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CONNECTING ETHIOPIA TO THE FUTURE!

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# ETHIOPIA

Opening up for business

## Poised on the threshold of takeoff

With a fast-growing economy based on a large export-oriented agricultural industry, Ethiopia is sowing the seeds of success for Japanese investors chasing rich rewards.

Soaring coffee bean prices and a strong agricultural base are establishing Ethiopia as a key foreign trade player in Africa, and changing the negative perception of the country in the eyes of Japanese businesses.

With annual economic growth averaging nearly 9 percent over the past few years, the country of 78 million people is working hard to enhance its appeal to Asia-based investors in a range of industries. The nation has enjoyed extraordinary economic growth on the back of strong coffee prices, ambitious market-oriented policies, substantial investment in infrastructure — especially in rural areas — and successful policy reforms.

Principal crops include cereals, potatoes, sugar cane and beans, but coffee is Ethiopia's largest and most profitable export product, followed by maize: The country is Africa's second-largest maize producer. Agriculture accounts for more than half of the country's gross domestic product (GDP), over 60 percent of its exports, and is responsible for 80 percent of total employment among a labor pool that is both large and young. Strategically located between the lucrative markets of the Middle East and Asia, Ethiopia's labor costs are very low, with unskilled workers earning an average of \$1 a day and new university graduates earning \$90 a month.

The government retains almost complete control over its industries, although a program of economic reform, including privatization of state enterprises, has started to attract much-needed foreign investment.

Other recent reforms imple-

mented by officials in the capital, Addis Ababa, include the liberalization of foreign trade, deregulation of domestic prices and the devaluation of the exchange rate, which has remained stable.

As long as they meet certain criteria, foreign investors can qualify for a broad range of investment incentives such as exemptions on customs duties, import taxes and income taxes.

Ethiopian-made products exported to the European Union benefit from preferential trade conditions, while access to the lucrative U.S. market is boosted by the African Growth and Opportunity Act (AGO).

Since the country launched its free market policy in 1992, the Privatization and Public Enterprises Supervising Authority (PPESA) has promoted the welfare of 110 public enterprises available for partnership with foreign investors. These include businesses across

**“We are creating a very profitable environment for Japanese investors — it’s time for them to return to Ethiopia.”**

Meles Zenawi, Prime Minister of Ethiopia

a range of sectors, such as the textile and garment industry, food processing, agro-industries and construction.

However, despite such improvements in international trade relations, Ethiopia's population continues to grow very quickly and the country remains one of the world's poorest.

Since 2004, the country has been burdened with environmental problems such as a pro-



Meles Zenawi  
Prime Minister



Kinichi Komano  
Japanese  
Ambassador

longed drought and economic problems like double-digit inflation, which has hampered its development. The inflation rate for 2008 was 24 percent.

The Ethiopian People's Revolutionary Democratic Front (EPRDF) won the 2005 general election in polls described by the U.S. State Department as a “milestone” in the creation of a “more competitive, multiparty political system in one of Africa's largest and most important countries.”

Japan and Ethiopia have a trade history dating back 90 years and despite serious problems during the 17-year reign of the communist Derg government, their current relationship continues to go from strength to strength. Trade between the two

“Japanese businesses are a great distance from us, and so they still have a negative image of Ethiopia as a country racked by poverty, violence and wars,” he says. “The reality has changed and there is a lot of investment coming in from other countries.

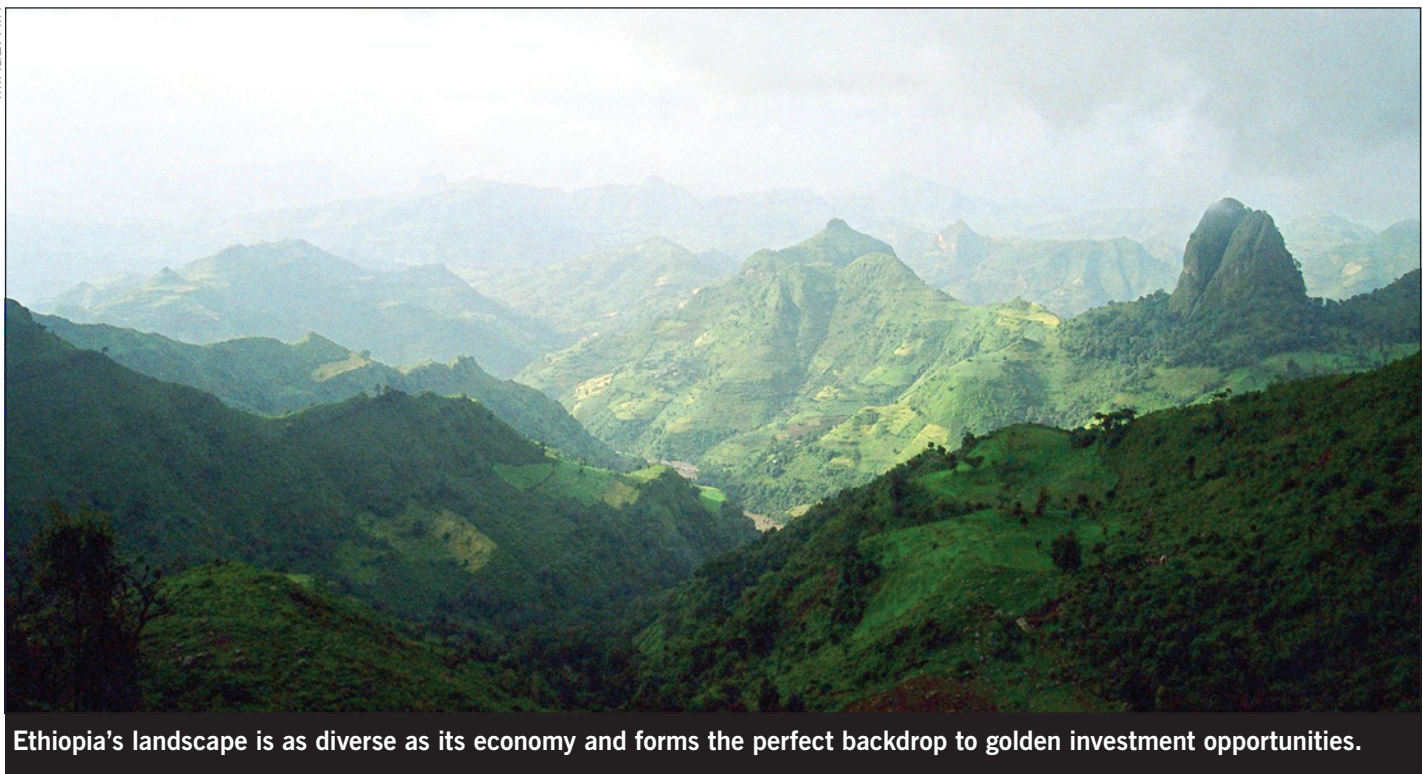
“We want to thank the Japanese government for its help, but we also need private investment and Japanese investment is not as big as it used to be in the 1960s.

“Our model does not see the state as a problem but as part of the solution. I would like to stress that things have changed and that all private properties are now protected by the constitution.”

One of the key figures helping companies in the “Land of the Rising Sun” to establish new trade links in Ethiopia is the Japanese ambassador to the country, Kinichi Komano.

He organizes frequent high-profile events to promote closer trade ties between the pair. The two nations operated a dozen joint ventures in the 1960s and 1970s until the African state's military junta seized the companies and nationalized them.

More recently, their roles have been more akin to donor and recipient, as Ethiopia remains a large beneficiary of international foreign aid. The embassy has also undertaken a series of studies on emerging industries in Ethiopia, such as floriculture,



Ethiopia's landscape is as diverse as its economy and forms the perfect backdrop to golden investment opportunities.

tourism, footwear and handicrafts. The results are now being shared with private businesses and government organizations such as the Japan International Cooperation Agency (JICA) and Japan External Trade Organization (JETRO).

“Ethiopia is at the threshold of takeoff, both economically and socially,” says Komano. “I firmly believe that the bilateral development cooperation between the two countries would be more sustainable if both benefited from it, rather than just one side.

“Japan can't expect an instant major economic lift from the strengthening of its trade and investment relations with Ethiopia, but the fact is Ethiopia is still to emerge as one of the destinations of Japanese investment in the future.

“The present phase of relations is better prepared to achieve that goal and I strongly believe Ethiopia will eventually emerge as one of Japan's future investment destinations.”

**“Ethiopia will emerge as a key investment destination for Japanese investors.”**

Kinichi Komano,  
Japanese Ambassador  
to Ethiopia

Established in 2001, MAM Trading Pvt. Ltd. Co. is a privately owned business mainly engaged in the export of farm commodities such as flowers, sesame seeds and fruits, as well as horticultural farm ventures. Its income in 2005 was \$10 million.

Managing Director Mussema Aman says: “Ethiopia's equatorial climate and highlands produce high-quality roses, which are very well suited to the Japanese market, as we can satisfy all its requirements.

“We have exported flowers to Japan in the past and they were very well received, so what we now need is committed partners to develop this business. This is a good opportunity for both countries.

“As for the future, we are planning to establish a five-hectare blackberry farm and are currently promoting it in the Middle East. The Japanese might be interested as well since it's completely organic.”

Meanwhile, Ethiopia's livestock population is regarded as the largest in Africa and provides plenty of raw materials for leather companies to export products such as gloves, shoes and jackets.

Leading leather firm Bahirdar Tannery Plc. counts Europe and China as its key markets. It is now targeting Japan.

“We believe that Japan will be our biggest market,” states General Manager Yigzaw Assefa. “Japan has been a big buyer of Ethiopian skins since the Japanese tanneries left Japan. We have the best natural resource and our prices are competitive. We have smooth trade relations with Europe, China and the U.S., and I am looking for a partner in Japan.”

Assefa, who is chairman of the Ethiopian Leather Industry Association, continues: “It's a really good time to invest in Ethiopia. The county is following the right path and the door is open to international investors.”

### The Ethiopia Commodity Exchange — A Market You Can Trust



The Ethiopia Commodity Exchange (ECX) revolutionizes Ethiopia's tradition-bound agriculture by creating a new commodity trading platform that is efficient, transparent and reliable.

Agriculture has always been the backbone of Ethiopia's economy, yet lifting millions of Ethiopians out of poverty requires transforming subsistence agriculture to a dynamic, technology-driven and market-oriented production system. This can only happen if the market itself serves the needs of all concerned. The ECX is a new initiative for Ethiopia and the first of its kind in Africa. It provides all commodity market players a secure and reliable

“By harnessing technology and innovation, the ECX represents a new way of doing old business, bringing best practices of efficiency and reliability to the age-old domestic agricultural trade, and in the process, transforming Ethiopia,” says Eleni Gabre-Madhin, CEO of ECX. Ethiopian market players, including small farmers, can now reach the global market at global standards. For their part, international buyers can access the Ethiopian market at low cost, assured of quality and delivery. As a future platform for trade to the Middle East, Europe and North America, South and East Asia, and beyond, the ECX offers outstanding value to Ethiopia's export and domestic economy through creating a global market of choice.

**“By harnessing technology and innovation, ECX represents a new way of doing old business, bringing global best practices to the age-old domestic agricultural trade,”** Eleni Gabre-Madhin, CEO, ECX

end-to-end platform, from quality certification and inventory management to matching trading orders, clearing and settlement, market data dissemination and delivery logistics, in a zero-default automated system.

The ECX launched operations in April 2008, offering trade for export commodities such as coffee, sesame seeds and beans, as well as wheat, maize and sorghum, starting with six national delivery centers and transmitting real-time prices to 20 rural sites. The ECX operates an internal clearing house in partnership with two major commercial banks for settlement and an electronic central depository of warehouse receipts for title transfers.

With double-digit economic growth for the past four years, Ethiopia's economy has been hailed as the fastest growing non-oil producing country in sub-Saharan Africa. This growth is largely driven by the rapid transformation taking place in agriculture and the investment climate. Ethiopia is the birthplace and origin of quality coffee, a major global sesame producer and the second-largest maize producer in Africa. Creating opportunities for unparalleled growth in the commodity sector and linked industries, such as transport and logistics, financial services, information and others, the future is bright with the ECX. **Grow your business. Grow with Ethiopia.**

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We've been in the air for more than 60 years now, and it's fair to say that we've come a long way. Close to home, we fly direct to more places in Africa than any other airline, and with each passing year our reach around the globe stretches further. Currently flying to 50 international destinations spread across 4 continents, Ethiopian is growing in all directions. Come fly with us...

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THE NEW SPIRIT OF AFRICA

# Prime time to revisit Ethiopia

Japanese companies from a range of industries are being urged — and offered attractive incentives — to invest in Ethiopia as it begins to open up.

Ethiopia has virtually no private business sector, with its growing telecommunications industry run by a state-owned monopoly, Ethiopian Telecommunications Corp. (ETC), which has stifled the development of mobile phone use.

By 2012, however, the government plans to invest up to \$4 billion in improved fixed, mobile and internet networks, with the number of mobile phone lines expected to increase from 1.5 million to 7 million, and fixed lines from 1 million to 4 million.

As part of that substantial investment, ETC is improving the infrastructure of its fiber-optic, satellite and radio networks, not just in major towns and cities but also in more rural areas. Minister of Transport and Communications Juneidi Saddo says: “We do not currently allow private international operators for strategic reasons. The domestic industry must grow before we allow foreign operators to enter the market.

“We are rebuilding ETC and positioning it for the international market. We are also extending the network to more rural areas and introducing new technology such as 3G, and I’m very optimistic that it will be a lucrative market.”

Saddo reveals that government plans for a purpose-built IT park are likely to interest Japanese companies, which he describes as being among the world’s “finest” when it comes to new IT developments.

ETC CEO Amare Amsalu adds: “At the moment, we want to build the nation’s capacity in the telecommunications sector. At a later stage we can start thinking about liberalization. We like the Japanese a lot since our cultures are very similar. The quality of the technology that they provide is fantastic.”

**Finance sector makes gains**  
Ethiopia’s financial services sector is one of Africa’s most underdeveloped, with a dozen banks operating around 500 branches nationwide. Of those 12, eight are private commerical banks, although foreign banks

are banned from opening branches under their own name, and start-up loans for small and medium-sized enterprises are difficult to obtain.

According to the National Bank of Ethiopia (NBE), the total capital of the country’s banking system for the fourth quarter of 2006/2007 jumped 30 percent from the previous quarter to 9.3 billion birr (\$934 million).

Total deposits and loan repayment rates increased as the economy continued to perform well, while the insurance and micro-finance industries also reported decent growth.

Finance Minister Mekonnen Manyazewal says Ethiopia’s financial sector has a very solid base and the government is creating an attractive investment climate for foreign investors through a series of incentive packages.

“We have to enhance growth. We intend to increase the income of our population and the only way to do it is through growth in our key sectors of agriculture, manufacturing and services.

“We have enhanced the private-sector investment climate, improved services and access to them, and offer a range of incentive packages.

“We have 12 private banks, all of which are mobilizing savings and are lending to the private sector. Foreign banks can’t open their branches here, but they can engage in institutional relationships.

“Japanese firms are starting to arrive here and we need to reinforce our long historical relationship with private sector investment by attracting Japanese investors to Ethiopia.”

Ethiopian Insurance Corp. is a leading provider of life and property insurance policies. The country’s insurance industry posted a 20 percent year-on-year increase in turnover last year.

Acting Managing Director Alemseged Abraham says: “We are ready to work with Japanese financial institutions. Reinsurance, human resource development and other capacity-building activities could be areas where Japanese financial



Seyoum Mesfin  
Minister of  
Foreign Affairs

institutions can contribute to the development of the insurance sector in Ethiopia.”

The Ethiopia Commodity Exchange (ECX) is a relatively new body that aims to boost farmers’ profits through the shortening of the supply chain and elimination of the middle man. It launched live trading operations in April 2008. ECX CEO Eleni Gabre-Madhin says: “We would like to be the catalyst for economic change in the country and also be a platform that introduces Ethiopian commodities to the world.”

Nib International Bank (NIB) is a relative newcomer to the Ethiopian banking sector, yet in less than 10 years, it has established itself as a reference point in the country’s financial sector.

“NIB prides itself on providing a personalized and efficient service to customers, which includes working extra hours at weekends and providing uninterrupted opening hours from 8 a.m. until 5 p.m. in the week,” says NIB’s President and CEO Amerga Kassa, a former manager of international banking at the National Bank of Ethiopia, who has achieved stunning performance figures since taking the helm at NIB two years ago.

The private bank now ranks first in terms of its strength with a total capital of 571.1 million Birr at the end of March 2008, having registered an average annual increase of 49.2 percent since 2006, while its net profit reached 86.7 million birr — a marked annual growth of 33.4 percent. The bank’s reputation locally can be seen by the speed at which new shares were snapped up when they were last issued; the number of shareholders has increased from 1,953 in 2006 to 2,922.

Given the competitive and challenging nature of Ethiopia’s banking sector, the president will not be resting on his laurels, however. “We give due attention to building up our financial position, manpower strength, operational systems and physical infrastructure,” Kassa says. “To this end, raising NIB’s capital base by floating additional



Mekonnen  
Manyazewal  
State Minister in the  
Ministry of Finance  
and Economic  
Development

shares, recruiting and maintaining well-trained and competent employees, continuously revising operational procedures and manuals, and embarking upon a state-of-the-art computerization program are being given serious attention.”

NIB has already opened 20 new branches in the capital and outlying towns in the last two years, bringing the total number to 40. “In a bid to adopt modern technology and thereby be able to provide more efficient services to our customers, we have managed to successfully network 10 of our branches through StarBank software,” says the president. “The computerization of the remaining branches is well under way.”

Addis Ababa-based Dashen Bank enjoyed a 41 percent year-on-year leap in annual net profit to 188 million birr (\$19 million) for the fiscal year ended June 2007. The company said its customer base grew 20 percent over the same period to 404,000 customers as it continued to roll out Visa-branded cards and invest in new automatic teller machines and point of sale terminals.

Bank President Lulseged Teferi comments: “I am delighted with our latest financial results that show better score of profitability, higher levels of deposits and loans, a greater number of branches and modernized account operations.”

**An invitation to investors**  
With more than 200 branches and 2 million account holders across Ethiopia, Commercial Bank is the leading player in the financial services sector.

Founded in 1942, the group has more than 8,000 employees and enjoys a 65 percent share of the deposit market, and a 55 percent share of the credit market. Vice President Melika Bedri says: “We have account relations with 50 of the world’s most reputable banks. Our connections with the international players are strong.

We are the leading bank in the country, and I invite all investors



Hydroelectric power allows investors to plunge into Ethiopia's fast-flowing energy sector.

in Japan to come and work with us, and benefit from Ethiopia’s potential.”

Seyoum Mesfin, minister of foreign affairs, is at the heart of Ethiopia’s efforts to increase its presence in international trade markets, and improve relations with foreign governments and global businesses.

“We will liberalize the finance sector to involve foreign financial institutions when we have the capacity of regulation of the National Bank of Ethiopia,” he explains. “But first we have to

country has 45,000 megawatts of hydroelectric potential and more than 1,000 megawatts of hydro-thermal potential.

While Ethiopia is dependent on imported fossil fuel, it has signed more than a dozen exploration licenses with petroleum companies in an attempt to find significant oil reserves.

Mines and Energy Minister Alemayehu Tegenu says: “Ethiopia and Japan have long-term relations, and the Japanese government has assisted Ethiopia for many years.

The firm operates power-generation facilities, and transmission and distribution grids. It is currently concentrating on providing consistent energy supplies to all areas of Ethiopia.

More than 98 percent of the country’s power generation comes from hydroelectric stations, with EEPKO investing heavily in improvements to its existing operations.

General Manager Meheret Debebe says: “We have experienced huge population growth and this has directly affected the level of energy consumption in our capital-intensive sector.

“For some of the projects, we have signed public-private partnership deals with European companies. I hope the Japanese will follow their lead and recognize the potential in the African market.”

With such major economic reforms under way in Ethiopia, and so many potential investment opportunities, now is the ideal time for Japanese investors to enter Ethiopia and reap rich rewards. As Prime Minister Zenawi concludes: “We are creating a very profitable environment for Japanese investors — it’s time for them to come back to Ethiopia.”

**“We want to help our farmers and be the platform that introduces Ethiopian commodities to the world.”**

Eleni Gabre-Madhin, CEO, Ethiopia Commodity Exchange

build the basic infrastructure and are in discussions with both the World Bank and IMF. Agriculture has made double the GDP growth every year for the last five years. If foreign investors think it will work for them as it’s working for us, then we will be happy to share our experience. The stable macroeconomic situation of the country should give assurance to investors.”

One such potential area of investment for Japanese investors is the energy sector. The

“We want Japanese investors here, not just in the power sector but in all areas of investment. We’ve signed with Chinese, Turkish and American companies, and would be happy to have Japanese investment in Ethiopia, especially in power generation.”

The Ethiopian Electric Power Corp. (EPPCO) is the national energy provider to 1.4 million customers in towns and cities across the 1.1 million-sq-km

## Electric power for all



An ambitious rural electrification plan is under way in Ethiopia, and the Ethiopian Electric Power Corp. (EPPCO) is making it happen.

Responsible for all of the country’s power generation, transmission, distribution and sales, EEPKO supplies electricity to around 1.4 million customers. Established in 1956, the corporation has undergone a major restructuring, and is on a mission to become a center of excellence for quality electricity production and to make it a competitive export industry.

The corporation also has a mandate to make electricity accessible to 50 percent of the population within five years, and to fulfill all these goals, it needs a large injection of cash, and quickly. “We have experienced huge population growth, which has affected the level of energy consumption,” explains General Manager Meheret Debebe. “Our sector is capital-intensive, so it is not always easy to cope with the demand.”

The outlook, however, is bright. Demand stands at more than 622 MW and EEPKO’s current capacity is 814 MW. Around 1,750 rural towns and villages are now hooked up to a supply. By 2010, EEPKO hopes to get capacity up to 3,028 MW and up to 6,588 MW by 2015. Working hard to meet these targets, EEPKO is currently connecting some 350 new customers a year, with a whole building or entity counting as “a customer.” “We have established a model in which we link economic growth to a growth in energy demand, so if we have a 10 percent increase in GDP, we expect a 20 percent increase in demand,” Debebe says. “We have one of the cheapest energy resources by international standards.”

Ethiopian Electric Power Corp.  
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The corporation currently has five new projects under construction, some of which are being funded through public-private partnerships with European companies. The general manager is hoping Japanese investors will see the potential and follow suit. “The Japanese have a lot of financial power and a very powerful technology industry,” he says. “It is a win-win situation because we have a really good portfolio of projects at hand. Our sector is one of the best to invest in and one of the least risky.”

More than 98 percent of the electricity generated comes from hydropower sources and the corporation maintains two different supply systems. The interconnected system (ICS), which consists of eight hydropower plants, 13 diesel and one geothermal, provides 96 percent of the country’s power. Although it has a combined capacity for 789.4 MW, dependable output is slightly lower (721.1) due to the age of the plants. The second, self-contained system (SCS), has a capacity for 31.7 MW through hydro and diesel plants, although it only contributes 6.15 MW.

Ethiopia’s staggering 30 percent growth figures, the population increase and only two rainy seasons have been blamed for a recent spate of power cuts. The reliance on hydropower has therefore led EEPKO to study more sustainable energy options, such as solar and wind, although the coming rainy season should rectify the current situation.

“Potential investors can come and talk to us about our project profiles,” Debebe says. “We can appraise the project together, and then move onto finance and ownership matters. By investing in green energy here, foreign countries can pay their carbon emission debt.”



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