves.

With over 100 million Ethiopians, where the majority lives under the poverty line and outside major cities, the consumer market is very divided. In the country's main cities you can find modern supermarkets. These supermarkets carry mainly Ethiopian products, but also international brands such as Nestlé, Knorr and Coca Cola. However, the supermarket shelves are low and stacked with single items only, which demonstrates a large difference from the western approach with tall, deep shelves filled with multiple sorts of each product. The majority of Ethiopian citizens choose to shop at the market. This applies to citizens in the larger cities as well as in towns and villages. Markets can be both big or small, and people can purchase anything from livestock and clothes to fruits and meats.

Consumer Products - Import and Exports

Ethiopia has a negative trade balance, as they import far more than they export. However, importation of consumer products is relatively low. In 2017, Ethiopia had an importation expenditure of $8B [1]. Items such as pasta, rice, toilet paper and clothing only made up approximately 7% [6] of imports. Imports are expected to grow along with exports, but this is a slow process following the recent growth in the economy. Ethiopia receives most of their consumer products from China, India and France.

Future

Ethiopia produces a large amount of consumer products, such as food, themselves. The country has the largest population of livestock in Africa, and it is used for both food and clothing. Vegetables, beans and cereals are also largely produced in Ethiopia. The Ethiopian consumer market seems promising, and will likely experience vast changes in the upcoming years as a result of the economic boom in the country. However, it is uncertain when and how the economic situation in Ethiopia will benefit the country's population.

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Agriculture and Food Processing

Legend says that "Kaldi discovered coffee after he noticed that after eating the berries from a certain tree, his goats became so energetic that they did not want to sleep at night. Kaldi reported his findings to the abbot of the local monastery, who made a drink with the berries and found that it kept him alert through the long hours of evening prayer. The abbot shared his discovery with the other monks at the monastery, and knowledge of the energizing berries began to spread." [10]

Agriculture is the backbone of the Ethiopian economy [4]. According to the Alliance for a Green Revolution in Africa - AGRA -, the agricultural sector contributes to 45% of Ethiopia's GDP, and employs 73% of the population [1]. And as reported by the Observatory of Economic Complexity (OEC), 68% of Ethiopian exports in 2017 were products related to agriculture [13]. In order to feed an ever growing population of 105 million [15] in a sustainable way, the commercialization of the agricultural sector could be a step in the right direction, and is something the government is focusing on.

Commercialization of the Agricultural Sector

In order to shift the focus of agriculture from food security and productivity to commercialization of the sector and an increased role of the private sector, the Ethiopian government set out the second Growth and Transformation Plan - GTP II [1]. In order to effectively implement this measure, the Agricultural Transformation Agency - ATA - was formed in 2010 [1]. ATA is set to commercialize Ethiopia's farmers as actors with "greater incomes, inclusiveness, resilience and sustainability, contributing to Ethiopia's achievement of middle-income country status" [3]. Part of achieving this goal is the extended use of technology within the agricultural sector.

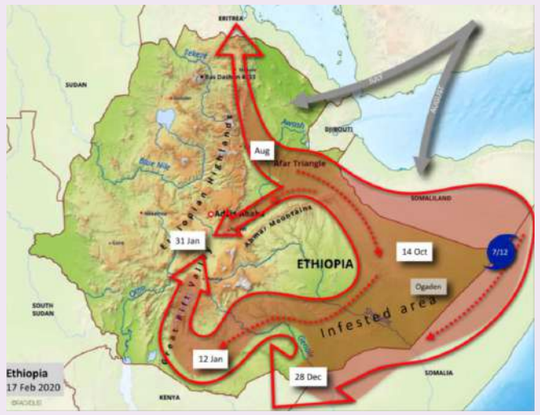
Agricultural Technology

In recent years, a new phenomenon has developed; agritech, or agricultural technology. Agritech "comprises technological innovations and capabilities that change how food and other agricultural products are grown, harvested, packaged, stored, transported, processed and sold" [12]. The Agricultural Transformation Agency, among other things, uses satellite soil mapping, and toll-free numbers to help farmers. According to Ventures Africa, potential investors can also "carry out an online inspection of the farm located in any part of Ethiopia, watch a drone video of the produce to assess its condition and call the farmers directly to purchase the crops" [2]. However, in the long run, there is a lot more potential for increased development and usage of technology in the agricultural sector.

Climate

Every year, Ethiopia has two rainfalls, allowing for multiple crops to be produced. Their two grain growing seasons are called Berg and Meher,.

It is no secret that weather is an important part of a successful harvest. Climate change has been, and is, a great danger for Ethiopian harvest. Due to the country being landlocked, Ethiopian farmers are dependent on rainfalls. In addition, there are issues such as Desert lotus, eating away at extremely large amounts of crops [11]. The beginning of this year (2020) has been especially tough, with large, mature swarms having infected the Somali, Oromia and SNNPR regions - as seen on the map below. These infestations could, according to FAO Director-General QU Dongyu, lead to a humanitarian crisis [5]. This infestation, in combination with unseasonal rains will according to the Food and Agricultural Organization of the United Nations cause crop losses in Ethiopia [5]



[5]

Lack of knowledge and skills about water management, technology and methods for sustainable farming is an issue for farmers. With the combination of commercializing the agricultural sector and agritech, the Ethiopian government seeks to handle these issues.

"Crop productivity per unit area of land in Ethiopia remains very low due to various constraints including the limited use of appropriate productivity boosting technologies and appropriate crop production husbandry practices." - Food and Agricultural Organization of the United Nations [7]

This quote from FAO tells us that there is great potential in the Ethiopian farming industry. This could be an opportunity for foreign investors to educate farmers and integrate agricultural technology in their production - effectively increasing food security in Ethiopia, as well as securing products such as coffee and other grains for export.

Opportunities and Challenges of Coffee

It is said that the higher the altitude of the coffee plantation, the better the coffee will taste. Coincidentally, Ethiopia has quite a high altitude, with Addis Ababa being 3255 meter above sea level [15]. Ethiopia is the largest coffee producer in Africa, and fifth largest in the world [9] – they mainly produce arabica. In addition to being a large exporter of coffee, their domestic consumption is around 40% of overall production [10]. Seeing as only around 400 000 hectares of Ethiopian land is used for coffee cultivation [9], and the total area of the country is 100 000 000 hectares [14], there is more than enough viable land to increase production. The only thing missing; investors.

Foreign investors are treated well by the Ethiopian government; they see the value of FDI – Foreign Direct Investments. The government has reserved dedicated land for commercial farming; this land is available for investment on either lease-hold or rental basis. According to the Ethiopian Investment Commision (EIC), whom we had a meeting with in Addis, ease is given for up to 80 years, depending on the circumstances surrounding location and sector. Furthermore, the EIC stated that if this land is outside of Addis Ababa and the surrounding area of Oromia, investors are eligible for exemption of income tax for five years.

On the other hand, establishing production outside of Addis will probably raise issues such as a lack of electricity, water and roads. Although these seem like large issues, they might just set the production back by some time, as the government wants to help investors in as many ways possible. According to the Ethiopian Investment Commission, the government will for instance facilitate the production of access roads and pay the bills.

Teff as Superfood

The national dish of Ethiopia is called Injera. It consists of a sourdough-risen flatbread, topped with different ingredients. In order to make the bread for this highly traditional meal, "Teff" is needed. This is a multipurpose crop able to grow in various environments [16]. A quick google search shows that Teff might reach the same status as quinoa and other seeds; a superfood [8]. With Teff gaining attention in the western world, it is highly likely that we will see a spike in exports of this seed - increasing the (production-) potential of this beloved seed.

Manufacturing: Textile & Apparel

In 2018, Ethiopia's manufacturing output consisted of 4.91 billion US $, which in turn constituted 5.82% of the country's GDP. In comparison, Ethiopia's manufacturing output in 2009 amounted to 1.26 billion US $, making up 3.88% of its GDP that year [1]. One reason behind this steady incline is the Ethiopian government's focus on industrialization through their Growth and Transformation Plan II (GTPII). This plan aims to bring significant growth in the manufacturing industry so that it plays a leading role in transforming the economy, reducing poverty, providing jobs, and achieving the ambitious aim of transitioning the economy to lower-middle-income status by 2025. Moreover, the government's strategy focuses on the implementation of project programs which gear towards attracting quality investment, enhancing production and productivity, boosting export shares, accelerating technological learning, and strengthening the linkages across industries [2].

The outlook of Ethiopia's manufacturing industry appears promising, and the government's vision is set accordingly; making Ethiopia the leading manufacturing hub in Africa. By the year 2025, Ethiopia envisions a growth rate of 25% in the manufacturing industry, in addition to a growth rate of 30% with regards to exports. As of now, Ethiopia has a comparative advantage in exporting textile, leather and processed agricultural products, due to its natural resource endowments. Nevertheless, the Ethiopian government focuses on an additional 7 key industries in order to make the country a leading manufacturing hub: electronics; steel; equipment; chemicals and pharmaceuticals; energy; ICT; and biotechnologies [2].

Textile & Apparel

The textile & apparel sector is particularly an area of importance for Ethiopia, and it has grown 7 folds since 2008. In order to ensure development of this sector, the Ethiopian government has established the Ethiopian Textile Industry Development Institute (ETIDI) to strengthen the overall value chain, and to create a conducive investment climate for the sector. Although the textile and apparel industry stagnated for several years, it has been growing rapidly in recent years – mostly due to foreign investors. Chinese investments, which have made up 60% of overall foreign direct investment in Ethiopia during the last two decades, have contributed to the growth of the industry through knowledge and technology transfer, closing local companies' capital gap, and opening up new markets. Despite challenges to overcome such as reliable energy supply, customs procedures, lack of backwards linkages and insufficient skills, Ethiopia has the potential to become one of the next textile and apparel supply bases for the world with its wide and young labor pool, growing market potential, strategic position, as well as advantageous trade agreements including the future African Continental Free Trade Area (AfCFTA) [2].

Industrial Parks

The creation of industrial parks has been used as an instrument and catalyst to drive Ethiopia's industrialization agenda. Today, Ethiopia employs more than 10 public industrial parks, and an additional 6 parks owned by private developers. Moreover, Ethiopia is aiming to create 30 new industrial parks by 2025 in order to increase jobs, generate export revenue, and grow the manufacturing sector from 5.82% to 25% of the economy's productivity [3]. Recognized brands such as Michael Kors, H&M and apparel giant PVH are already sourcing products from some of these industrial parks. The Hawassa Industrial Park, which the Ethiopian government considers as its flagship industrial park for textile & apparel, hosts 18 companies from 11 countries and will employ 60,000 workers at capacity [4].

Opportunities

Ethiopia is one of the few African countries to formulate and implement a full-fledged industrial development strategy since the early 2000s. In fact, the Ethiopian government has managed to reverse the economic command system in the country through fostering competition, creating a free market economy and promoting the private sector. Moreover, the government has been devoted in liberalizing the foreign exchange market, rationalizing public expenditure and introducing new investment codes. The government also offers various investment incentive packages, including exemption from income tax and payment of custom duty, in its attempt to develop the manufacturing industry [2].

Transfer of surplus resources from agriculture to manufacturing gives the manufacturing industry the potential to play a key role as the engine of Ethiopia's economic growth and structural transformation in years to come. Moreover, Ethiopia's many industrial parks have the advantages of facilitating one stop shopping for all services, gaining economies of scale, creating opportunities for bulk purchasing and selling, and the development of common infrastructure. These Chinese-inspired industrial parks may make Ethiopia able to develop the manufacturing industry more quickly than other countries have in the past because of technological advancement and lesson learning [5].

Ethiopian manufacturing wages are small enough to compete against comparators in Asia and sub-Saharan Africa. In addition, Ethiopia has a growing labor force that few other countries can match. Its current population of over 100 million is expected to double in the next 30 years, hitting 210 million by 2060 [6]. Providing jobs is the key to taking advantage of a vast and expanding young workforce. Hence, population growth can be grasped as an opportunity rather than a challenge if it is linked with quite rapid economic growth.

Challenges

Although Ethiopia has the advantage of an abundant and inexpensive workforce, poor labor productivity in the manufacturing industry may be eroding such an advantage. Other challenges to competitiveness of the industry relate to poor public service delivery, limited capacity in the sector and shortage of quality raw materials. Daily operation of firms is also deterred by factors such as frequent power breakage, limited access to credit and lack of support industries [7].

Renewable Energy

Ethiopia is endowed with abundant renewable energy resources, and has the potential to generate over 60,000 megawatts (MW) of electric power from hydroelectric, wind, solar and geothermal sources. Currently, however, it only has approximately 2,300 MW of installed generation capacity to serve a population of over 95 million people [5]. The targets for increasing generation capacity to 10,000 MW, established under the first iteration of the GTP, will be met by completion of two major hydro power plants in 2017 and 2018. The current GTP has a new target to increase generation capacity to over 17,000 MW by 2020, with an overall potential of 35,000 MW by 2037 [4], which would help sustain Ethiopia's continued economic growth and enable it to become a regional renewable energy hub in East Africa. The country has one of the lowest rates of access to modern energy services, whereby the energy supply is primarily based on biomass. With a share of 92.4% of Ethiopia's energy supply, waste and biomass are the country's primary energy sources, followed by oil (5.7%) and hydropower (1.6%) [6].

Policy Framework, Laws and Regulations

The government's declared aim is a huge expansion of the infrastructure in the energy sector. Based on the national Universal Electricity Access Program (UEAP), the Government owned utility "EEPCo" has started to extend the national electricity grid to towns and villages preferably with a minimum of 5000 households. Villages and towns with less households are often only considered for grid extension if the central or provincial governments cover the costs. The grid extension is carried out by the construction of 33 kV transmission lines. Local departments of EEPCo are in charge of the grid connection and operation within the towns and villages. The costs for the UEAP are estimated at one billion US$. Twenty percent of that sum will be financed by EEPCo via credits, another 80% by the government or international donors. The high contribution of the government is due to the fact that the extension of the grid to villages with less than 5,000 inhabitants is economically not feasible for EEPCo. The first two years of the program are partly financed by the World Bank, which covers about US$ 100 Million of the initial US$ 180 Million budget. The current average electricity tariff is about US$0.056 (0,04 €) per kWh, equivalent to about 62% of the long-run marginal cost of supply. Thus, the current electricity tariffs are not cost covering [3].

The improvement of efficiency of the existing energy resources is another target. The energy loss is to be reduced from 20% (2005) to the international average, 13%, during the same period of time. In the last few years, the government tried to pave the way for more private investors to generate electricity and feed it into the grid [6]. Proclamation 37/1997 opens domestic investors the possibility to invest in plant capacities of up to 25 MW. Only foreign organizations are permitted to invest in power stations with a capacity of over 25 MW. Council of Ministers Regulations No. 7/1996 and No. 36/1998 introduced additional tax relief and improved import regulations as incentives for private investment [2]. Nonetheless, the electricity sector is still controlled by the state.

In November 2013 the Ethiopian parliament approved the Energy Proclamation to make the energy sector liberal. An Ethiopian Energy Authority (EEA) will be founded, where foreign companies can register and obtain licenses to produce electricity and get a fixed feed-in tariff for the generated power. The feed-in tariffs will be fixed by the board of directors of EEA and approved by the Ministry of Energy [2].

EEPCo presented at the end of 2013 a new energy masterplan for the next 25 years. 28 projects with a total investments of 156 billion USD shall be realized by 2038, assuming an electricity demand of 37.000 kW. By 2016, EEPCo plans to increase the power production by 2000 MW to 10000 MW. Also, the transmission and distribution grid shall be extended significantly. It is planned to install 13.560 km of 250kV lines with 114 transformer stations and 9.257 km of 400kV line with 41 transformer stations by 2020 [1].

Institutional Set-Up in the Energy Sector

At the Federal Government level, there exists a number of institutions involved in the energy sector in the Country. The Ministry of Water Irrigation and Electricity (MoWIE) is responsible for the overall development of the energy sector in the country. The following institutions are also related to the Ethiopian power sector: Ministry of Environment, Forest and Climate Change (MoEFCC); Ethiopia Energy Authority (EEA); Ethiopian Electric Utility (EEU); Ethiopian Electric Power (EEP); Ethiopian Rural Energy Development and Promotion Centre (EREDPC); Rural Electrification Fund (REF); Rural Electrification Executive Secretariat (REES); Rural Electrification Board (REB) and Petroleum Operation Department [2].

Waste Management

"Consumption is growing in Ethiopia, but there is very little recycling infrastructure. There is also a huge potential for tourism, so it just pushes the creation of garbage. You see plastic bottles across all popular travel destinations. There is a need for both infrastructure and education if the problem is to be tackled" – Eivind Aalborg (Norwegian Church Aid)

As a result of a growing economy, increased population and consumption, the volume of waste is increasing. In recent years, Ethiopia has become a regional leader in solid waste management. In 2018, the dump site and only landfill in Addis Ababa, Koshe, was transformed into a waste-to-energy plant. This project is the first of its kind on the African continent. The plant named "Reppie" incinerates up to 1,400 tons of waste every day, and by doing so, supplies the capital with 25 percent of its household electricity needs [1]. However, challenges still remain in Ethiopia, and the amount of uncollected and illegal dumping of waste, as well as contamination of water, soil, and air resources, is rising [2]. To establish a national coordination mechanism for waste management, there is a need for engagement from government ministries, the private sector, civil society groups and other relevant stakeholders [2]. During our visit to Bole Industry Park, we were informed of the focus on environmentally friendly waste management solutions when developing the industrial parks, to meet the aim of green development in Ethiopia.

Opportunities

Solutions for how to manage waste is necessary both for economic and sustainable reasons. Key factors to succeed with waste-management systems in emerging economies are the ability to aggregate waste flows into meaningful volumes around which businesses can be developed, the ability to organize the supply chain professionally at high levels of operational efficiency, and environmental and societal effectiveness [3]. Eivind Aalborg, the director at Norwegian Church Aid in Ethiopia, underpinned the importance of mobilizing people's mindset to focusing on waste management especially for two reasons: environment and poverty. With the right approach, many waste streams can become income streams and solve dual missions in order to achieve sustainable development.

A successful example of mobilizing mindset, creating jobs and saving the environment is Penda Paper, a recycling company established in 2015. The company aims to build a sustainable circular economy for waste, as well as create job and income opportunities within recycling. Penda has developed a functioning system for collecting paper and cardboard in the Ethiopian capital, which in turn supplies the local paper industry with raw material for further production [4]. Together with investors Trond Riiber Knudsen, Michael Halbye and Ahmad Farroukh, Marie Nielsen wanted to contribute to reaching the growing middle class in Addis Ababa. They did this by starting Ethiopia's first large-scale waste paper and paper collection company. Since its inception in 2015, Penda has so far delivered more than 3,500 tons of waste paper for local recycling, which means that they have saved the environment for about 40,000 trees which would otherwise have to be cut down. The company already balances its operations, and in addition, it creates opportunities for small and local businesses to generate income.

"Penda was not created by sitting at home in Norway and designing a waste management solution in Ethiopia. I really had to familiarize myself with the system and the problems we wanted to solve to understand how the whole cycle worked. It meant being out in the rain with a waste team, wearing work clothes and with a collection truck. This is how I learned how they work, and I got to see and experience the challenges myself. Penda's success is built on a lot of time in the field, analysis, trial and failure." – Marie Nielsen, Penda Paper

Today, Penda collects cardboard and paper from more than 170 factories and offices, and from more than 600 schools in the capital Addis Ababa. The company has 135 full-time employees, and in addition, more than 5,000 collectors work with collection and sorting of household waste paper. Penda has also set up 40 "mortgage stations" scattered around the capital where you can deliver cardboard and paper in exchange for money.

"We have worked to build systems with infrastructure and logistics that will give the paper mills robust access to raw materials. Previously, there was only informal and occasional collection of paper, but to have a functioning and sustainable circular economy quality, stable delivery and volume are very important. We have managed to build that up through Penda." – Marie Nielsen, Penda Paper

Tourism

According to the World Economic Forum's Travel and Tourism (T&T) Competitiveness Index 2019, Ethiopia ranked 122nd among 140 countries [1]. Thus, a lot of improvements need to be done in order for Ethiopia to become competitive in this category. Therefore, tourism is one of the sectors Ethiopian authorities have been extensively focusing on. However, the future of tourism in Ethiopia appears to be bright. In roughly 20 years, international tourism in Ethiopia has almost been multiplied tenfold [2]. And with improving infrastructure and a renowned national airline, Ethiopia can expect a constant increased annual number of tourists.

Ethiopia has a large potential when it comes to tourism. The country has a very unique identity among the African countries. As a matter of fact, the European Council on Tourism and Trade awarded the country the World's Best Tourism Destination in 2015 [3]. According to the T&T Competitiveness Index, even though Ethiopia scores very poorly on most of the criteria, Ethiopia is ranked 68th on natural and cultural resources [4], which sets it among the top scorers in Sub-Saharan Africa. Local authorities promote the country as the "Land of origins" since it has been proven that human ancestry originates from this area of the world. Not only is it the cradle of human life, but it is also the birthplace of a branch of Christianity: Ethiopian orthodoxy. Subsequently, the country has many historical sites such as the Lalibela churches, Axum near the Eritrean border and the fortress of Fasil Ghebbi [5].

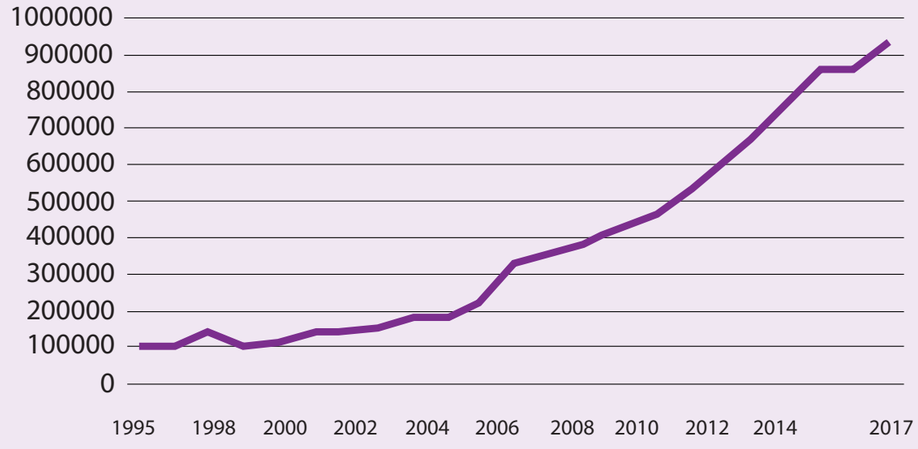
Ecotourism

Ecotourism has been booming in Ethiopia [6], and authorities are actively promoting this form of tourism. They chose to focus on this form of tourism because there recently has been a rising awareness that Ethiopia's natural environment has to be protected, and that the living standards in the countryside needs to be improved. Visitors have increasingly been demanding to travel to untouched natural sites for activities such as trekking or wild-bird-and-animal-watching. Ethiopia has many natural sites suited for ecotourism like the Danakil depression, the Simien Mountains National Park or the valleys of the Awash and the Omo. As of today, proper infrastructure is needed to access many potential natural sites that could become ecotourism destinations.

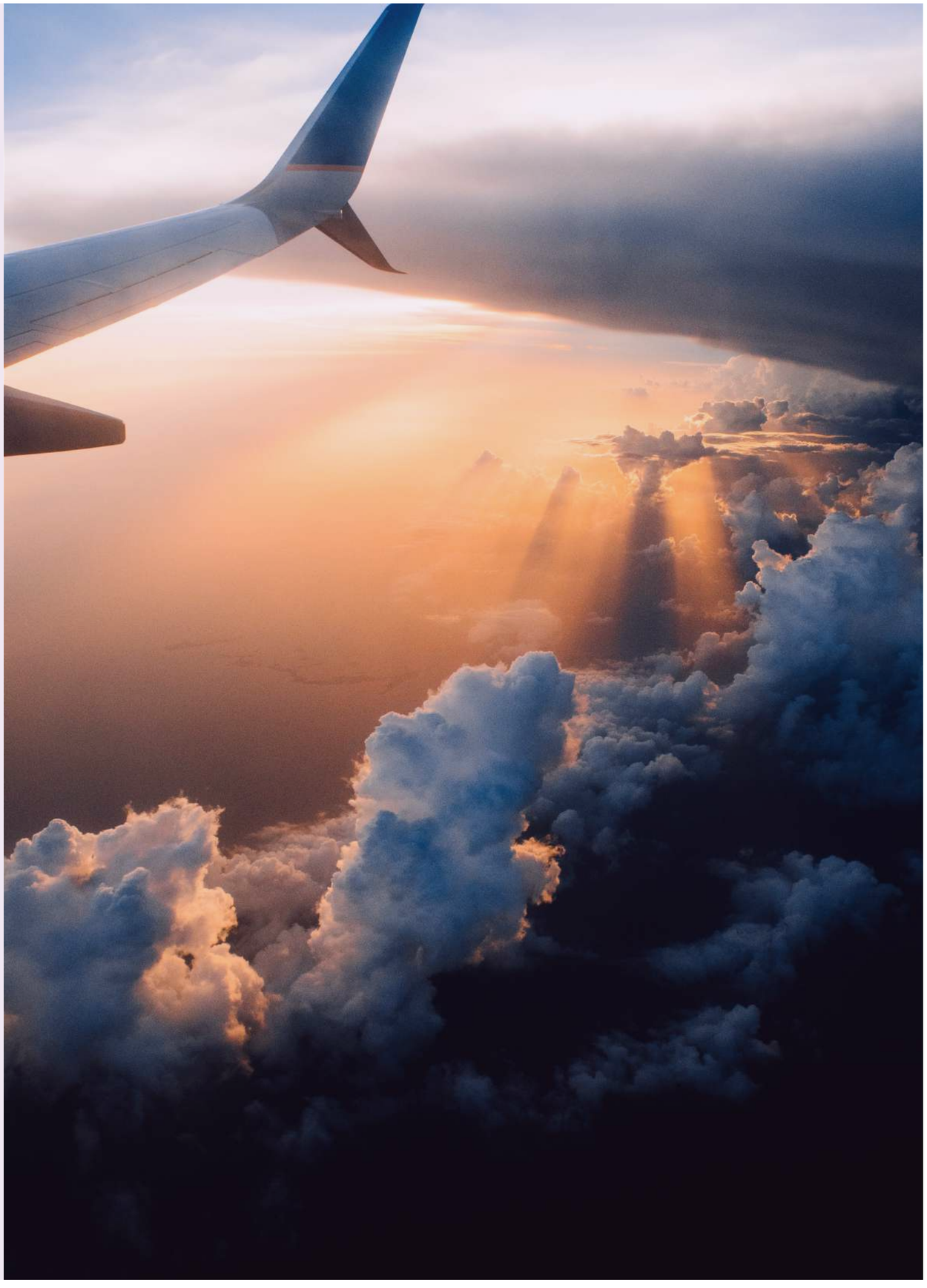
Investing in Tourism

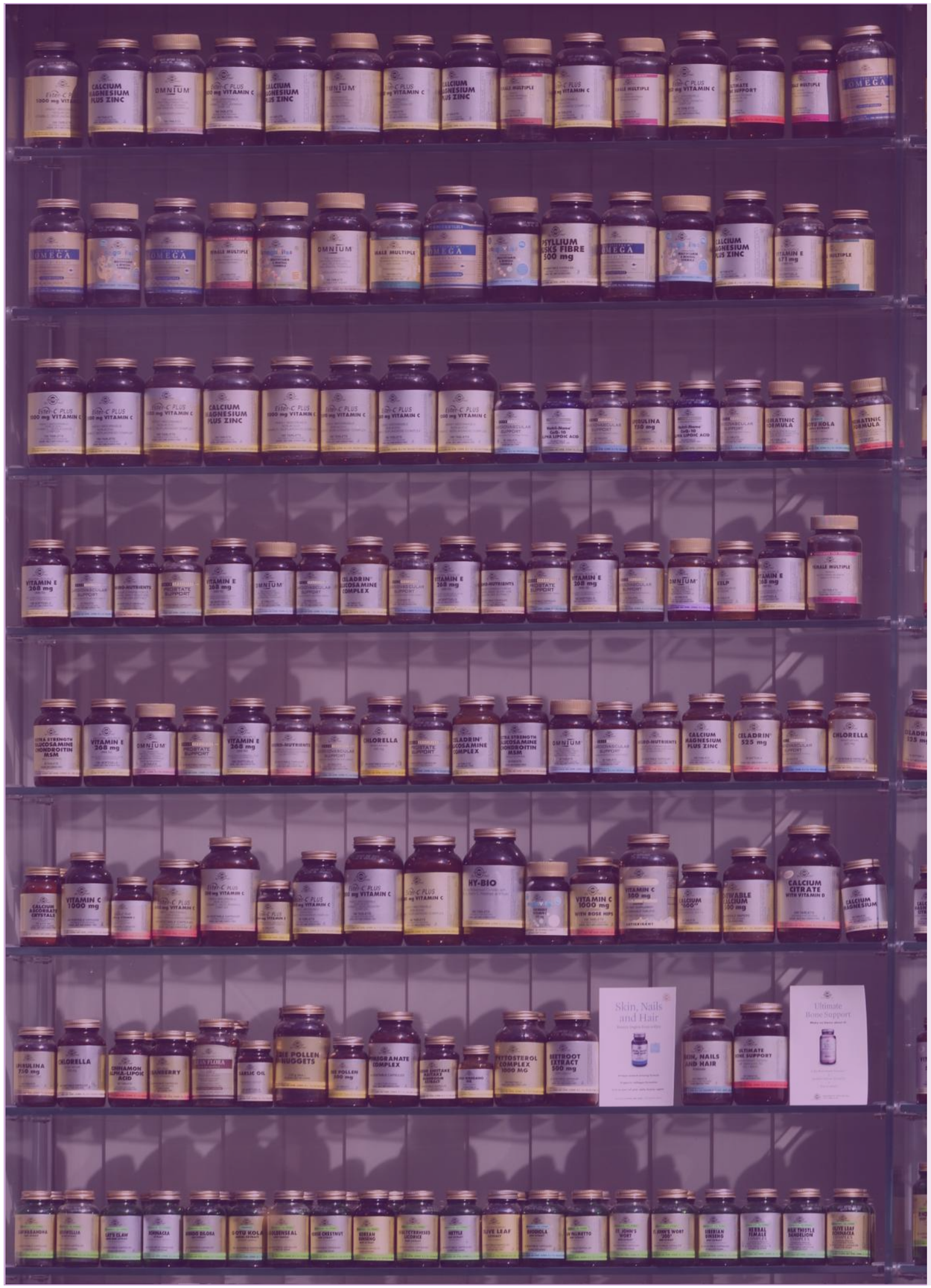
The government has decreed that some areas should be prioritized for investment to further develop tourism [9]. The said areas are grade one tour operation, star designated hotels, lodges & restaurants, grade one construction, information & communications technology (ICT) and general & specialized hospitals.

As tourism is one of the sectors authorities are focusing on developing, an income tax exemption incentive has been implemented in order to attract foreign investors. Hotel and tour services in non-traditional tourism destinations receive up to 5-year income tax exemption. The focus on non-traditional tourism destinations is to develop areas that have lacked exposition in the past. There is also a 4 to 5-year exemption for investment in ICT development.



The increased annual number of tourist [2]





Pharmaceuticals

Ethiopia, as the second-most populous country in Africa, has faced a challenge in bringing people within the reach of essential healthcare services. With about 80% of the population living in rural areas, one physician was covering about 100,000 people on average until recently. While the number has dropped down significantly, rural Ethiopia is still facing issues [1]. Some of the challenges are purely infrastructural, such as the distance to the closest health centre and challenges and finding transport. However, even if they make it to the centre, finding a health worker or the right drugs is a big issue. The government has taken the initiatives to start medical schools and create professionals in the field and is making steady progress.

However, the challenge with pharmaceuticals has been harder to tackle. The country has made a national strategy to develop pharmaceutical manufacturing in order to fill the gaps in drug supply locally [2]. This has been incorporated in its Growth Transformation Plan (GTP).

Opportunities

Local manufacturing currently covers only 20% of the demand for pharmaceutical products in the Ethiopian market. The Ethiopian market alone is estimated at nearly $1 billion, and the broader African market is about 20 times larger. This has drawn the attention of foreign manufacturers such as Cadilla, an Indian firm that recently established a subsidiary in Ethiopia. This is also likely to draw attention from the Chinese government, and firms as the World Health Organization (WHO) has been using lessons from Chinese policies and priorities to develop local pharmaceutical production in parts of Africa [3]. With low labour costs as well as a policy level interest from the government, Ethiopia thus places itself as an interesting destination for FDI in manufacturing of pharmaceutical products.

Attractiveness for Investors

The Ethiopian government has set up the Kilinto Industrial Park in the south of Addis Ababa dedicated to pharmaceutical manufacturing. The 279-hectare industrial park offers land lease at an attractive price of USD 3.59 per square meter per annum with railway connectivity to the Port of Djibouti [4]. Based on the nature of the investment, the government offers exemptions on business income tax for up to 14 years, and also has provisions for loss carry-forwards [5]. This is further supplemented by tax incentives on import duties for inputs.

Additionally, educational institutions such as Addis Ababa University have programs in the field of pharmacy which provides opportunities for manufacturing companies to hire local talent, and also participate in the process of imparting on-the-job training in the industry [6].

In essence, Ethiopia combines its strategic position in Africa with surging local demand and policy-level incentives to make itself a highly attractive destination for investors.

Technology

Science, technology and innovation (STI) are considered key drivers of economic and social development, and successful developing countries emphasize creating well integrated STI policies to help raise productivity along with faster growth and job creation. Ethiopia has been among the pioneers in the African region to adopt STI policies to alleviate poverty and attain the status of a middle level income country. The national and other non-governmental institutions are working on adapting and utilizing appropriate effective foreign technologies. The Ethiopian Biotechnology Institute (EBTI) is among the national institutes working towards the establishment of a national innovation system through conducting research, studies, providing trainings and incentives in various fields, such as agriculture, health, industrial and environmental bio-informative and genetic biotechnologies, as well as emerging technologies such as nanotechnology and material science [1]. The genuine efforts of these institutions resulted in numerous developments in the business sector, creating opportunities for investors from all over the world. Keeping in mind the potential of technological developments, 2019 has been one of the crucial years of economic cooperation with other countries like South Korea providing a $300 million loan to the Ethiopian Government for science and technology development [2]. Furthermore, in the same year, the United States Agency for International Development (USAID) remained at the forefront to help the Ethiopian Ministry of Health to introduce cutting edge technology to improve health services for the common man in Ethiopia [3]. Another milestone achieved recently is the trade agreement between Chinese eCommerce Giant Alibaba and the Ethiopian Government for selling products online. All these developments in Ethiopia reveal the large potential for businesses in the future to further boost economic development [4].

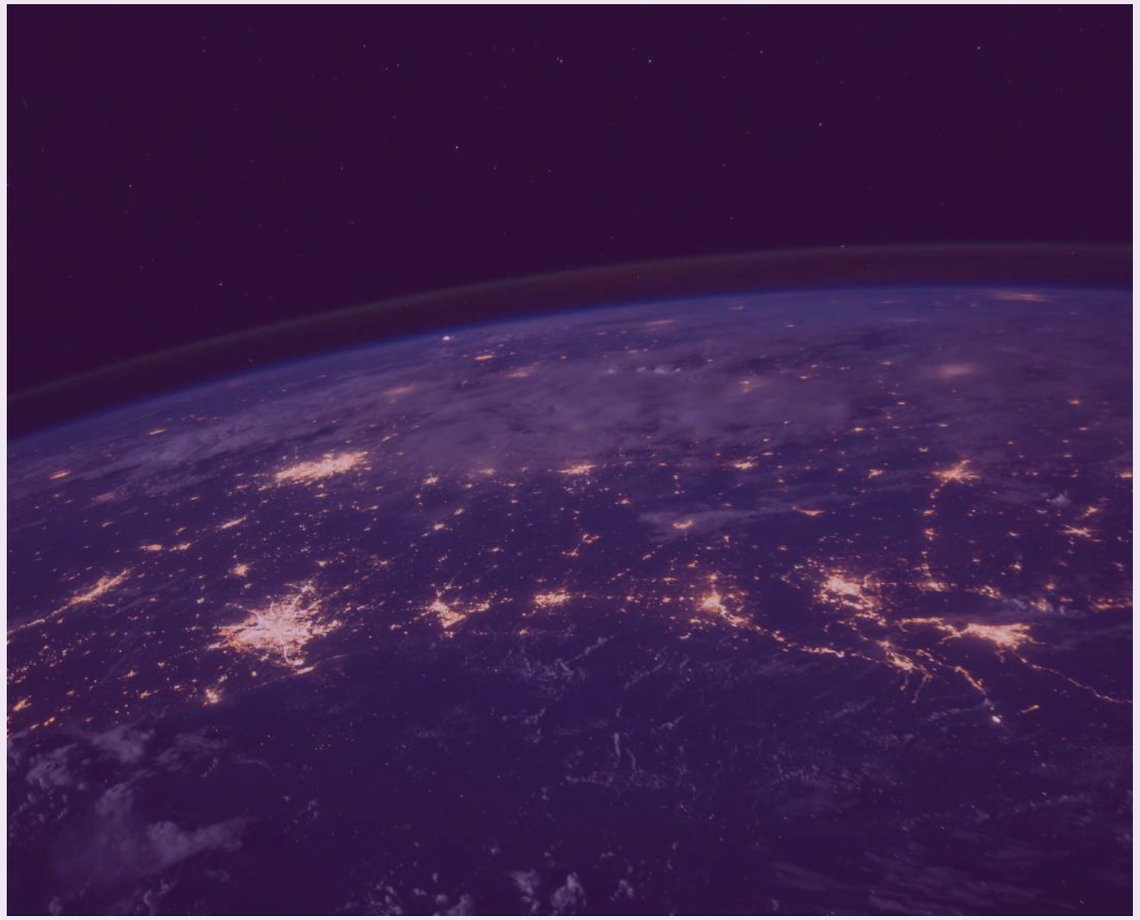
Despite setbacks, Ethiopia's tech economy has been making strides, luring entrepreneurs from throughout Africa and gaining international recognition. The wheels have been set in motion and a potential emergence of Ethiopia as a "tech-hub" is underway, especially after the former minister of science and technology, Abiy Ahmed, took over the charge as Prime Minister of Ethiopia in 2018 [5]. The formerly state owned companies within telecom, banking and aviation are privatized, thus opening stakes to private investors, a process likely to open up opportunities for tech companies. The Ethiopian community is anticipating dividends from Abiy's technological background.

Ethiopia - A Fintech Dreamland

Ethiopia is largely a cash-based society, with only 22% of its 100 million plus population being current bank account holders. Additionally, there are 18,000 saving and credit cooperatives and 44 million active mobile phone subscribers. The current numbers reveal that digital banking penetration is estimated at only 6%, with ambitious targets to reach 40% penetration in digital banking by 2020. This substantial growth potential is a dream scenario for investors interested in Fintech [6]. Tech investors are noticing the potential in Ethiopia, but there are still several opportunities for improvement and investments. The massive development in infrastructure, a growing population, and an increasingly tech-savvy younger generation of more than one million students in higher education institutions, are certainly attracting attention. This is the point where investors can get an early entry advantage, and that is why it is no wonder that Ethiopia was the 7th largest tech investment recipient with $11.3 Million in 2018-2019 according to Ibex Frontier, an investment advisory in Ethiopia [7]. The ambitious reform agenda led Ethiopia to host the African Fintech Summit in Addis Ababa in November 2019, which is one of the premier global initiatives dedicated to financial technology in Africa [8]. Ethiopia's Silicon Valley, known as the Sheba Valley, has already started working on Artificial Intelligence and introducing online payment solutions, which will further enhance the opportunities for investments by providing a conducive business environment [9].

"Everyday" Technology in Ethiopia (Credit to Africa 118)

The use of everyday technology in Ethiopia has only recently been introduced to the general Ethiopian public. There are three main reasons for this. First, the Ethiopian public in general is struggling with the implementation of this technology in their everyday lives. Additionally, the internet connection is faulty and is not always accessible to people residing outside the country's major cities – and also not always reliable. Lastly, a large portion of the country's residents do not have access to electricity and cannot charge mobile devices every day.



Various companies are operating with the goal to fix these above problems. As a reaction to the lack of connection reliability – all Ethiopian apps have an offline service. This offline service allows consumers to reach a hotline by dialing a telephone number and ensures that the majority of consumers are able to use the product. Furthermore, a handful of companies solve the many issues by offering a complete service to customers. In a meeting with Africa 118, we were told about their strategy. This company offers, amongst other things, scheduling doctors' appointments, booking travel tickets, bank transfer abilities and a marketplace much like Amazon to consumers. In order to solve the problem of people not being able to charge their phones because of lack of electricity: they offer solar powered charging stations. This ensures that more consumers have the battery on their mobile device that allows them to connect with Africa 118 services.

Marketing through media channels is very limited in Ethiopia. Marketing is usually done through old-fashioned channels such as billboards, radio or even by hiring people to go door-to-door in order to talk about a new product. Marketing through websites is not standard, and there is a vast untapped market in this sector. As media marketing is remote for Ethiopians, there is also a need for knowledge in this market. Businesses need to be taught how to use social media and the internet for promotion.

FRAMEWORKS FOR DOING BUSINESS

Business Culture

Ethiopians are known for having strong social bonds. Greetings are formal and courteous. It is accompanied by a slightly prolonged and less firm handshake, combined with strong, direct eye contact. Greetings are not done in a rush, one inquires about families, health, livestock and work etc. before diving into a business matter. If we quote a greeting in Oromo, one of the predominantly spoken languages in the country, *"Halaa Manni, Sa'aa Namnni Fayyaadhaa?"* it is to ask for the wellbeing of families, neighbors, cattle and humans. It is, after these opening dialogues that Ethiopians move into a normal business matter. Government officials may be addressed as "Excellency" without using their name in conversation. Or just wait to be invited before moving to call by first name without title. Thus to be successful in doing business in Ethiopia, one needs to be familiar with the core social values and belief systems within the community.
Showing commitment to what one has said or promised is a crucial selling point when doing business in Ethiopia. This best reflected by an important Ethiopian saying **" ያሉት ከሚጠፋ የመለዱትይጥፋ "**, which translates into letting one's offspring let go is better than to let down one's word or promise.

Ethiopians can be very sensitive when it comes to communication. As a general rule, they are humble and respect that quality in others. They generally speak in soft tones. Loud voices are seen as too aggressive. Ethiopians pride themselves on their eloquent speaking style and expect others to speak clearly and use metaphor, allusion, and witty innuendos. As a rule, Ethiopians tend to be non-confrontational and offer what they believe is the expected response rather than say something that might embarrass another. Honor and dignity are crucial to Ethiopians and they will go out of their way to keep from doing something that could bring shame to another person. Therefore, it is important to treat your Ethiopian business colleagues with utmost professionalism and never does anything that would make them lose dignity and respect. English is widely used in business circles; still knowledge of Amharic and other local languages will be appreciated. There are also interpreter services available throughout the country. Generally communication in Ethiopia tends to be quite formal.

Family is the most important aspect of Ethiopians' lives. It forms the basis of people's support networks, with relatives often being mutually reliant on one another to meet everyday challenges. The importance of family ties means that many Ethiopians feel a strong obligation to support kin that may seem 'distantly' related by Western standards. Marriage remains one of the most important events in one's lifetime, representing the merging of two families when the woman moves into her husband's home. Ethiopian men and women generally can choose their prospective partner. However, it is crucial to get approval from the bride and groom parents and families before a marriage. In some cases, two families that desire to establish closer ties could arrange a marriage. Generally, a group of elders *(Shimagile)* will visit the bride's family on behalf of the groom's family and make a proposal for engagement. This is usually a priest, a mutual friend of both families or a person of high status in the community. If everything goes fine, the dowry *(Tilosh)* will be arranged.

Ethiopia has its own calendar and time system. A calendar year is divided into 12 months each having a consistent 30 days, and the 13th month *"Pagme"* consisting of five days or six days (in a leap year). Ethiopian New Year begins on September 11th or 12th of a Gregorian calendar. There is a seven years lag between the Ethiopian and Gregorian Calendar from September to January 1st, and eight years lag from January 1 until September 11/12. Time counting has synchrony with sunrise and sunset; which happen pretty much consistently throughout the year due to the countries position near the Equator. The Ethiopian time starts to count from 1 after sunrise, therefore, Western 7am is 1 o'clock (1 *"seat"*) 12 am western is 6 o´clock in the day, 3pm is 9 o'clock in the day, 6pm is 12 o'clock, 7pm is 1 o'clock in the evening etc. To avoid confusion, make sure you clarify the time system in use when setting an appointment with a local Ethiopian business partner.

Ethiopians are hospitable and like to entertain friends in their homes. An invitation to a private home should be considered an honor. Punctuality is not strictly adhered to although considerable lateness is also unacceptable. You may have to take off your shoes at the doorstep. Ethiopians are relatively formal and believe table manners are a sign of respect. Hierarchy dictates that the eldest person is the first to take food from the communal plate. Guests are often served tasty morsels by a host or another guest called "gursha". Using his hands, the person places the morsel in the other person's mouth. Since this is done out of respect, it is a good idea to smile and accept the offering. Expect to be urged to take more food. Providing an abundance of food is a sign of hospitality. The meal starts and ends with ritual hand washing, and a guest is often served the

unique traditional coffee-ceremony. Originating from Kaffa, a province in south west Ethiopia, Coffee is a national drink and its drinking is a ritualized process that generally takes at least an hour. Roasted coffee beans on a traditional charcoal oven will give you a unique aroma of the coffee before sipping. Service package includes grass and flower-strewn floor with frankincense burning in the background and traditional snacks. Traditional Coffee service constitutes three rounds. The first round (called "awol") is served, starting with the eldest. When the first cup is finished, the "jebena" (coffee pot) is refilled with water. The second round (called "tona") is then served. It is weaker than the first since the same ground beans are used. The third round (called "baraka") is served after boiling water is again added to the jebena.

Respect is very important in Ethiopia. It is expected that people acknowledge one another courteously even if they do not speak the same language. It is rude to rush through a greeting or pass by someone without acknowledging them even briefly. Respect the elderly and religious leaders. Greet the eldest people first out of respect. Gifts may be given to celebrate events of significance or religious occasions. If you are invited to an Ethiopian's home, it is common to take pastries, fruit, or flowers to the host. A small gift for the children is always appreciated. Gifts are not opened when received. Gifts are given with two hands or the right hand only; never the left hand.

Over the last decade, Ethiopia has had one of the fastest growing economies in the world, with an average annual growth rate of 8%+. In February 2018, Moody's reaffirmed Ethiopia's credit worthiness at 'B 1,' while S&P and Fitch maintained their original rating of 'B.' These ratings reflect Ethiopia's stable outlook and prospects for continued economic growth in the short and medium term and are on par with neighboring Kenya and Uganda. The business climate is undergoing significant changes with significant policy reforms implemented under the new leadership of Prime Minister Abiy Ahmed. Government plans to privatize leading state-owned enterprises, announced in June 2018, signal a greater openness to market based reforms and a new flexibility to policy making.

Meeting schedules are more flexible in Ethiopia. Since relationships are extremely important, meetings start with extended social pleasantries. You will be offered tea or coffee and will be expected to ask questions about the other person and respond to questions about yourself. Business meetings in Ethiopia are expected to be result oriented. Often Business meetings and partnerships will be considered as developing friendship, and since they generally only conduct business with people they consider friends, Ethiopian's are quite committed to business relationships.

Ethiopia is home for various continental and international organizations that adds a global flavor to the country's business atmosphere. Its capital, Addis Ababa, is the third most cities that hosts diplomatic and international organizations after New York City and Brussels. Therefore, doing business in Ethiopia not only requires understanding the local context but also the international cognizance. Ethiopian business deals are being influenced by the west and east culture mainly in the major urban areas.

Dos

Make sure you spend some time getting to know an Ethiopian before talking about a serious matter or business. Plan to allow more time for engagements and be patient if things last longer than expected. Try to refer to the Ethiopian nation, nationality or culture specifically when possible, rather than "African". It is appreciated when foreigners recognize that Ethiopia is culturally distinct from the rest of Africa. Show interest in the wellbeing of an Ethiopian's family whenever you see them (e.g. "How are your children?"). Show greater respect to elders in all circumstances and situations. Their age is thought to indicate wisdom, knowledge and experience. Remember that Ethiopians see themselves as progressive people and pride themselves on their country's legacy of independence.

Don'ts

Do not criticize Ethiopia's developmental challenges. Although certain things may not be conveniently accessible in the country, it does not mean that the culture or people are less sophisticated. Avoid asking questions that assume Ethiopians are uneducated, uncivilized or impoverished. Avoid offering your opinion on local politics, ethnic tensions. There are a lot of political overtones in Ethiopia. If the topic is raised, it is best to simply listen. Do not disrespect religion, be it Orthodox Christianity, Protestantism or Islam. Avoid directly asking someone what ethnicity they belong to. This can come across as an insensitive or divisive question. Avoid complaining, raising your voice or showing public anger/frustration about petty or minor inconveniences. Ethiopians are generally tolerant and stoic people, and are very unlikely to make a scene if something aggravates them.

Taxation

Tax is one of the basic instruments that the government can employ to foster its foreign direct investment and exports. In this respect, the government is undertaking a series of reforms in particular focused on reducing rates and rather broadening the tax base aiming to encourage investment and foreign trade. Under the current legal system of Ethiopia, customs duty, tariff and taxes are regulated by a number of laws that include domestic laws and international bilateral treaties to which Ethiopia is part. The Customs Proclamation No. 859/2014 sets the base for the regulation of customs duty, tariff and tax in Ethiopia. Duties and taxes are payable for any imported or exported goods unless otherwise provided by law or decided by the Ministry of Revenue. Article 110 of the Proclamation states that a declarant is liable for payment of the duties and taxes imposed on the goods, as well as penalties and interests incurred due to default thereof. Unless otherwise provided by law, the duties and taxes on import or export goods are assessed on the basis of the law in force on the date of acceptance of the goods declaration or the date of correction under Article 93 of the Proclamation (deductive value method). Where it is not possible to determine the date of lodging or acceptance of the goods declaration, the duties and taxes are assessed on the basis of the law in force on the date determined by the Authority.

Customs Duty and Tariff Rates

A duty on goods imported into the customs territory is paid at the rates specified by the Customs Tariff Regulation. Accordingly, there are six duty tax rates (0%, 5%, 10%, 20%, 30%, and 35%) which are applicable based on the type of the good imported. The reason behind the variation of duty tax rates is the need for encouraging the importation of some goods by imposing 0% tax rate and at the same time to discourage importation of selected goods by imposing a higher tax rate.

There are two schedules for the purpose of determining the applicable tax rates. The first schedule encompasses raw materials, semi-finished goods and import items for public use. Note that the tax rate for this category is lesser, keeping in mind that the imported goods enhance domestic production or are for public services such as ambulances. Hence, raw materials and producer goods are largely zero-rated, although it may also reach 10 % in some cases. The tax rate for semi-finished goods is 10% or 20%. On the contrary, the second schedule contains consumer or finished goods that are imported for personal use or so-called non-productive purposes. The higher duty tax rates are usually applied to consumer goods such as automobiles for personal use. This being said, the customs duty and tax-rate for exported goods is at 0%, except for selected products made of animal hides and skins.

Direct Taxes

Incomes taxable under As per Income Tax Proclamation No. 979/2016 includes:

- Income from employment (0% – 35%)
- Income from rental of building (0% – 35%)
- Income from business profit – for unincorporated entities (10% -35%); for incorporated ones (30%)
- Income from royalties is at flat rate of 5%
- Income paid for services rendered outside of Ethiopia is at a flat rate of 10%
- Income from games of chances (15%)
- Dividends (10%)
- Income from casual rental of property is 15% (any land, building or movable asset)
- Interest income (5%)
- Gains on transfer of certain investment property (sale or gift):
- Building for business, factory, office (15%)
- Shares of companies (30%)
- Income from agricultural activities – based on proclamations issued by regional states.
- Inheritances and donations: No estate duty or other death duties are levied in Ethiopia.

Thus a foreign individual, who lives in Ethiopia for over 183 days during one calendar year, whether continuously or intermittently, is regarded as being resident for the entire tax period and is taxed in accordance with the provisions of the Income Tax Proclamation.

Article five of the proclamation, defines resident as follows:

a. Has a domicile in Ethiopia,
b. Is a citizen of Ethiopia who is a consular, diplomatic or similar official posted abroad,
c. Is present in Ethiopia continuously or intermittently, for more than 183 days in one year period.

The following are excluded from the computation of taxable income in accordance with Article 6 of the Income Tax Proclamation No. 979/2016.

- Medical treatment;
- Transportation allowance;
- Hardship allowance;

•Reimbursement of travelling expenses incurred on duty;
•Per Diem and travelling expenses on joining and completion of employment, provided that such payments are made pursuant to specific c provisions of the contract;
•Food and beverages provided for free to an employee by an employer conducting a mining, manufacturing or agricultural business.
•Board members' and board secretaries' allowances; the income of persons employed for public duties;
•The contribution of the employer and the employee to the retirement or provident fund and all forms of benefits contributed by employers that do not exceed 15% of monthly salary; and
•Payments made to a person as compensation in relation to injuries suffered by that person or the death of another person.

Indirect Taxes

A. The Value Added Tax (VAT)

VAT replaces the old business tax system of commodity and service taxes including the sales tax and the withholding tax. The VAT rate is 15 percent of the value of every taxable transaction of a registered person and all imports of goods and services other than those VAT exempted items in Ethiopia. Taxable transactions which shall be charged with zero percent are: export of goods or services to the extent provided in the regulations. The rendering of transportation or other services directly connected with international transport of goods or passengers as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights.

B. Excise Tax

Excise Tax is payable on a range of consumer goods, whether produced locally or imported, e.g., alcohol, tobacco, salt, fuel, television sets, cars, carpets and toys. Excise tax proclamation no. 1186/2012 provides rates varying from 5% to 500%, depending on the type of commodities, safety and health issues as well as societal and economic relevance.

C. Turnover Tax

Turnover Tax under the total value of 500,000 Birr, is applicable to pay 2% or 10% percent from annual taxable transactions on goods sold or service rendered locally. All income from domestic or foreign sources is taxed whether it is obtained as remuneration, profit or gains, from employment, business activities or any activity which brings income to the beneficiary.
For depreciation allowance, assets are categorized into different classes. The categories and rates of depreciation are; Buildings and structures 5%; Intangible assets 10%; Computers, information systems, software products and data storage equipment 25%; All other business assets including automobiles, buses and minibuses 20%.

Every investor has a tax obligation and is required to obtain a taxpayer identification number ("TIN"). An investor who is involved in taxable activity has also an obligation to register for VAT.

D. Export Tax

Export Tax is levied on raw and semi-processed hides and skins, and wet-blue cow hide, pickled sheep skins with wet-blue sheep and wet blue goat skins at a flat rate of 150%.

E. Stamp and Transfer Duty

Stamp duty is payable on a broad class of legal instruments, such as:
• On Memoranda and Articles of Association
• Upon first execution – a flat Birr 350
• Upon any subsequent execution – a flat Birr 100
· Contracts and agreements and memoranda – a flat Birr 5
· Security deeds – 1% on the value of the deed
· Contract of employment initial stage – 1% of a month's salary
· Register of title to property – 2% of the value.
According to Ethiopian legal system any tax imposed is applicable. Thus any taxpayer has the Right to Appeal and can submit appeal on a tax decision rendered by the Tax Authority.

Tax Incentives

The Investment Regulation outlines the tax incentives applicable to investments in different sectors. Manufacturing and agriculture businesses enjoy more tax holidays than other businesses, and investments outside Addis Ababa and its environs also get more tax holidays. Some of the areas that have tax incentives include, but not limited to the following:
-Food processing and the manufacture of wines, plastics and rubber/synthetic products: three years if they are situated in Addis Ababa, and five years in other regions;
-Those engaged in the manufacture of basic chemicals, fertilizers, inputs for basic pharmaceuticals, leather products, pulp and paper, basic iron and steel; tanning hides and skins up to a finished level; the manufacture of general purpose and special purpose machinery; and the manufacture of railway locomotives and rolling stock: five years (in Addis Ababa and environs) and six years (in regions);
-The manufacture of baby food, paints, varnishes, inks and mastics, soap and detergents, accumulators or batteries, electrical wires, cables and related products, electric lightning equipment, domestic electrical appliances and other electrical equipment: two years in Addis Ababa and its environs and four years in other parts of the country;
-Textile manufacturers: from two to five years in Addis Ababa and environs, and from three to six years in other regions;
-Investments in the manufacture or formulation of pharmaceuticals, plastic products used as inputs for construction or other products, plastic pipes, glass and/or glass products, ceramic products; electronic components and boards, electric motors, generators, transformers or electricity distribution and control apparatus; integrating manufacturing with agriculture; casting or iron and steel; ICT development; electricity generation, transmission and distribution: three years in Addis (and environs) and four years in other regions;
-Cement industries: four years if set up outside Addis and its environs;
-Agricultural investments: up to three years in Addis and from three to six years in other regions; and

In addition, an investor investing in emerging regions and remote areas is entitled to a 30% tax exemption for three consecutive years following the expiry of the above mentioned period. If the investor exports 60 or more of its products or services, it will be entitled to tax exemption for an additional two years.

Main services provided by ENCC:

- Business Networking and match making
- Consulting Services and legal advice
- Initiating joint investment projects

www.encc.no
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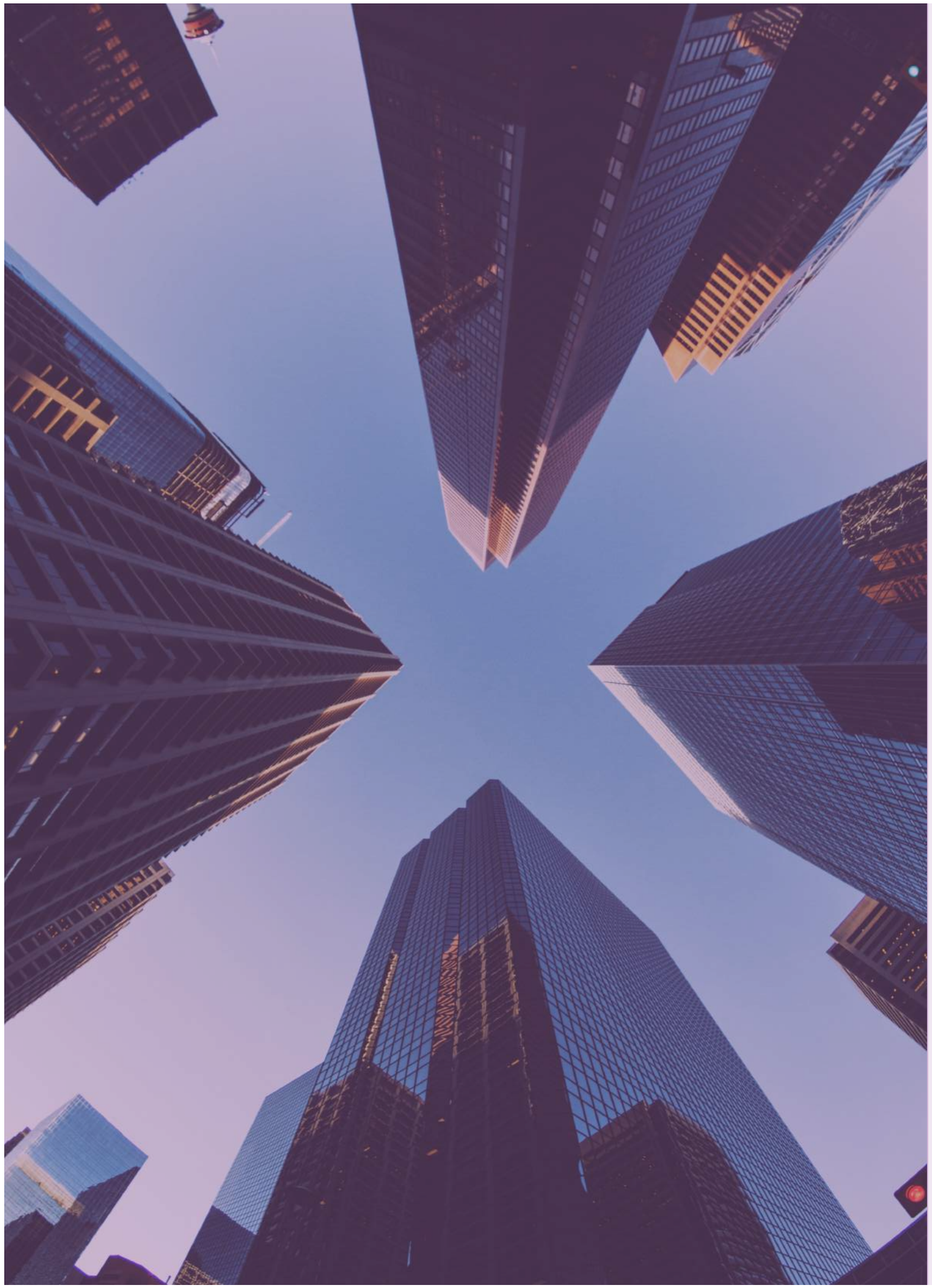
ENCC
Ethiopian Norwegian Chamber of Commerce



Corruption

The level of corruption in Ethiopia is pretty high, although it is lower in comparison to other regional African countries. The country ranks 96th out of 180 countries and scores 37 out of 100 in Transparency International's 2019 Corruption perceptions Index [2]. Examples of corruption include facilitation payments and bribes being necessary to keep land leased from the state or in order to obtain any type of government contracts. Ethiopian anti-corruption law is primarily contained in The Revised Federal Ethics and Anti-corruption Commission Establishment Proclamation and the Revised Anti-Corruption law which criminalize major forms of corruption including active and passive bribery, bribing a foreign official, and money laundering. Facilitation payments are illegal, and it is forbidden for civil servants to accept gifts or hospitality that may affect their decisions. The legal anti-corruption framework is rarely enforced [3].

Forms and Levels of Corruption

In Ethiopia corruption is practiced at different levels in different forms. For example; companies face high risks of corruption in Ethiopia's public services provision. Petty corruption and the solicitation of bribes in return for the processing of documents are particularly common forms of corruption in the public services sector. Ethiopia's judicial system is another high-risk place of corruption. Bribes and irregular payments in return for favorable judgements are very common in Ethiopia. Corruption within Ethiopia's police is perceived to be rampant. Impunity within the police force is a serious problem here. Businesses do not have confidence in the police services to protect them from any form of crime. Land and Tax Administration in Ethiopia are other two places where the level of corruption is very high. In the case of land administration, businesses report that property rights are insufficiently protected in Ethiopia. Also, petty corruption and land-grabbing is very common in this sector. In tax administration, businesses report that bribes, irregular payments or gifts to tax officials are common practice when making tax payments. And finally, the Ethiopian Revenues and Customs authority is another high risk of the corrupted sector. It was overwhelmingly cited as the most corrupt public institution in a survey among foreign businesses [1] [3].

Legal and Institutional Anti-Corruption Framework

In Principle, the legislative framework to prevent and sanction corruption in Ethiopia is strong. However, the government does not implement the laws effectively, and the judiciary is known to be politically influenced. The Revised Federal Ethics and Anti-corruption Commission Establishment Proclamation and the Revised Anti-Corruption Law criminalize attempted corruption and extortion, while the Criminal Code 2004 criminalizes active and passive bribery, money laundering and bribing a foreign official. Private sector corruption, including bribery and embezzlement, is criminalized; but there are no known cases of prosecution in the private sector. Further, bail is prohibited for anyone charged with corruption. The Assets and Property Registration Law calls for government officials and their relatives to register their assets and properties. The law also requires government officials to not accept any gift in connection with their duties. Facilitation payments are illegal. Article 444 of the Criminal Code, and the Proclamation on the Protection of Witnesses and Whistleblowers of Criminal Offences provide some legal protections for whistleblowers, but private sector whistleblowers are not covered [1] [4].

NHO and the Ministry of Foreign Affairs (UD) have developed guidelines on how to navigate a corrupt society.

https://www.nho.no/tema/arbeidsliv/artikler/etiske-retningslinjer/

https://www.regjeringen.no/no/sok/id86008/?isfilteropen=False&term=antikorrupsjon

https://www.regjeringen.no/globalassets/upload/ud/vedlegg/antikorrupsjon.pdf

Foreign Exchange and Logistics

Foreign exchange controls and logistics are two of the greatest challenges to doing business in Ethiopia. They are by no means insurmountable obstacles but they can represent a major hazard for the unprepared investor.

Foreign Exchange

Foreign Exchange is currently one of the biggest challenges for businesses in Ethiopia. Most manufacturers who do not generate their own foreign exchange and require imports for inputs are working at less than 50% capacity due to their inability to source inputs to achieve full capacity production, and many are working at much lower levels. Currently those requesting foreign exchange from the banks wait at least 6 months and often much longer. It all seems like quite a dire picture, and possibly not the sort of environment that you could invest in, however with the correct planning and preparation, and the right business plan, there is every potential to succeed and get an important first mover advantage in a country with major opportunity.

Planning

Many investors don't appreciate the complex nature of regulations and compliance requirements in Ethiopia. They know their business, so they enter Ethiopia with a good business plan, but not one tailored to the Ethiopian context, and then they start to hit the reality of working in Ethiopia. They need more foreign exchange to buy more inputs, so they go to the bank to open a Letter of Credit, and then find that they will have to wait an indeterminate length of time to receive their goods. Their operations grind to a halt and they start to lose money. For a company to be successful in Ethiopia, the business plan needs to be tailored to the context with the foreign exchange limitations, amongst others, taken into account. This means a company must ensure its own access to foreign exchange in order to be successful. A company must be able to either generate enough foreign exchange through exports to cover its input costs, or it must be able to keep funding those foreign exchange needs indefinitely so that it is in the right position once the foreign exchange challenges are relieved to take advantage of the opportunities which will follow.

Equity Contributions, Shareholder Loans and Foreign Loans

Funds brought into the country from overseas as equity, shareholder loans or foreign loans can be kept in a company's foreign exchange account indefinitely. These funds can then be used for any company needs. Equity contributions must be registered with the National Bank, as must Shareholder loans and foreign loans – which must be approved before funds are brought into the country, and for which there are restrictions on the interest rate which can be paid on the loans. Both shareholder loans and foreign loans are useful ways for companies to bring in additional funding beyond initial needs. For most sectors there is no limit on the proportion of capital that a company can bring in as a shareholder loan relative to registered equity, and given a company cannot reduce its registered capital, a shareholder loan is a mechanism for bringing in capital which can then be repatriated at a later date.

Retention Accounts

Companies which receive payments from overseas in Foreign exchange will receive those funds into a pair of retention accounts. 30% of the funds will be channeled into their Retention Account A where the foreign investors can hold those funds in foreign exchange for an indefinite period and use them for funding business costs. 70% of the funds will be channeled into their Retention Account B where the foreign investor has access to the funds for 28 days to cover business costs, if the funds are not used within 28 days the funds are then converted into Ethiopian Birr and transferred into the company's ETB account.

Logistics

It is widely recognised that the logistics sector in Ethiopia is under performing and there are a number of government and donor funded initiatives to improve the sector, however, it will be some time before those efforts come to fruition. The challenges in the Ethiopian logistics sector can be summarised in three key areas: Geography, the poor provision of services at the Port of Djibouti, and high levels of bureaucratic and administrative complexity.

Geography: Ethiopia is a large country, covering an area three times the size of Norway. The vast size of the country means goods often have to cover large distances to get in or out of the country. Ethiopia's lack of a coast line means that it is highly dependent on Djibouti as a gateway for access to the sea.

Provision of services at, to, and from Djibouti port: The state owned Ethiopian Shipping Lines (ESL) operates a monopoly for shipping goods to and from Ethiopia and the price of shipping a container to and from Ethiopia is significantly higher than neighbouring countries. For example, importing the same container to Ethiopia and Tanzania would result in a $1,095 higher price in Ethiopia and shipping a container of textiles from Ethiopia to Germany costs 72% more than shipping a similar container from Bangladesh.

Bureaucracy: Ethiopian customs processes are complex and burdensome and often require the production of numerous documents and certifications. The World Bank Ease of Doing Report in 2019 stated that documentary compliance in Ethiopia takes on average twice as long as the rest of sub-saharan Africa.

There is however expectation of improvements in the coming years thanks to the new national logistics strategy which is being implemented and includes opening the sector further to international logistics groups, many of whom are in the process of entering the market and are expected to invest heavily and increase capacity. Additionally DP World is investing in further developing the port of Berbera in Somaliland which will break the bottle neck of the Djibouti port, bringing competition and hopefully better services to this corridor.

Companies looking to establish operations in Ethiopia should consider either heavily investing in understanding the intricacies of the bureaucratic processes or bringing on board partners with the necessary skills and experience to navigate these challenges. There are many service providers who have invested in these areas and can be trusted to support companies looking to navigate this challenging area.

"Integrating Purpose with Profit"
Verdant Consulting specializes in solving business and social problems in tandem. We collaborate with leaders and entrepreneurs to start-up or scale purpose-driven businesses that accelerate Ethiopia's industrial, agricultural, and technological transformation.

Sarah Jackson
CEO, Verdant Consulting

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http://www.vcethiopia.com/

Corporate Social Responsibility & Sustainability

International business opportunities – making meaningful progress!
Business plays an important role in achieving the ambitious UN Global Compact Sustainable Development Goals (SDGs).
Any forward-looking strategy leads the way to the company's profitability. In order for sustainability to be profitable, the actions must be integrated into the company's core business and provide added value to the customer. Additionally, a plan on how the company will make a positive impact on society is necessary. Several reports indicate that it is crucial that the company's sustainability initiatives are anchored in the executive management.

The external driver for a company is demands from the authorities that are required by law to safeguard human rights and claims to limit environmental impacts. This is especially related to doing business with countries that are at high risk of child labor, slavery, high poverty, low wages, corruption, etc. Because of these challenges, reporting requirements that safeguard human rights and the environment are set. Several reports explain that it will be even more important to have documentation of the measures in the time ahead. Documentation of concrete results are valuable for companies' credibility and quality of market communication.
The UN Global Compact Sustainable Development Goals (SDGs) are at the heart of "Agenda 2030" – a global plan for achieving a better future for all — aiming to end extreme poverty, fight inequality and injustice, and protect our planet. It is crucial that the SDGs are an integral part of the business model and the overall strategy, not just a "nice to have" add-on to the corporate activities. The Sustainable Development Goals provide a framework and a tool to analyse business risks and opportunities for long term value creation.

The trend picture in Norway to meet the expectations of the future!
Businesses want better competitive advantage, increased profitability, increased loyalty and strengthened reputation. Several business players want to show who they are through their sustainable choices and social responsibility. The consumer has gained significantly greater power in Norway. They want to be aware of the good choices, and companies are therefore forced to develop sustainable solutions. Studies confirm that companies that integrate sustainability into the core business achieve profitability. Aspects of importance is an engaged management.
The trend says that consumers are more concerned with people rather than the brand. People want brands that take social responsibility and we listen to the ones we have trust in. It is a demanding market where seven out of ten think it is difficult to find sustainable products. The consumers are price conscious as well as wanting high quality and added value. 65% believe it is important to showcase their values and what they stand for. We are more concerned with the environment, reuse and sharing economy. The young people are developing a new trend picture that the market must take into account in order to be prepared for tomorrow's customer.

Turn challenges into opportunities!
The time has come to not only talk, but to implement and show actions! How can challenges become opportunities and how can we invest in long-term value creation? Several top executives will lead the way for their companies and anchor sustainability initiatives in core business. Numerous companies integrate sustainability goals and are concerned with themes that occupy the business. The most sought-after companies build trust with value-based management in their business. There is a lot to be gained at companies that can include employees in this work that provides an engagement and an including corporate culture.

The community of values is an added value to build a good corporate culture in a company.
Knowledge, involvement, ownership and engagement are strong terms that the business has access to. In example, using the companies' knowledge in a developing country helps to develop what the country needs to build independence and offer new services. For the employees of a Norwegian company, it provides ownership and inclusion that motivates and gives pride in the values and choices the company has made. The employees have the opportunity to participate with their expertise which produces positive synergies in the society.

The status on Ethiopia Sustainable Development
The SDG report from 2019 is confirming that poverty is still a major challenge and the unemployment rate is still in stagnation. Other major challenges are the quality of trade, transport-related infrastructure and corruption, which are still big issues. There is no new information that has been confirmed on progress when it comes to quality education. Ethiopia is making some progress on Goal 2: "End hunger, achieve food security and improved nutrition and promote sustainable agriculture." The gender equality and the female to male labour force participation rate is also going in a positive direction. The proportion of the population using the internet is moderately improving. The energy-related CO2 emissions per capita are on track and are maintaining the SDG achievement.

Cross-collaboration can open new doors
Collaboration is a success factor for long-term value creation. Establishing a collaboration with professional bodies and non-profit organizations can open more opportunities. It is a challenge to establish a customer relationship or a business in a developing country if you do not know the framework in the country. This is where non-profit organizations that have specialist knowledge and an established network in the country can be an important resource that opens up new opportunities for business. They can help guide companies and avoid corruption, ensure that human rights are safeguarded, that workers receive living wages and focus on protecting the environment. All of this is crucial to run a sustainable business between countries. Norwegian companies can contribute their knowledge where there are challenges in Ethiopia, that create value for the future.

Kvantesprang
Verdiskaping med betydning

Kvantesprang is providing business advisory services that support sustainable development. We create innovative business methods that strengthen a forward-looking society. Kvantesprang leads the way to new types of collaboration across sectors for long-term value creation that has positive impacts on national and global challenges.

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Business opportunities in Ethiopia: Best practice and impact

The Norwegian company Mester Grønn AS and local partners are cooperating with the Norwegian non-profit organization Partnership for Change (PfC) and has established a business in Ethiopia that produces handmade baskets. This has so far resulted in decent work for 300 women in Ethiopia.

Mester Grønn contributed their knowledge and design so the women could produce the baskets. PfC organized the women, provided training and ensured that the production was completed. Their first, major project was 8000 baskets that were exported to Norway for sale in Mester Grønn's stores.

This project was started to explore the possibilities of professionalizing and commercializing the production of handmade baskets. Thus, women in rural areas, who previously had minimal or no income, can use their craft skills to work their way out of poverty. In this way, we can help them become financially independent, and that they and their families get better living conditions and dignified lives.

The collaboration has contributed to:
· Creating sustainable job opportunities, especially targeting rural women in Ethiopia.
· Production and marketing of baskets. The baskets are produced by local women.
· Development of a value chain for production and export. This includes recruitment, commodities, storage, packaging and branding both locally and for export.
· To create a transparent value chain for basket production in Ethiopia. It may lead to international and local investment, as well as trade for Ethiopian basket manufacturers.
· Stronger cooperation with partners and local businesses.

The collaboration has helped to develop business between Ethiopia and Norway which adds value to the company Mester Grønn and to their customers in Norway. Economic independence is the path to sustainable development.

PfC PARTNERSHIP FOR CHANGE

KVALITET MESTER GRØNN SIDEN 1985

Yara's Experience in Ethiopia

Yara mainly works in fertilizers and chemicals. Ethiopia has a strong availability of potash which is a key input in the fertilizer industry. The availability is confined to a few locations in the world, so the potential for deposits of potash in Ethiopia is a primary interest for Yara. The mine is in North-Eastern part of Ethiopia, about 1000 km from Addis. The challenge is technology, as the kind of potash that is available is quite different. The deposits are quite shallow, with a high concentration of potash (60-65%).

The regulatory environment is also quite attractive for FDI. Different sectors have different legislation, but in the mining sector, there are several incentives, and the laws are very transparent. Things like access to work, residence permits, acquiring licenses are quite good, making it easy for the company to operate. It's quite straightforward and simple. Mining investment law is quite separate from the broad investment laws in place. Though the general things apply, regarding investment requirements, company setup, etc. it is rather different.

Having begun the mining venture in 2011, the company is looking into how we can technically support the local farmers, and consumers. We have been working on the study for a while and the findings have been shared with the Ethiopian Agricultural Transformation Agency. They have been trying to introduce premium fertilizers as it supports a much higher yield. Giving farmers access to these resources will help the farmers earn better. Coffee plantations could benefit quite a lot from this, as there is both high skill and demand for the product. There have been studies to start a transformative process in the agricultural industry. It has been challenging to shift from traditional practices, and the process will take time. Yara also maintains its interest in being involved in the downstream process.

However, Ethiopian soil may not ideally demand a high quantity of Potash so producing for the local market may not be feasible. It is mostly for other markets like Europe, China and India where potash requirements are much higher. Phosphate, DAP and Boron are more in demand locally. Yara used to be a supplier of fertilizers to Ethiopia for a long time through local agents. This mostly happened through local agents. Now, the company is interested in building a presence in the market with their own brand.

The government has been providing subsidies to farmers while selling fertilizers, so they have preferred to keep this under state-control. Because of this, there were no private firms in the sector. The government is now opening up to allow fertilizer companies to step in to sell fertilizers for commercial farming companies in a way that does not affect the affordability of the fertilizers to peasants which is their primary interest. Yara would thus eventually want to venture into the downstream side of the fertilizer business. In recent times, the environment has become quite competitive for drawing in FDI. A while back, the government was more interested in keeping things under their own control and scaling up the government's presence. Things were quite restricted regarding activities like commercial farming. The state wanted to be more involved in the farming sector through government enterprises. Now, the government has a much more liberal stance on businesses. As of now, the farms are quite dependent on government enterprises, but they are trying to make it easier for the firms themselves to buy/import essential inputs like fertilizers and pesticides.

The new political system is responsible for the liberalization of these key sectors and promoting the country as an attractive destination for foreign companies.

There haven't been many challenges or hurdles because the industry wasn't something the government was interested in. Because of that, even in the old system, the company didn't face any specific difficulties. However, if we are to start with production and sales, the policy and regulations could become a concern. So far, the emphasis has been on exploration and feasibility studies for Potash, so that is not something that is likely to generate much contradiction or criticism.

Having said that, the government has been quite supportive. Even the previous regime was a part of the process, as it will be a huge source of forex income. The government invested half a billion dollars on electricity and road access to the location because they also have a strategic interest in the success of the mining operation. There is direct access now through proper roads. Access to the location has improved significantly, a 50-minute flight following a 3-hour drive. The African Development Bank has also been a strong partner in the process. The government has shown a very strong commitment to making sure it is convenient for us to understand and operate in Ethiopia, and we expect the same to continue going forward.

Yara grows knowledge to responsibly feed the world and protect the planet. Supporting our vision of a world without hunger, we pursue a strategy of sustainable value growth, promoting climate-friendly and high-yielding crop nutrition solutions for the world's farming community and food industry.

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YARA
Knowledge grows

Setting up a company

Foreign investors may set up a company in Ethiopia in one of three ways: Sole Proprietorship, Private Limited Company (PLC) or as a branch for a multinational company. First and foremost, any foreign citizens interested in setting up a business should travel to Ethiopia on an investment/business visa. Following that, the key steps in the procedure to setup each one of them as published by the Ethiopian Investment Commission (EIC) is outlined below:

Sole Proprietorship:

1. Make an application to Licensing and Registration department along with the project proposal
2. Once the application is processed, the department will issue a letter. The letter is required to set up a bank account at the National Bank of Ethiopia.
3. Transfer the committed amount in the bank account. Following this, the bank will issue a confirmation for the transfer
4. The Licensing and Registration department will then issue an investment permit enabling the firm to start operating.

Private Limited Company/Joint Venture:

1. Make an application to the promotion department along with a project proposal and profile of the existing company for an approval to start the company establishment process.
2. Submit the drafts for memorandum of association (MoA) and article of association (AoA) to the Licensing and Registration department.

Identify a unique name and obtain a clearance letter

4. Make a complete application to the Licensing and Registration department.
5. Once the application is processed, the department will issue a letter. The letter is required to set up a bank account at National Bank of Ethiopia.
6. Transfer the committed amount in the bank account. Following this, the bank will issue a confirmation for the transfer.

7, Once the confirmation from the bank, authenticated lease agreement and TIN number is submitted to the Licensing and Registration department, an investment permit will be issued enabling the firm to start operating.

Branch/Multinational Company:

1. Make an application to the promotion department along with a project proposal, authenticated documents of the parent company and documentation for the general manager of the new company.
2. Once the application is processed, the department will issue a letter. The letter is required to set up a bank account at National Bank of Ethiopia.
3. Transfer the committed amount in the bank account. Following this, the bank will issue a confirmation for the transfer
4. The Licensing and Registration department will then issue an investment permit enabling the firm to start operating.

Important Contacts

Ethiopian Investment Commission
P.O. Box 2313
Tel: +251-11-551 0033
Fax: +251-11-551 4396
E-mail: ethioinvest@investethiopia.gov.et
Website: http://www.investethiopia.gov.et/
Autonomous government institution accountable to the country's Investment Board.
One-Stop-Shop.
Main services provided by the organization:
- Issues investment permits, business licenses and construction permits
- Issues commercial registration certificates as well as renewals, amendments, replacements or cancellations
- Negotiates and, upon government approval, signs bilateral investment promotion and protection treaties with other countries

Ethiopian Chamber of Commerce and Sectoral Associations
P.O. Box 517
Tel: 251-11-551 8240
Fax: 251-11-551 7699
E-mail: etchamb@ethionet.et
Website: http://www.ethiopianchamber.com/

Addis Ababa Chamber of Commerce and Sectoral Associations
P.O. Box 2458
Tel: 251-11-551 8055
Fax: 251-11-551 1479
E-mail: info@addischamber.com
Website: http://addischamber.com/
Main services provided by the organization:
- Business development support
- Arbitration and dispute resolution
- Trade and investment promotion

Industrial Parks Development Corporation (IPDC)
Tel: +251-11-661 6986 / 661 6674
E-mail: info@ipdc.gov.et
Website: http://www.ipdc.gov.et/index.php/en/
Governmental body in charge of developing and administering the industrial parks.
Main services provided by the organization:
- Committed to boost industrial parks development through the highest standards of professionalism
- Ensures that necessary infrastructure is accessible to Industrial Park developers
- Sell and pledge bonds and negotiate and sign loan agreement with local and international financial sources

Development Bank of Ethiopia
P.O.Box 1900
Tel: 251-11-51 1188/89
Fax: 251-11-511606
E-mail: dbe@telecom.net.et
Website: http://www.dbe.com.et/
Financial institution established to promote the national development agenda through development finance and close technical support to viable projects.
Main services provided by the organization:
- Provide short-, medium- and long-term credits
- Provide medium- and long-term loan for investment projects

Ministry of Foreign Affairs
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Website: http://www.molsa.gov.et/

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Fax:+ 251-11-575 9871
Website: www.moin.gov.et

Ministry of Trade
P.O. Box 704
Tel: +251-11-551 8025
Fax:+ 251-11-551 5411
Website: http://www.mot.gov.et/home

Norwegian-African Business Association
Tel: +47 959 69 631
E-mail: hello@norwegianafrican.no
Visiting: Middelthuns gate 27, Majorstuen, Oslo
Website: https://norwegianafrican.no/

ENDING

Concluding Remarks

Ethiopia is a country with a rich history and culture. As the second most populous nation in Africa, it presents both an attractive workforce and an exciting market to businesses world over. After a conflict-ridden phase, the country is now at its most stable with Nobel Peace Prize winner Abiy Ahmed at helm as the prime minister.

Coffee exports had remained the country's most prominent export for the longest time. As the place of origin for coffee, this commodity has been essential to both the identity and economy of Ethiopia. While coffee remains a prominent export, the country is now looking to transform its economy by diversifying and liberalizing. There is a prominent liberalization drive across all sectors and an increased emphasis on drawing FDI into industrial sectors through development of industrial parks, tax incentives and simplification of entry procedures for global investors.

The investments in the recent past have brought a new wave of economic growth in Ethiopia. The economy currently stands as an attractive market in addition to a potential production hub. With a population of 112 million who are participants in a growing economy, the local demand for products is also on the rise. The liberalization drive has also opened up sectors such as telecommunications, which were restricted to foreign investors and is an exciting window of opportunity that has been taken up by prominent African companies.

As a growing production and consumption hub, Ethiopia is a lucrative market for consumer staples, energy and ICT related products while also being an attractive destination for investment in the industrial space. With plenty of room for growth and untapped potential, we believe that it is one of the most attractive emerging markets. As an economy that is just coming out of a long conflicted past, there are remnants of the old system, which inevitably slow things down. The bureaucracy and corruption in the system have remained deterrents to drawing large-scale investments. While there are policy reforms to counter these deterrents, the effectiveness has been debatable. However, in our interaction with various players, we heard of improvements and serious efforts to ease the process for foreign investors which could be a sign of change.

We assume that local involvement and knowledge, long-term perspective, and cross-collaborations are essential factors for successful establishment or investment in Ethiopia. Also, understanding cultural differences is vital, whereas it is quite different from Norway. We experienced young people with abilities, education, and an innovative mindset, which can lead great potential for investments and workforce. For investors interested to pursue potential opportunities, the Ethiopian Investment Commission (EIC) has been set up by the government to act as the first point of contact and consequently facilitate the investment and setup process. We hope that this report will provide adequate insight for interested investors to identify and assess potential opportunities in this fast growing African nation.

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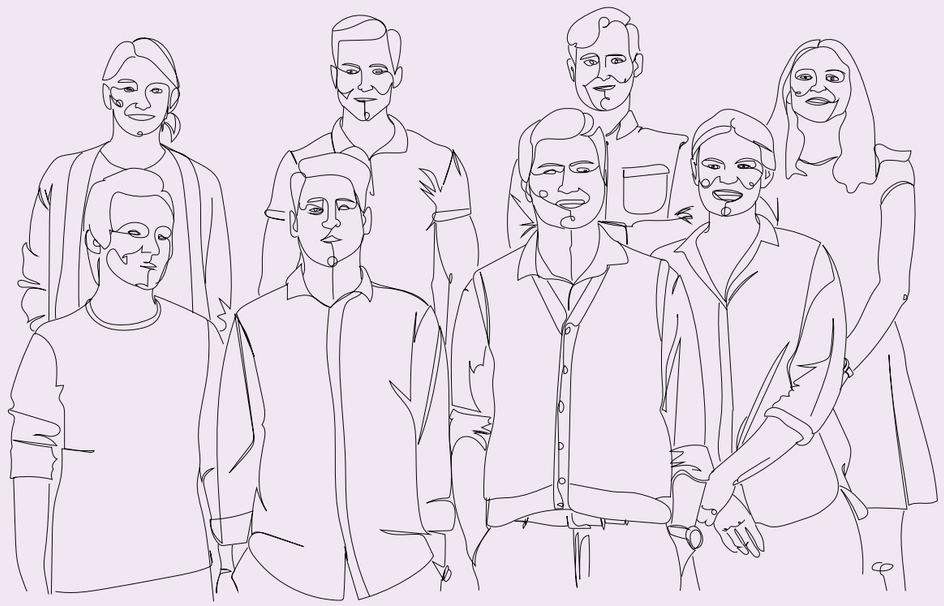

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International Business Project

International Business Project is an annual non-profit project carried out by a group of students attending the Norwegian University of Science and Technology, the Norwegian School of Economics and BI Norwegian Business School, that aims to uncover distinctive international business opportunities in emerging markets.

The project was initiated in 1984 by Innovation Norway, an instrument for Norwegian Government to support innovation and development of Norwegian enterprises and industry, with the main purpose of exploring and defining new international market opportunities for Norwegian companies and establishments. Through increased knowledge, the project contributes to more positive and open-minded thinking regarding emerging markets, which in turn leads to higher interest for emerging markets and a more international focus for Norwegian business.

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