EU-Ethiopia Business Forum 2019

Minutes

Plenary and break-out sessions

EU-Ethiopia Business Forum 2019

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Introduction / Executive Summary

Ethiopia, long known as one of the world's poorest countries, has recently gained a different reputation: It is now Africa's economic success story.

After more than a decade of double-digit growth, the country now has a government determined to enact reforms that will make it easier for businesses – both local and overseas – to set up and prosper. Industrial parks are now under construction, specializing in industries that traditionally help developing countries grow, such as textiles – but also in pharmaceuticals and information technology. These benefit from tariff free trade with the European Union and the United States. Ethiopia is also applying to join the World Trade Organization, and EU officials are encouraging the idea of a formal economic partnership.

At the same time, the government is mindful of the need for better infrastructure. It has built an electric railway from capital Addis Ababa to the port of Djibouti. And non-polluting power sources are being developed, such as hydro- and geo-thermal power. The government also understands the potential of a large population, as well as the needs it generates: At 105 million, Ethiopia is the second most-populous country in Africa after Nigeria. As of 2016, 40 percent of the people are under age 15, making it the source of a young, dynamic workforce – all of whom will need jobs.

The EU-Ethiopia Business Forum 2019 gathered government officials and business leaders from both the European Union and Ethiopia in Brussels. They talked about Ethiopia's economic needs and ambitions; shared success stories; and discussed how to improve the business environment. This report presents some of the highlights.

Global Industry Sees Ethiopia as Africa's New Business Hub

Ethiopia has the potential to become one of the world's most surprising economic success stories. The country has achieved impressive economic growth, with double-digit expansion for the past 12 years, a trajectory the World Bank predicts will continue. That makes it one of Africa's – and the world's – best-performing economies. Poverty is declining, and the macroeconomic environment is stable, with low inflation, and rapidly rising domestic saving and investment. Much of the success comes from a vibrant private sector, which includes garments, textiles and leather products, as well as nascent sectors such as electronics, pharmaceuticals and agribusiness. New infrastructure is also being developed, such as industrial parks, roads, railways, irrigation facilities and energy plants.

However, Ethiopia is still a least-developed country, with Africa's second largest population – of 105 million – to support. That means it requires a continuation of the rapid economic growth, especially because the population is young and needs opportunities to work. "The growth must be inclusive and sustainable, and based on value-adding, diversified economic activities, in sectors such as agribusiness, sustainable energy, and digital technologies," said Mr. **Patrick Simonnet**, European External Action Service Head of Division for the Horn of Africa and East Africa.

To achieve this, Ethiopia has embarked on an ambitious political and economic reform agenda. A peaceful power transfer took place a year ago, and the new government of Prime Minister Dr. **Abiy Ahmed** has taken measures to move the country towards full democracy. He is also opening up the economy and eradicating previous constraints on development such as corruption, human rights violations and inadequate governance. “Ethiopia is booming,” said Ms. **Marina Diboma**, Deputy Managing Director of the Netherland- African Business Council, who moderated the Forum. “Ethiopia is one of the most sought-after business destinations in Africa at the moment, especially since all the recent positive developments, and under the leadership of Africa’s youngest leader.”

<u>Improving the business environment</u>

However, there are still some constraints to investing and doing business in Ethiopia. Notably, Ethiopia came just 159th out of 199 countries in the World Bank’s latest Ease of Doing Business Ranking. “It is good to look at the positive,” said Mr. **Alexandros Spachis**, Secretary General of EBCAM, the European Business Council for Africa. “But there are also some issues that may hold investment back, for example the relatively low ranking on the World Bank’s list.”

So the government has set up a steering committee to raise its position by, for example, making trade registration easier; improving the systems of credit, business solvency and liquidation; and changing investment laws and directives. “Ethiopia remains one of the fastest growing economies in Africa,” said Dr. **Markos Tekle**, Ethiopia’s State Minister for Foreign Affairs. “The country has witnessed dramatic changes over the last 15 years and has now become the third largest economy in Sub-Saharan Africa behind South Africa and Nigeria. The newly reinitiated reforms are staged to place the country in the top 100 on lists of countries in the coming three years.”

Some issues that Ethiopia wants to improve on are tax administration and investment protection. The Ethiopian government recognizes these challenges and is working on them, said Mr. **Abebe Abebayehu,** the Ethiopian Investment Commissioner**.** “Our commitment to protecting investors’ property is very high,” he said. “When it comes to tax, we are looking at how can we make our taxes more predictable and transparent. So the government is working very seriously on our tax administration. Foreign investors should be able to declare their taxes automatically from their offices. A simplified, predictable tax system is in the pipeline.”

Mr. Abebayehu added that Ethiopia’s ranking in contract enforcement is relatively high. “We provide protection before any violation happens,” he said. “We do not offer a risk-free, challenge-free environment. We do not have a streamlined bureaucracy, though that’s where we’re heading. What we can promise is that whenever there are challenges, we will offer support to provide a solution.”

Privatization could further invigorate the economy. Dr. Ahmed recently announced the partial privatization of state-owned enterprises in the energy, telecommunications, logistics and aviation sectors. Next will come the financial sector, said Mr. Abebayehu: “We are opening up this holy cow of the financial sector. It is only a matter of time. The government has decided to fully implement fin-tech. We have a prime minister who not only understands technology but gives technology its rightful place. As a result, mobile money will flourish in the years to come.”

<u>Development in the near future</u>

These moves should facilitate the achievement of the second Growth and Transformation Plan (GTP), which runs from 2016 to 2020. GTP II aims to spur economic structural transformation and sustain accelerated growth so that Ethiopia becomes a low middle-income country by 2025. The plan focuses on enhancing the productivity of the agriculture and manufacturing sectors, as well as stimulating economic competition. Its objectives include double-digit growth within a stable macroeconomic environment and the achievement of a stable democratic state.

Infrastructure is a big aspect of the plan, including roads and railways: The Ethiopia-Djibouti standard-gauge railway, linking Ethiopia's capital of Addis Ababa with Djibouti, is now fully operational and provides landlocked Ethiopia with access to the sea. In energy, the country is trying to reduce the role of hydrocarbon fuels in industry and transport and instead maximize the use of hydro, wind, solar and geothermal resources. They include the building of the largest hydropower project in Africa, GERD, the Grand Ethiopian Renaissance Dam on the Blue Nile River.

Industrial parks are an important dimension of Ethiopia's strategy, and there are plans to build another 10 of them. They will specialize in different industries, such as pharmaceuticals, textiles and apparel, plus machinery and equipment. "Ethiopia has become a preferred destination for foreign direct investment and an emerging hub for manufacturing in Africa," said Dr. Tekle. "The construction of industrial parks across the country is helping to attract more investors to Ethiopia. As you may know, the world top companies in the areas of textile, manufacturing, energy, mining and others are investing in Ethiopia. "Ethiopia is determined to become the hub of manufacturing in Africa, a vision which is on its way to realization."

<u>Trade expansion</u>

A boost to Ethiopia's domestic economic capacity would augment its ability to trade with the rest of the world. Ethiopia already has agreements with the EU and the U.S. that provide duty-free, quota-free access to those markets. It is currently in the process of accession to the World Trade Organization, where it will benefit from the multilateral dispute resolution mechanism in case of any trade friction with other states.

"Private businesses and investors need enforceable rules to reduce their risks," said Mr. **Jyrki Katianen**, European Commission Vice-President for Jobs, Growth, Investment and Competitiveness. "I therefore invite Ethiopia to take advantage of the strong rules-based system of the World Trade Organization, which ensures a level playing field." He also said a closer, more formalized relationship with the EU would help. "In today's increasingly globalized market place, to export, you need to import competitively – transport equipment, machinery and chemicals. European companies are the world leaders in these areas and have many high-tech, cost-effective products that Ethiopia needs. I therefore fully support moving to a closer partnership to allow Ethiopia access to cheaper inputs from the EU. This would move our trade relations to the next level – to a real partnership with an effective institutional dialogue."

As a least-developed country, Ethiopia currently exports to the EU without tariffs or quotas under the EU's unilateral everything-but-arms scheme. But an Economic Partnership Agreement with the EU would go further, said Mr. **Hans Stausboll**, Director for EU-African Union Relations, West and East Africa at the European Commission's Directorate General for International Cooperation and Development, or DEVCO. "Joining an EPA with the EU would open up a new era in our trade relations," he said. "Investors appreciate the stability and predictability of the long-term market access it brings, even when Ethiopia becomes a middle-income country. Firms would be able to get good quality imports from Europe at more affordable prices. Businesses also appreciate the flexible rules of origin an EPA offers, so they can source inputs in other countries without losing free access to the EU."

Multinationals arrive

While the investment environment is far better than it used to be, the government is still trying to improve it. And organisations such as the Ethiopian Chamber of Commerce and Sector Associations are providing help to potential investors that need it. After a tax reform, there is now a single legal service for taxation, said Mr. **Melaku Ezezew**, President of the Chamber. “Our taxation system is maturing,” he said. “The problem is information and communication: The business community should know each and every rule and regulation, and there may be a communication gap which we can solve. The Chamber engages in a public-private dialogue and has presented more than 180 issues to the government over the last 10 years. We are also working on logistics.”

One sector with great potential is information and communications technology. “I see ICT as a sector to be encouraged,” said Mr. **Erik Habers**, Head of Cooperation in the EU Delegation to Ethiopia. In particular, there are bright prospects for everything related to mobile banking. “Some of these aspects are forgotten about in the ‘ease of doing business’ surveys. There are potentially 60 million customers for mobile bank accounts.” There is a vibrant EU business presence in Ethiopia, and this will expand, he said. “Most are positive about the developments and are intending to stay there for the long run. They are not there for quick wins but for long-term investments, which is what we in the EU are trying encourage.”

A big aspect of multinationals’ contribution to Ethiopia is, of course, the manufacturing capacity they bring and the jobs they create. Unilever manufactures products such as soap and toothpaste in Ethiopia and needs local suppliers. For every employee on the Unilever payroll, nine other directly-related jobs are created – and 10 times that number of indirectly-related jobs, said Mr. **Dougie Brew**, Head of External Affairs, Communications and Sustainability for Africa at Unilever.

However, Ethiopia is trying to maintain balance between its trade-oriented and its domestic economic activities. “For a while the government was focused on export-oriented industries,” said Mr. Brew. But in recent years that has changed. “There is a right and correct bias against becoming export dependent. The signs are right and the shift is happening.” Unilever has not set up with the intention of using the country as an export base. Instead, the company sees itself has a provider of the new comforts people start to demand as their incomes rise. “Everybody wants to feed himself, brush his teeth, and drive a car,” said Mr. Brew. “When people get a flat, they want something to clean it with. Ethiopia has a young, growing population, and the young want the products they need at low prices.”

The domestic focus means that currency exchange is not a great risk. “Trying to have a debate over forex policy is a great way to entertain economists, but you need to build up the domestic economy,” said Mr. Brew. Challenges include paperwork and compliance, as well as regional logistics. But, he said, transport links are improving as the government reaches out to neighbors and becomes connected to ports. And there are no problems such as officials asking for money. “It is a clean environment. The frustrations are there but they are a different form of frustrations,” Mr. Brew added.

The auto industry has been relatively slow to advance into sub-Saharan Africa, where almost all the production is still in South Africa. One problem is the dumping of used cars from Japan and the Middle East. Another is that new cars are relatively expensive. Thirdly, fuel quality is often poor and that damages the engines of European cars. “What if we can undo this?” asked Mr. **Thomas Schaefer**, Head of the Volkswagen Sub-Saharan Africa Region. “Importation can be done with rules and affordability through financing. Fuel can be regulated by government policy. So we were looking for a government that has the political will to change the status quo."

In January, Volkswagen signed a memorandum of understanding with the Ethiopian government to develop operations in the country. It will establish a vehicle assembly facility; procure components locally; introduce mobility concepts such as app-based car sharing and ride hailing; and open a training centre. Because the auto industry is new to Ethiopia and to Africa in general, it could leapfrog traditional petrol and diesel engines and go straight to electric vehicles. "The myth now is that electric vehicles are more expensive. But traditional cars are actually getting more expensive due to new regulations in the European Union. Africa is going to go straight from nothing to the future. We are in the right space at the right time."

<u>How the EU helps</u>

The European Union wants to encourage further investment in Ethiopia but has clear ideas about the kind of investment this should be. The European Investment Bank is creating infrastructure by involving private business as much as possible. It is also investing in programs that will generate jobs and businesses where they might not otherwise have emerged. For example, women often find it hard to access finance for their firms: Commercial banks often exclude them through excessive collateral requirements and because of the relatively small loans they need. So the EIB last year agreed to provide a EUR 30 million long-term loan to the Ethiopia Women Entrepreneurship Development Project, which supports micro and small enterprises owned or partly owned by women entrepreneurs. "We need investments, but the right type of investments – those that have a domino effect for other investments," said Ms. **Eleny Kyrou**, Head of the EIB's representation to Ethiopia and the African Union. "Ethiopia is moving beyond subsistence, and we have clearly articulated our commitment to support the government in its industrialization strategy."

The EU and Ethiopia are already major trade and investment partners. More than 300 European companies, represented by the EU Business Forum Ethiopia, are already present in Ethiopia. The EU is Ethiopia's second biggest trading partner: Around one fifth of its exports go to the EU, a value of €652 million. One third of these exports to the EU are industrial goods.

Economic liberalisation and privatization should lead to important improvements in areas such as logistics and telecommunications, and improve the overall environment for business and trade. This should create fresh momentum for Ethiopia's trade and investment relations with the rest of the world. "Ethiopia has the largest EU development cooperation portfolio in Africa, with over €1.5 billion since 2014," said Mr. Simonnet. "But the nature of our partnership is changing. We are intensifying our economic partnership, because we are convinced that future growth will depend on increased private investment in high productivity sectors."

Two EU programmes aim specifically to drive these changes. The Africa–Europe Alliance for Sustainable Investment and Jobs was announced in 2018 to boost investment, trade, jobs, education and skills. European Commission President Jean-Claude Juncker said the alliance would help create up to 10 million jobs in Africa in the next five years. The European External Investment Plan (EIP) operates by blending contributions from the European Commission with private investment. It is expected to leverage a contribution of €4.1 billion from the Commission into more than €44 billion of investments by 2020.

"Ethiopia will also be an important target country for several of the guarantees – mainly for the development of micro, small and medium enterprises and for renewable energy," said Mr. Stausboll.

“These guarantees are being designed to help ‘de-risk’ investment in African businesses and make capital flow more freely to them. We also want to make it cheaper for small businesses to get financing both through guarantees and blending operations.”

The EU is also collaborating with Ethiopia’s government and private sector to promote improvements in the investment climate. It is deepening analysis of the investment climate. It is engaging in structured public-private dialogue with the private sector, so as to identify investment constraints and opportunities, as well as the reforms needed. Thirdly, the EU is implementing priority actions to support economic reforms, capacity development of public and private actors, value addition and entrepreneurship. That includes cooperation in areas related to job creation, industrial parks, export and trade promotion, the upgrading of value chains and private sector development.

The EU is also optimistic about the prospects for the African Continental Free Trade Area, which was agreed in 2018 and removes tariffs from 90 percent of goods traded between its members. “We are supporting the establishment of the African Continental Free Trade Area, because companies will thrive in Africa if African markets grow,” said Mr. Stausboll. “Currently only 18 percent of African trade takes place within Africa. This number has to increase, and to increase fast.”

Investor interest grows

Ethiopia has witnessed dramatic changes over the last 15 years and has now become the third largest economy in Sub-Saharan Africa behind South Africa and Nigeria. It has become a preferred destination for foreign direct investment and an emerging hub for manufacturing in Africa. That’s a big opportunity for European business. “At the EU delegation in Addis Ababa, we see a steady stream of European investors getting in touch with us and inquiring about opportunities in Ethiopia,” said Mr. **Johan Borgstam**, Ambassador of the European Union to Ethiopia. The Ethiopian government has taken a firm lead in setting up dedicated industrial parks, and there is an immense market potential in Ethiopia. We have seen a sea change in opening up by the Ethiopian government when it comes to foreign direct investment.”

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Break-out sessions

1. Agro-processing

Ethiopia Grows Vegetables – And Exports Seeds
The agroindustry has plenty of potential for success in Ethiopia, but there are a number of conditions. These include finding the right land, markets, workers and capital goods. Each needs plenty of care and work if they are to come right.

German firm Fruitbox Africa grows tomatoes, broccoli and peppers in Ethiopia on 150 hectares of the 300 hectares of land it bought. It found that setting up a company was not hard. “In Ethiopia, you can create a company, open an account and get the articles of association approved by the investment commission – all in one day,” said General Manager Mr. Lutz Hartman. “That is an achievement of the Ethiopian Investment Commission. This would not be possible in Germany: It would take at least three weeks.”

The company wanted to set up a tomato paste business, after finding that the product was not produced in Ethiopia. However, it appeared difficult to obtain a supply of tomatoes, so the company decided to build a farm to grow them first and look into processing later.

The search for land was difficult, but in the end the company bought some from an insolvent local company. It then had to import capital goods for irrigation. Labour was relatively easy to find, however, as the farm is remote. The company pays 15 percent above the local wage rate. “It is low,” said Hartman. “But if went higher, it would create problems with the neighbours. We give our employees lunch.”

The company intends to export, but for now sells only to the local market. “The export of vegetables and fruit is challenging,” said Mr. Hartman. “You have to find the right product and the right market. And if the product is bad, you are quickly out – so papaya cannot arrive in Europe as juice.”

BASF decided in 2015 to invest in Ethiopia to produce vegetable seeds. BASF Vegetable Seeds Ethiopia now has a greenhouse facility that produces for the European market. Mr. Ben Depraetere, the Managing Director & Country Head, emphasised the importance of persuading the government of its plans. “The Ethiopian government wants to attract quality investment,” he said. “As an investor you need to make effort to understand what they want. You need to mean it. Once you fit in a certain number of parameters you get support. We created employment positions – it will be thousands – and we will work with smallholder farmers on a contract-farming basis. We created jobs for women in the countryside and we generate foreign currency earnings for the country.”

2. ICT

Mobile Payments And A Celebrity Robot Generate IT Interest
Ethiopia got a new celebrity last year – but she wasn’t a singer or an athlete. Sophia, the world’s most famous humanoid robot, visited the country and met with Ethiopia’s Prime Minister, HE Abiy Ahmed. Ethiopian company ICog-Labs played a role in the development of Sophia.

Sophia was designed by Hong Kong firm Hanson Robotics and has been programmed to speak Amharic, Ethiopia's official language. She is renowned for appearing very much like a human being: She has artificial skin made of both organic and inorganic material, and she can display "emotions" through a number of facial expressions made with the large number of motors under this skin. She maintains eye contact, recognizes human faces, and can carry on non-scripted conversations.

Thanks to Sophia, young Ethiopians are now increasingly interested in the potential of artificial intelligence, said Mr. Getnet Aseffa, CEO of ICog-Labs, an Addis Ababa-based IT firm that participated in Sophia's development. "The aim of the company is to reach the top of the chain value, by designing in Ethiopia and offshoring manufacture if needed."

Both Ethiopia's telecom and financial sectors are highly regulated, which has resulted in very low penetration for mobile payments. While these have taken off in other parts of Africa, notably Kenya, only 0.3 percent of Ethiopians over the age of 15 have mobile money accounts, while the sub-Saharan Africa average is 21 percent.

However, the area has great potential. Already more than half the population owns a mobile phone. "Telecom and financial services are the most protected sectors," said Mr. Thierry Artaud, Executive Chairman of M-BIRR Group – T/R Moss. Potentially, however, mobile money services could reach nearly all Ethiopians. "The company through digital banking could reach 85 percent of the population who do not reside in big cities, where most of the banks are concentrated."

3. Leather and Textiles

An African Hub For Leather and Textiles

Though Ethiopia is aiming to develop high-value-added industries such as information technology, there's an important role for textiles in a developing economy. Among the 14 industrial parks Ethiopia is currently planning, at least six will host apparel and textile businesses, including the flagship Hawassa Industrial Park that opened in 2017.

As a populous developing economy, Ethiopia competes in textiles with Vietnam, Myanmar and Bangladesh. However, of these four countries, only Ethiopia has a no-duty export arrangement with both the European Union and the United States. That is an advantage for big overseas companies that want to invest in the developing world, said Mr. Martijn van der Erve, CEO of Van Erve Group, a Dutch textile manufacturer that makes garments for clients including Lidl, H&M and Diesel.

Of Van der Erve's employees in Ethiopia, 90 percent are between the ages of 18 and 24 years old, and most come from rural areas and are in their first fulltime job. The company trains the staff, provides medical care for them, and encourages team building. Women make up 85 percent of the employees. "Gender divisions are noticeable in the daily working activities," said Mr. Van der Erve. "It tends to be easier to work with women and integrate them in this working environment."

A contrasting side of the apparel business is Samra Leather, a small leather goods company. Founder and Designer Ms. Samrawit Mersiehazen was making leather goods at home, and then set up a company with the help of a €600 loan from a friend. “African styles are popular worldwide now,” she said. In the coming months she plans to open a shop in Utrecht, the Netherlands, and another in Tokyo.

4. Medical and Pharmaceutical

Health As Welfare Service And Business

Ethiopia is one of the first African countries to develop a national strategy for pharmaceutical manufacturing. This includes increasing exports, as well as substituting imports and improving access to medicines.

The country has Africa’s second-largest population – more than 100 million and expected to grow at more than 2 percent a year. The government has been increasing healthcare coverage to the country’s large rural population, and primary healthcare service coverage reached 100 percent in 2015. This greater access generates demand for pharmaceutical products. Ethiopia’s market is expected to grow at 15 percent a year and to reach nearly $1 billion in 2020. Moreover, Ethiopia has the potential to serve as an export hub for the African pharmaceutical market, which is already worth more than $20 billion and is expanding fast.

One example of the government’s promotion of the pharmaceutical industry is Kilinto Industrial Park (KIP), Ethiopia’s first industrial park to specialize in pharmaceutical manufacturing. The government is offering incentives to investors there, including tax exemptions and guaranteed land prices. In addition, Ethiopia has more than 10 schools of pharmacy and is establishing centres of excellence for new areas of specialization, such as industrial pharmacy and pharmaceutical analysis.

“The African continent is becoming one market,” said Mr. Abebe Abebayehu, the Ethiopian Investment Commissioner. That, he said, means that Ethiopia provides foreign investors with a substantial market to aim for. The initial interest appears to be coming from Asia. “Many European makers want to make branded products rather than generic. So we are more interested in getting investments from China and South Korea. We are in talks with Shanghai Pharmaceuticals, the second largest pharmaceuticals company in China.”

Healthcare investments are rising because of the large infrastructure Ethiopia needs. Philips Healthcare agreed last year to build Ethiopia’s first specialized cardiac care centre, in Addis Ababa. The company is also helping develop primary care centres.

“The last minister of health introduced community health workers so that everyone – even in rural areas – can get healthcare, even if it is very basic,” said Mr. Roelof Assies, Business Development Director for Africa at Philips Healthcare. “However, some families don’t have the means to travel. And others, when they can, go to a huge hospital rather than the primary healthcare centre. The solution is a simple primary healthcare structure, with workflow and infrastructure solutions.”