



# Investing in Ethiopia

## The Global Business Advisors' Perspective

Corporate Council on Africa  
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**Note:** This document is being presented at the 7th Bi-annual Conference of the Corporate Council on Africa, “*Doing Business in Ethiopia*” Session in Washington, D.C. on September 28, 2009, and is designed to create dialogue and elicit comments amongst the conference’s participants and should be viewed within the context of these objectives. This document contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. E&Y can not accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this document. On any specific matter, reference should be made to the appropriate advisor.

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September 2009

# Presentation Agenda



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# Introduction

# Ethiopia is very big!



The following countries combined are smaller than Ethiopia:

Land Area Comparison		
Country	Sq. Miles	Sq Km.
France	210,026	543,965
Spain	195,363	505,988
<b>Total</b>	<b>405,389</b>	<b>1,049,953</b>
<b>Ethiopia</b>	<b>440,284</b>	<b>1,140,331</b>

**Ethiopia is 5 times bigger than the UK**

### Interesting Facts:

- ▶ **Ethiopia** with 81 million people and Nigeria with 140 million combined account for 25% of the total African population.
- ▶ **Ethiopia** is the diplomatic capital of Africa by being the head quarters of the AU and UN-ECA and having the fourth largest number of diplomatic missions in the world next to New York, Washington and London.
- ▶ **Ethiopia** is the only country in Africa, Middle East, Asia or the Americas where the U.S. has two Ambassadors.





## The outlook for Ethiopia's economy: *Next 15 years (2009 to 2023)*

# The 5 Largest Economies - Sub-Saharan Africa



Country	2008			
	GDP (PPP)	World Rank	Africa Rank	% of 5 Largest
South Africa	492,155	24	1	46%
Nigeria	315,030	37	2	29%
Angola	106,296	61	3	10%
Sudan	89,033	66	4	8%
<b>Ethiopia</b>	<b>70,069</b>	<b>73</b>	<b>5</b>	<b>7%</b>
SSA Africa - Top 5	1,072,583			
SSA Africa - Total	1,693,778			
Top 5 as % of Total Africa	63%			

Source: Ernst & Young analysis and ranking based on WB data.

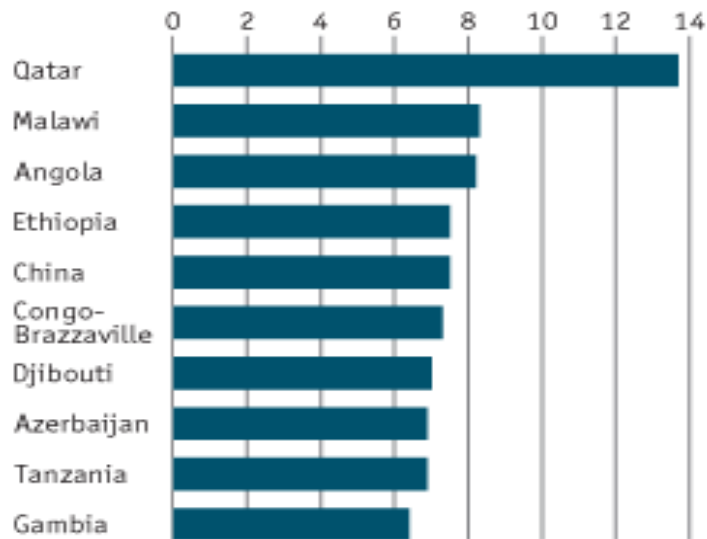
Note: The five largest SSA economies combined rank as the 14th largest in the world

# Ethiopia is forecast to be the fourth fastest growing economy in the world in 2009



## GDP growth forecasts, 2009

Fastest ten, %








Source: The Economist Intelligence Unit published in the The Economist magazine, Dec 18th 2008

The *Economist* magazine (UK) forecast Ethiopia to be the fourth fastest growing economy in the World in 2009. In total, seven out of the ten fastest growing economies in the world in 2009 are forecast to be African countries.

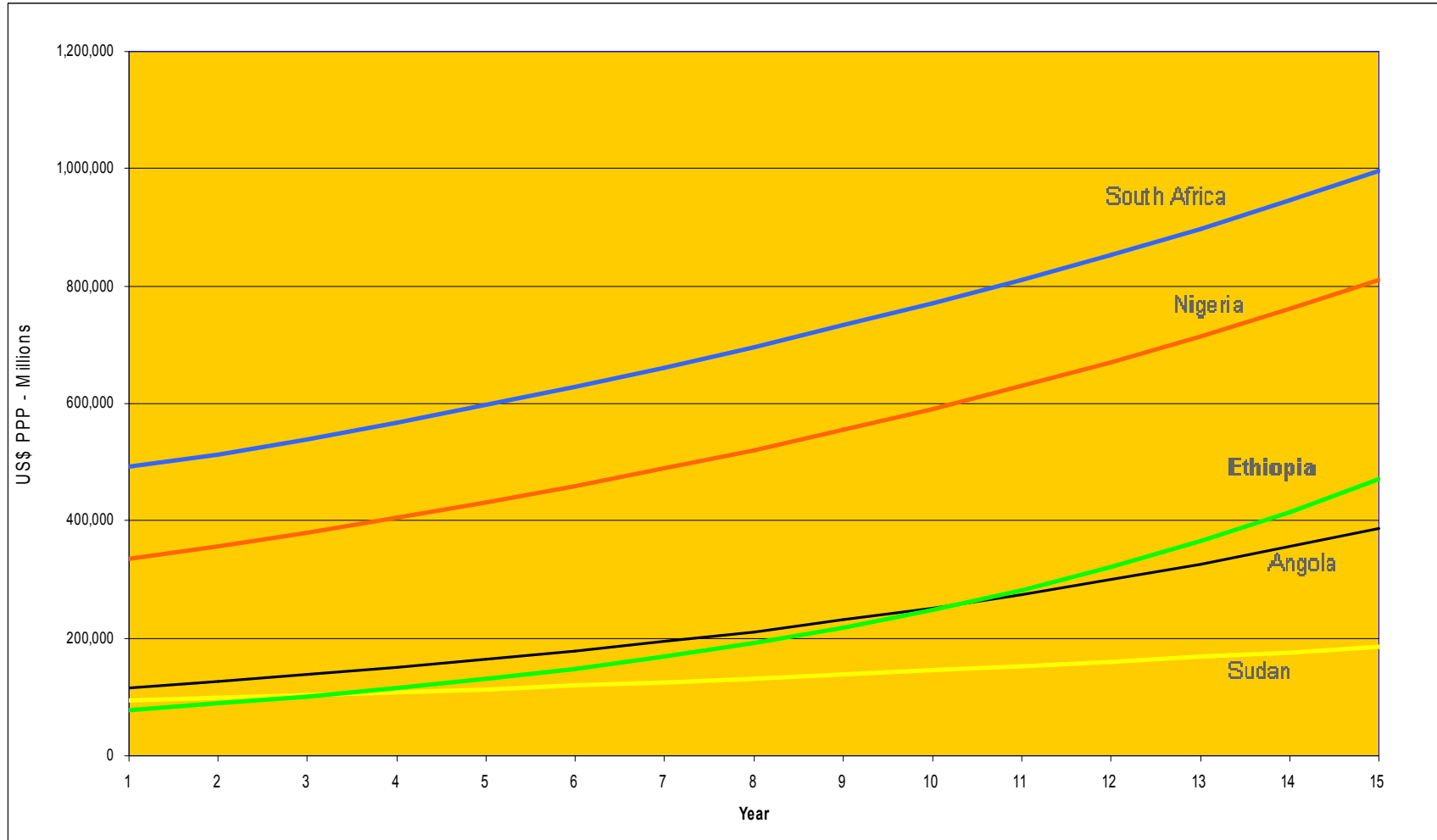


# Fastest Growing Per Capita GDP - Africa



Rank Africa	Country	Growth Rate %
1	 Angola	13.2
2	 Equatorial Guinea	11.2
3	 Republic of the Congo	8.1
4	 Liberia	9.4
5	 Ethiopia	8.5
Source: World Bank estimates for 2008 and E&Y analysis and ranking		

## Five Largest Economies in SSA - GDP Forecast (PPP) 15 years: 2009 to 2023



Note: The 2023 forecast is by E&Y Ethiopia. Depending on numerous external (global) and internal (within country) factors, the actual results could vary significantly from the forecast. The graph appears to indicate "smooth linear" growth due to the use of "averaging out" of growth & declines (including recessions) during the fifteen years' forecast period. Full details of assumptions for the forecast available from the contact details listed on page 33 of this presentation.

# Five Largest Economies - Sub-Sahara Africa 2008 vs. 2023



Country	2008				Country	2023		
	GDP (PPP) ' 000	World Rank	Africa Rank	% of 5 Largest		GDP (PPP) ' 000	Africa Rank	% of 5 Largest
South Africa	492,155	24	1	46%	South Africa	995,238	1	35%
Nigeria	315,030	37	2	29%	Nigeria	810,207	2	28%
Angola	106,296	61	3	10%	<b>Ethiopia</b>	<b>472,152</b>	<b>3</b>	<b>17%</b>
Sudan	89,033	66	4	8%	Angola	387,181	4	14%
<b>Ethiopia</b>	<b>70,069</b>	<b>73</b>	<b>5</b>	<b>7%</b>	Sudan	185,093	5	6%
SSA Africa - Top 5	1,072,583				SSA Africa - Top 5	2,849,871		
SSA Africa - Total	1,693,778				SSA Africa - Total	4,253,871		
Top 5 as % of Total Africa	63%				Top 5 as % of Total Africa	67%		

### By 2023 – Ethiopia's economy

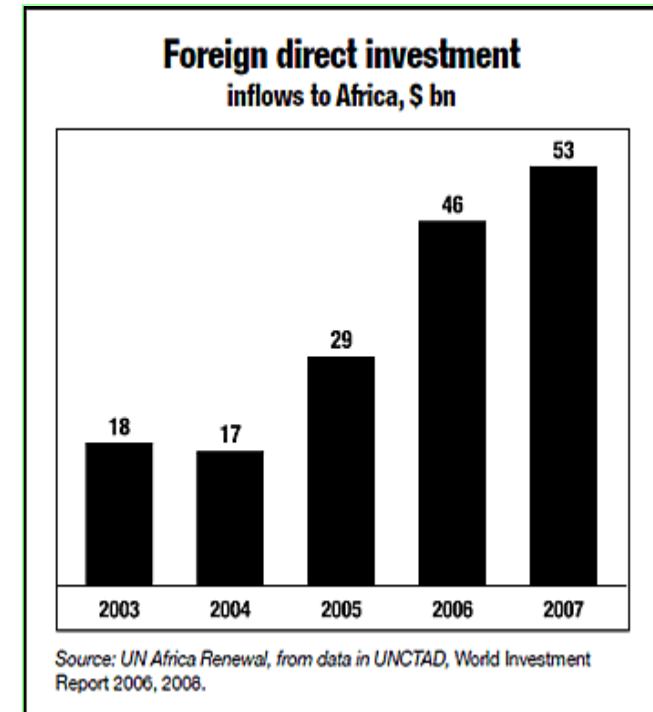
- ▶ Total GDP (PPP): **Appx. half a trillion dollars (US\$472 billion)**
- ▶ GDP/Capita (PPP): **US\$4,016**

Note: The 2023 forecast is by E&Y Ethiopia. Depending on numerous external (global) and internal (within country) factors, the actual results could vary significantly from the forecast. Full details of assumptions for the forecast available from the contact details listed on page 33 of this presentation.

## Return on Investments in Africa: 29.0% vs. the EU: 10%



- ▶ Since 1990, the rate of return on foreign direct investment (FDI) in Africa has **averaged 29%**.
- ▶ The rates of return on foreign investments in Africa were the highest of any developing region's in 2006 and 2007.





## The investment operating environment – *Evolving, Adoptive & Improving*

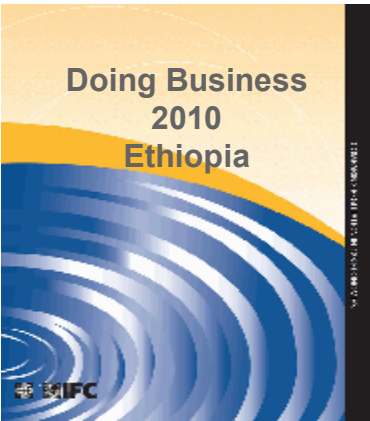
# The Investment Operating Environment – *Evolving, Adoptive & Improving*



Country	Doing Business 2010 Rank	Doing Business 2009 Rank	Change in Rank
Ethiopia	107	111	+ 4
Russia	120		
Brazil	129		
India	133		

**Ethiopia ranks higher in doing business than 3 out of the 4 BRIC countries. Of the BRICs only China (#89) ranks higher than Ethiopia.** *Source: The World Bank's 2010 "Doing Business" ranking and E&Y analysis.)*

**BRIC:** Brazil, Russia, India and China, the four largest emerging market economies in the world and members of the G-20.



*Doing Business 2010: Reforming Through Difficult Times* is the seventh in a series of annual reports investigating regulations that enhance business activity and those that constrain it. Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies.

Note: The material in the Doing Business publication is copyrighted by the WB. The data from the WB publication used in this E&Y presentation (pages 14 to 18 is for reference purposes only.

# The Investment Operating Environment – *Evolving, Adoptive & Improving*



## Starting a Business

Indicator	Ethiopia	Sub-Saharan Africa	OECD Average
Procedures (number)	5	9.4	5.7
Time (days)	9	45.6	13.0
Cost (% of income per capita)	18.9	99.7	4.7
Min. capital (% of income per capita)	492.4	144.7	15.5

The challenges of launching a business are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.

## Employing Workers

Indicator	Ethiopia	Sub-Saharan Africa	OECD Average
Difficulty of hiring index (0-100)	33	37.3	26.5
Rigidity of hours index (0-100)	20	29.3	30.1
Difficulty of redundancy index (0-100)	30	39.8	22.6
Rigidity of employment index (0-100)	28	35.5	26.4
Redundancy costs (weeks of salary)	40	67.6	26.6

The difficulties that employers face in hiring and firing workers are shown below. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

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# The Investment Operating Environment – *Evolving, Adoptive & Improving*



## Registering Property

Indicator	Ethiopia	Sub-Saharan Africa	OECD Average
Procedures (number)	10	6.7	4.7
Time (days)	41	80.7	25.0
Cost (% of property value)	2.2	9.9	4.6

The ease with which businesses can secure rights to property is shown below. Included are the number of steps, time, and cost involved in registering property.

## Protecting Investors

Indicator	Ethiopia	Sub-Saharan Africa	OECD Average
Extent of disclosure index (0-10)	4	4.8	5.9
Extent of director liability index (0-10)	4	3.3	5.0
Ease of shareholder suits index (0-10)	5	5.1	6.6
Strength of investor protection index (0-10)	4.3	4.4	5.8

The indicators below describe three dimensions of investor protection: transparency of transactions (Extent of Disclosure Index), liability for self-dealing (Extent of Director Liability Index), shareholders' ability to sue officers and directors for misconduct (Ease of Shareholder Suits Index) and Strength of Investor Protection Index. The indexes vary between 0 and 10, with higher values indicating greater disclosure, greater liability of directors, greater powers of shareholders to challenge the transaction, and better investor protection.

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# The Investment Operating Environment – *Evolving, Adoptive & Improving*



## Taxes

Indicator	Ethiopia	Sub-Saharan Africa	OECD Average
Documents to export (number)	8	7.8	4.3
Time to export (days)	49	33.6	10.5
Cost to export (US\$ per container)	1,940	1,941.8	1,089.7
Documents to import (number)	8	8.8	4.9
Time to import (days)	45	39.4	11.0
Cost to import (US\$ per container)	2,993	2,365.4	1,145.9

The data shows the tax that a medium-size company must pay or withhold in a given year, as well as measures of the administrative burden in paying taxes. These measures include the number of payments an entrepreneur must make; the number of hours spent preparing, filing, and paying; and the percentage of their profits they must pay in taxes.

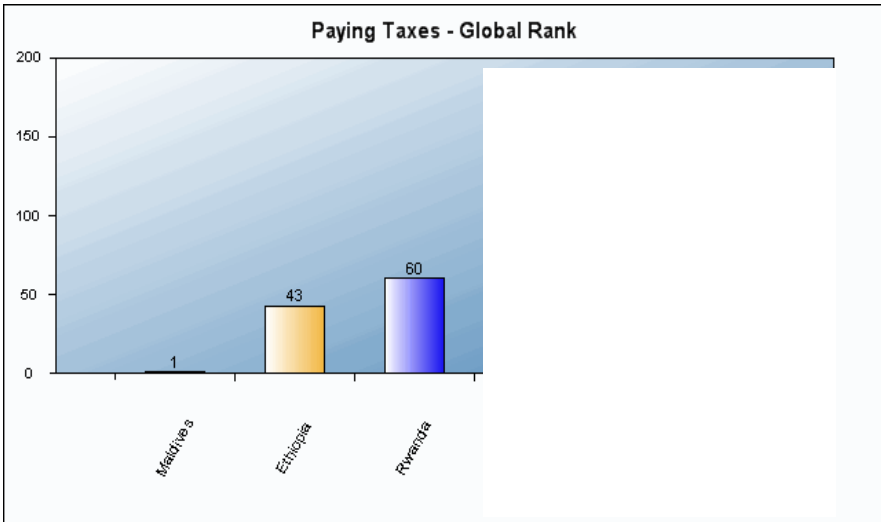
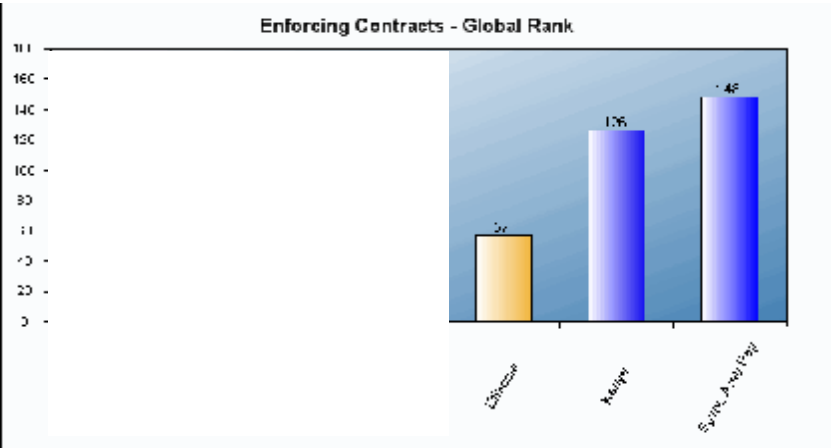
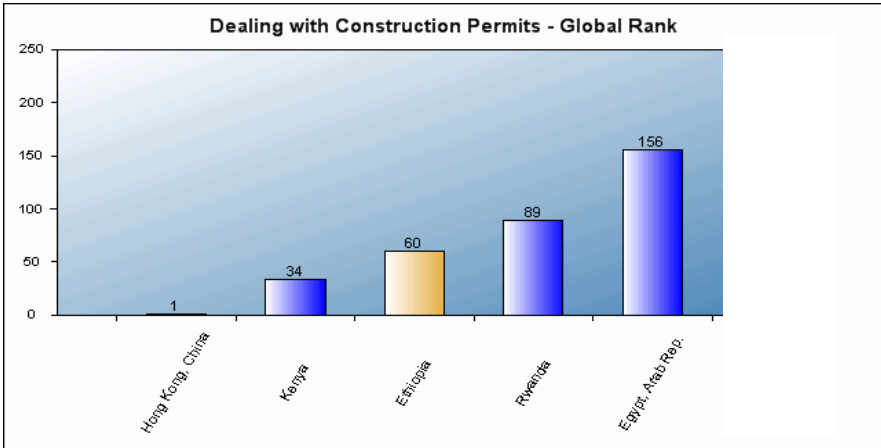
## Enforcing Contracts

Indicator	Ethiopia	Sub-Saharan Africa	OECD Average
Procedures (number)	37	39.2	30.6
Time (days)	620	643.9	462.4
Cost (% of claim)	15.2	49.3	19.2

The ease or difficulty of enforcing commercial contracts is measured below. This is determined by following the evolution of a payment dispute and tracking the time, cost, and number of procedures involved from the moment a plaintiff files the lawsuit until actual payment.

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# The Investment Operating Environment – *Evolving, Adoptive & Improving*

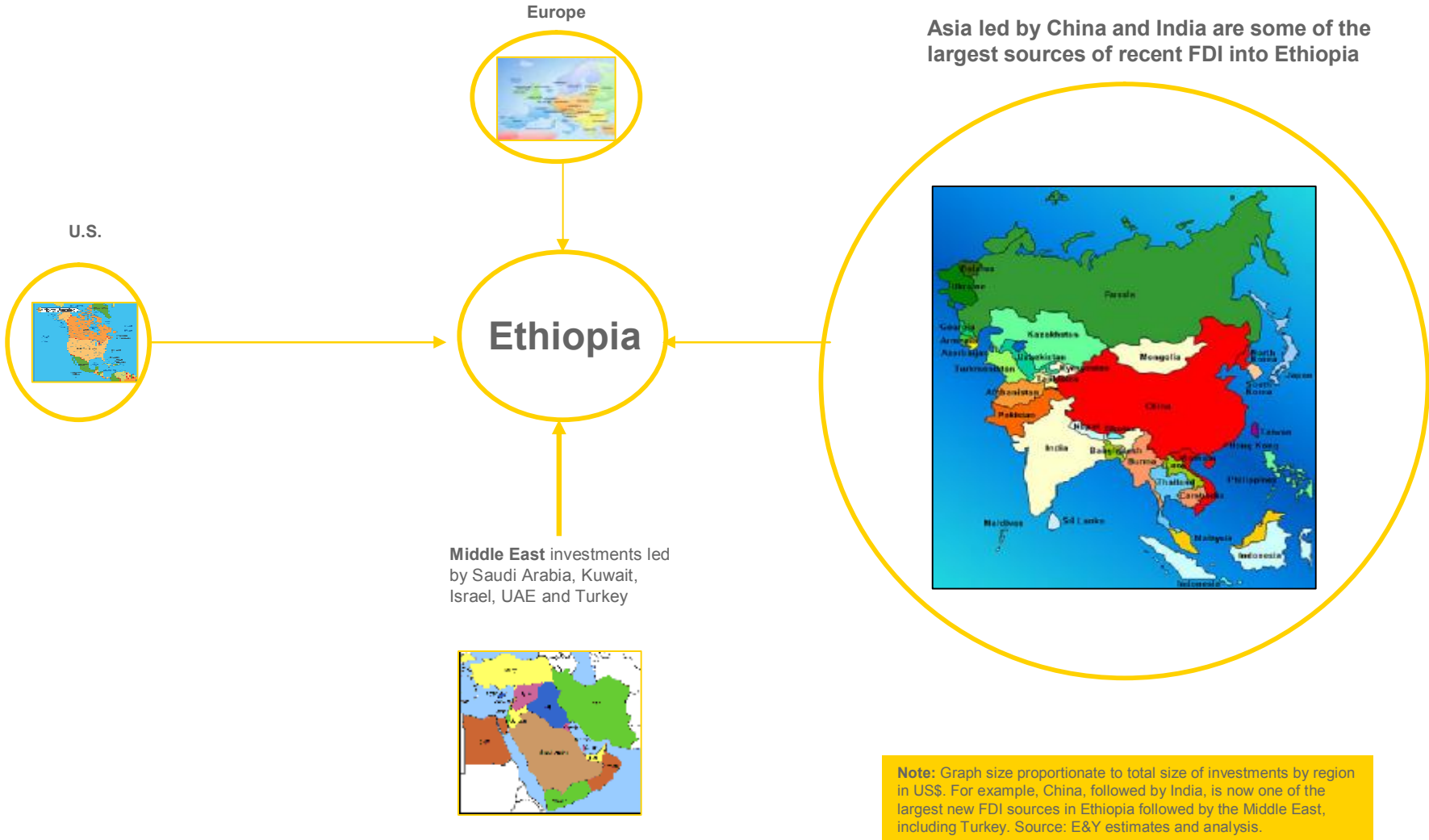


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## Global companies investing in Ethiopia, *by region of origin*

# Investing in Ethiopia – Global investors, *by region*



# Why China's investments in Ethiopia (Africa) are substantial



- ▶ **US\$108 billion** - Africa-China trade in 2008.
- ▶ **10%** - Africa's exports that goes to China.
- ▶ **Chinese banks loan more money to Africa than the World Bank.**
- ▶ **70%** - Chinese infrastructure financing commitments go to only four African states: Ethiopia, Nigeria, Angola, and Sudan.
- ▶ **US\$18.0 billion** - Chinese Africa financing commitments in infrastructure over the past 6 years.
- ▶ **\$20 billion** – China's plan to spend to finance trade and infrastructure across Africa over the next three years.
- ▶ **6,000 Megawatts** - China's planned investment in the power sector in Sub-Saharan Africa which will increase the total available hydropower generation capacity by 30 percent of installed capacity.
- ▶ **Billions for telecoms** - Many African countries' ICT is being transformed significantly due to investments by Chinese technology companies.
- ▶ **US\$5.0 billion** - China has set-up an equity investment fund for investment in Africa.

**REUTERS AFRICA**

## Ethiopia signs windfarm, dam deals with China

Wed Sep 23, 2009 3:26pm GMT  
By Barry Malone

ADDIS ABABA (Reuters) - Ethiopia has agreed deals with two Chinese firms to develop two huge hydropower projects and signed a preliminary agreement with another to construct two wind power farms, the country's power utility said on Wednesday.

"We have signed two deals to increase our hydropower generating capabilities and one to explore wind potential," a source at the Ethiopian Electric Power Corporation (EPPCo) told Reuters.

China Gezhouba Group Company (CGGC) will build the \$408 million Genale Dawa 3 hydropower project in southern Ethiopia with the capacity to generate 254 MW of power, he said.

Sinohydro Corporation had also inked a deal to construct the \$555 million Chemoga Yeda hydropower project that will be made up of five dams on five rivers.

EPPCo has also signed a preliminary agreement with the Hydrochina company for the construction of two wind farms, the spokesman said, adding that they would be reserved for emergencies and would be wholly financed by the Chinese government.

China has displaced many western countries as the major investor in Africa, where it has pumped billions of dollars to secure access to Africa's commodities which it needs for its industries.

Ethiopia already has five hydropower dam projects under construction, some funded by the World Bank. Officials say it will become a net power exporter within 10 years, exporting to Kenya, Sudan and Djibouti.

Ethiopia has suffered power shortages for over five months with lights going off every second day. The shortages are easing but Prime Minister Meles Zenawi has said they have hampered exports and fuelled a hard currency shortage.

Ethiopia's government says it will spend \$12 billion over 25 years to improve its power-generating capabilities.

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## Global companies investing in Ethiopia, *by sector*

# Investing in Ethiopia – *by sector*



- ▶ **Infrastructure**
- ▶ **Agro-industry**
- ▶ **Manufacturing**
- ▶ **Hotel & Tourism**
- ▶ **Mining and Oil & Gas**
- ▶ **ICT**

The 420 MW Gibe II Hydro power dam under construction in Ethiopia





## Success Stories



# Success Stories: Ethiopian Airlines



## A Global Network Carrier

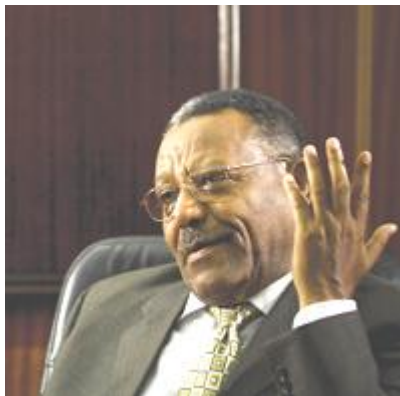


Photo ©Billypix

"For an airline of Ethiopian's size and an airline in Africa, I believe the limitation is only in the mind. The continent has not been explored. There aren't many airlines which can properly go the distance in Africa. It's still untouched."

**Girma Wake, CEO Ethiopian Airlines, quoted in "Flight Global" interview, March 16, 2009**

## Remarkable achievements in a complex global business

- ▶ Profit: \$117 million (record). More profitable than ALL African airlines combined..
- ▶ Revenue: \$1.2 billion – 2<sup>nd</sup> largest airline in SSA.
- ▶ Largest cargo fleet in Africa.
- ▶ Launch customer for the *Boeing's 787 Dreamliner*.
- ▶ Aircraft: 35 jets (all Boeing) +36 on-order, including the Boeing 777-200 LR, first in Africa.
- ▶ With Ethiopia Airlines rapid growth, Addis Abeba is on track to becoming the largest aviation hub (MRO, Catering, Aviation Training, Cargo etc) in Africa.
- ▶ Voted Best Africa Airline several times.

# Success Stories: Sunshine Construction



**E&Y Analysis:** Sunshine Construction is one of the most dynamic and forward looking infrastructure investors in Ethiopia, with a multi-billion dollars investment portfolio. It's an excellent example of entrepreneurship in a dynamic and rapidly growing Ethiopian economy.

Illustration: Sunshine Construction PLC's website.



## Global companies investing in Ethiopia, *Infrastructure*

# What is the global infrastructure investment needed in the next twenty years?



## ESTIMATED AVERAGE ANNUAL WORLD INFRASTRUCTURE EXPENDITURE (ADDITIONS AND RENEWAL) FOR SELECTED SECTORS 2000-2030 IN US\$ BILLION AND AS A PERCENTAGE OF WORLD GDP

Type of Infrastructure	2000 to 2010	Approximate % of World GDP	2010 to 2020	Approximate % of World GDP	2020 to 2030	Approximate % of World GDP
Road	220	0.38	245	0.32	292	0.29
Rail	49	0.09	54	0.07	58	0.06
Telecoms <sup>1</sup>	654	1.14	646	0.85	171	0.17
Electricity <sup>2</sup>	127	0.22	180	0.24	241	0.24
Water <sup>3</sup>	576	1.01	772	1.01	1037	1.03

**The investment needed globally is US\$ 3.7 trillion**

# Infrastructure investment opportunities in the next fifteen years - Ethiopia



Sector	Infrastructure Investment Needs		Investments - US\$ '000
	Global Average	Ethiopia Average	
Road	0.32%	0.64%	21,909,701
Rail	0.07%	0.07%	2,396,374
Telecoms	0.09%	0.34%	11,639,529
Electricity	0.24%	0.48%	16,432,276
Water	1.01%	1.52%	51,864,370
Social Infrastructure	0.35%	1.04%	35,432,095
Aviation (includes ET's aircraft acquisition)		0.35%	11,981,868
<b>Total - 15 years</b>			<b>151,656,212</b>

Source: E&Y estimates and analysis.

**+US\$155 to US\$250 billion needed**

**Note:** Global average based on E&Y's global study of infrastructure investment requirements for the years 2000 to 2030. The Ethiopian average is an estimate calculated by E&Y Ethiopia based on the global average adjusted to reflect the estimated needs by Ethiopia to maintain 10%+ annual average GDP growth over the next 15 years. Full details of assumptions for forecast available at the contact details listed on page 33 of this presentation.



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## Global companies investing in Ethiopia – *Various Sectors*

# Investing in Ethiopia by Sector – *where global companies are investing*



## ▶ Agro-industry

- ▶ The entire value chain - from the farm to the global market.
- ▶ Investors attracted with Ethiopia's geographical proximity, good weather conditions and fertile/arable land and strategic location, to export agricultural products to the Gulf and MEA countries, and beyond.

## ▶ Manufacturing

- ▶ Textile
- ▶ Leather
- ▶ Cement
- ▶ Consumer goods
- ▶ Other - labor intensive but low cost manufacturing

## ▶ Hotel & Tourism

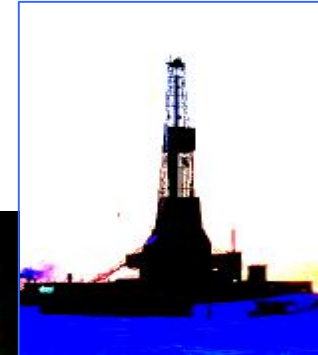
- ▶ From five-star hotels to tour operations. ET's success greatly contributes to the sector.

## ▶ Mining and Oil & Gas

- ▶ Exploration in mining and oil and gas by some of the world's largest as well as small and medium size operators.

## ▶ ICT

- ▶ Some of the largest technology & telecom infrastructure manufactures now have subsidiaries in the country.



**Note:** At present, the financial services and telecom sectors are not yet open to foreign investors. However, when these sectors open up, in the next few years, significant foreign investments are expected.

# CONCLUSION



Photo of Addis Abeba. Source: Ministry of Culture & Tourism of Ethiopia



While a lot still needs to be done, Ethiopia's economy has already shown sustainable double digit growth over the last several years. And, if recent trends in its economic development, such as attracting large volumes of FDI, evolving and adoptive reforms in the business operating environment and large investments in infrastructure continue, Ethiopia's goal of joining the ranks of the *middle income* Emerging Market economies, in the next 15 to 20 years, is achievable.



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## Contact Details



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